

MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT - FINAL

MAIN FINANCIAL SYSTEMS 2023/24
JUNE 2024

Design Opinion



Substantial

Design Effectiveness



Moderate

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DISTRIBUTION

Naomi Lucas	Interim Chief Financial Officer
Annette Cardy	Assistant Director, Resources
Lance Porteous	Lead Finance Specialist

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.

REPORT STATUS

Auditors:	Aaron Winter, Director and Head of Internal Audit Andrew Billingham, Internal Audit Manager Maggie Quigg, Auditor
Dates work performed:	18 March 2024 - 4 June 2024
Draft report issued:	5 June 2024
Management response received:	18 June 2024
Final report issued:	18 June 2024

EXECUTIVE SUMMARY

Design Opinion



Substantial

Design
Effectiveness

Moderate

Recommendations



SCOPE

BACKGROUND

- ▶ The Council is required to have sound controls in place within its financial systems, in order to prevent and detect error and fraud. The Finance Team (within the Resources directorate) is responsible for the financial management controls and processes.
- ▶ The Finance Team also provides leadership on good financial practice to the services across the Council and has an oversight role to ensure procedures are correctly followed.
- ▶ Cyclical reviews are carried out on the main financial systems. Last year we covered Accounts Receivable/Debtors, Accounts Payable/Creditors and Expenses.

PURPOSE

- ▶ The purpose of the audit was to review the Council's general ledger controls, including:
 - A review of control account reconciliations and journals.
 - Key IT access controls.
- ▶ In addition, this review also covered Budgetary Control.

AREAS REVIEWED

The following areas were covered as part of this review.

General Ledger

- ▶ Confirmed whether user access permission to the finance system is updated as required and user access logs periodically reviewed.
- ▶ Tested a sample of monthly balance sheet control accounts from April 2023 to date, to confirm whether they have been appropriately reconciled, with segregation of duties being maintained between the individual preparing the reconciliation and the individual reviewing and approving the reconciliation, and that unreconciled items are resolved on a timely basis.
- ▶ Tested a sample of journals raised from April 2023 to date to check that there is sufficient documentation to support the transaction and that it has been appropriately authorised independently of the preparer.
- ▶ Reviewed guidance produced by the Council for setting the 2023/24 budget including how proposed savings are identified and calculated, and assessed whether there is a documented and sufficiently detailed process for staff to follow.

Budgetary Control:

- ▶ Reviewed a sample of budgets set for 2023/24 and checked that the required process has been followed, including management scrutiny of assumptions, savings and income generation opportunities before sign-off of individual budgets by budget holders and senior management.
- ▶ Established whether budget holders receive sufficient training and guidance to enable them to understand and manage their budgets.

- ▶ Tested a sample of budgets for 2023/24 to check if budgetary variations are analysed, investigated through regular meetings between budget holders and accountants, and actions taken to address variances.
- ▶ Reviewed reporting of progress against budget, forecasts, risks and mitigating actions to appropriate committees, and assessed whether management and Members are provided with sufficient information on a timely basis.



AREAS OF STRENGTH

- ▶ We confirmed the Council's User Logs to the General Ledger System permissions in the finance systems are updated as required and user access is reviewed on a quarterly basis. The user log records sufficient details for each user of the system. We confirmed that the IT controls over the access to the finance system are under the authority of the Finance Team and the appropriate authorisation must be granted to the personnel prior to gaining access.
- ▶ We confirmed that the Finance Team have a protocol in place for Journals to be subject to approval and scrutiny by delegated personnel to ensure they are accurately processed in the general ledger. Finance processes the Journals on information received, which we confirmed this in our sample testing. We verified the Finance Team conduct a monthly check of five random journals to ensure the appropriate procedures have been followed.
- ▶ We tested a sample of 20 journals between April 2023 to March 2024 and confirmed that all 20 had been saved to the system, recorded the personnel who had raised, approved, entered the journal into the system and had the journal linked to evidence source.
- ▶ We confirmed the Council has a formal budget setting process in place, which is updated annually and is reviewed during the budget setting process. This process is dictated by a documented budget setting timetable, detailing key meetings and dates for staff to follow.
- ▶ We confirmed that for the Council's 2024/2025 Budget setting timetable it delineated 41 tasks, which fall under: Savings, Unavoidable Cost Pressures, Repairs and Renewals and Capital bids, Recharges, Fees and Charges, Salaries Budgets, Non-Salaries Budgets, Funding and Final Budget Approvals. We confirmed through Committee minutes the budget went through the appropriate Committee approvals.
- ▶ We tested a sample of 15 budgets for 2023/24 and confirmed through breakdowns, calendar invites and Strategy and Resources Committee meeting minutes that budgetary variations are analysed, regular meetings take place, and actions are taken to address variances.
- ▶ We reviewed the Report of the Interim Chief Finance Officer to the Strategy and Resources Committee on 23 November 2023, which confirmed that the original budget is the budget approved by the Council on 22 February 2023. Confirming that management and Members are provided with sufficient information on a timely basis.



AREAS OF CONCERN

- ▶ Our testing of a random sample of 15 monthly balance sheet control accounts from April 2023 to February 2024, showed that not all reconciliations had evidence of the personnel who performed the reconciliation, the approver and the date it was completed. **(Medium - Finding 1)**
- ▶ Our review of the Council's budget holder training found that no training records are recorded and maintained by the Finance Team. We found that over the past year, service areas were restructured, which resulted


in resetting the budget holders and redefining the areas they oversee which could result in potential lack of budget holder responsibilities and accountability. **(Low - Finding 2)**



CONCLUSION

- ▶ We have raised one Medium priority recommendation and one Low priority recommendation to improve the Councils reconciliation authorisation process and budget training procedures.
- ▶ Whilst the Council have defined general ledger controls, regarding key IT access controls and a sound process to manage and review of journals, we found some areas for improvement regarding reconciliation documentation and budget holder training.
- ▶ We found reconciliations between the general ledger and feeder systems lacked a complete record of who performed and approved the reconciliation and when it was done, which is essential for effective financial control and risk management. In addition, it would add value to the Council and the budget holders to attend a refresher training session and training records to be kept and maintained.
- ▶ Consequently, we conclude substantial assurance over control design and moderate assurance over operational effectiveness of the Council's general ledger controls and budgetary control.

DETAILED FINDINGS

1 Reconciliation Authorisations	
TOR Risk:	Reconciliations between the general ledger and feeder systems (including the Bank, Cash Receipting System, Council Tax, Business Rates and Local Council Tax Support) are not adequately performed or independently reviewed, resulting in errors not being identified and rectified in a timely manner.
Significance	 Medium



FINDING

We selected a sample of 15 monthly balance sheet control accounts from April 2023 to February 2024. We selected one month/week from each of the following 15 reconciliations the Council conduct:

1. Cashbook
2. Creditors
3. Bank Rec (general a/c)
4. Bank Rec (general a/c)
5. Debtors
6. Payroll
7. PAYE
8. Pensions
9. VAT
10. Housing Benefit Subsidy
11. Budget reconciliation
12. Clearing Suspense CC 999 and Acc Code 9999 & 9980
13. Grants
14. Investments
15. Journals

We found the following:

- 2/15 of these reconciliations did not have the date present
- 8/15 did not record who raised and approved the reconciliation and the date.

If reconciliations between the general ledger and feeder systems (including the Bank, Cash Receipting System, Council Tax, Business Rates and Local Council Tax Support) are not adequately performed or independently reviewed, this could result in errors not being identified and rectified in a timely manner. Maintaining proper documentation, including who performed and approved the reconciliation and when it was done, is essential for effective financial control and risk management.



RECOMMENDATION

The Council should ensure that each reconciliation between the general ledger and feeder systems have the appropriate details recorded on the reconciliation, including personnel who performed the reconciliation, the approving authority and the date.




MANAGEMENT RESPONSE

Agreed

Responsible Officer:	Shaala Jeya
Implementation Date:	1 July 2024

2 Budget Holder Training

TOR Risk:	Budgets are undermined by a lack of clarity around budget holder responsibilities resulting in an inconsistent approach taken by officers which is not in line with the approved Council process.
Significance	 Low



FINDING

The Council's Interim Chief Finance Officer (CFO) and the Lead Specialist in the Finance team, advised us that while the Council conduct training sessions, setting out all the officers' responsibilities however, this is not recorded and tracked for completion.

We were advised that the service delivery, primarily involving frontline services, and the resource strategy and performance departments, categorized as back-office support, have undergone changes. Over the past year, the service areas were restructured, which resulted in resetting the budget holders and redefining the areas they oversee.

Furthermore, the Finance team do not maintain any training records to keep track of those who have completed the training and the date of completion. Therefore, it would be beneficial to the Council and the budget holders to attend a refresher training session to capture such changes and ensure all budget holders are adequately trained.

Without regular training in place to clarify budget holder responsibilities, there is a higher risk of financial mismanagement, overspending, budgetary discrepancies, potential legal issues and a lack of accountability



RECOMMENDATION

The Council should conduct a refresher finance session for budget holders, to ensure they fully comprehend the budget holder responsibilities and ensure a consistent approach is taken by officers across the Council.

The Council should also consider maintaining a training record of those who have completed finance training, which is saved in a central location and reviewed on a regular basis to ensure that training is kept up to date and staff have completed the required finance training.



MANAGEMENT RESPONSE

Agreed

Responsible Officer:	Lance Porteous
Implementation Date:	30 September 2024

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



BACKGROUND & PURPOSE

BACKGROUND

- ▶ The Council is required to have sound controls in place within its financial systems, in order to prevent and detect error and fraud. The Finance Team (within the Resources directorate) is responsible for the financial management controls and processes.
- ▶ The Finance Team also provides leadership on good financial practice to the services across the Council and has an oversight role to ensure procedures are correctly followed.
- ▶ Cyclical reviews are carried out on the main financial systems. Last year we covered accounts Receivable/Debtors, Accounts Payable/Creditors and Expenses.

PURPOSE

- ▶ The purpose of the audit is to review the Council's general ledger controls, including:
 - An annual review of control account reconciliations and journals.
 - Key IT access controls.
- ▶ We will also conduct a cyclical audit of Budgetary Control.

CORPORATE RISK REFERENCE

- ▶ Cyclical reviews and links to all the Council's risks.



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 potential key risks associated with the area under review are:

General Ledger:

1. There are ineffective IT controls over the access to the finance system, leading to unauthorised changes being made to the general ledger via fraud or error resulting in a financial impact to the Council.
2. Reconciliations between the general ledger and feeder systems (including the Bank, Cash Receipting System, Council Tax, Business Rates and Local Council Tax Support) are not adequately performed or independently reviewed, resulting in errors not being identified and rectified in a timely manner.
3. Journals are not subject to sufficient approval and scrutiny by delegated personnel and are not accurately processed to the general ledger, increasing opportunities for fraud and/or error.

Budgetary Control:

4. A lack of a formal budget setting process could lead to inconsistent processes and a failure to identify income opportunities or efficiency savings to close budget gaps.
5. Unrealistic budgets are set which result in adequate buy-in from budget holders and potentially a bigger budget gap/overspend.
6. Budgets are undermined by a lack of clarity around budget holder responsibilities resulting in an inconsistent approach taken by officers which is not in line with the approved Council process.
7. Inadequate budget monitoring results in overspends or a failure to achieve planned income generations.
8. Senior management and members do not have sufficient and timely information regarding the Council's financial performance in ineffective decision making not supported by evidence.



SCOPE & APPROACH

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

General ledger:

- Confirm whether user access permission to the finance system is updated as required and user access logs periodically reviewed. (Risk 1)
- For a sample of monthly balance sheet control accounts from April 2023 to date, confirm whether they have been appropriately reconciled, with segregation of duties being maintained between the individual preparing the reconciliation and the individual reviewing and approving the reconciliation, and that unreconciled items are resolved on a timely basis. (Risk 2)
- For a sample of journals raised from April 2023 to date, check that there is sufficient documentation to support the transaction and that it has been appropriately authorised independently of the preparer. (Risk 3)

Budgetary Control:

- We will review any guidance produced by the Council for setting the 2023/24 budget including how proposed savings are identified and calculated, to assess whether there is a documented and sufficiently detailed process for staff to follow. (Risk 4)
- Review a sample of budgets set for 2023/24 and check that the required process has been followed, including management scrutiny of assumptions, savings and income generation opportunities before sign-off of individual budgets by budget holders and senior management. (Risk 5)
- We will establish whether budget holders receive sufficient training and guidance to enable them to understand and manage their budgets. (Risk 6)
- For a sample of budgets for 2023/24 we will check if budgetary variations are analysed, investigated through regular meetings between budget holders and accountants, and actions taken to address variances. (Risk 7)
- Review reporting of progress against budget, forecasts, risks and mitigating actions to appropriate committees, and assess whether management and Members are provided with sufficient information on a timely basis. (Risk 8)

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. However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during 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.

In delivering this review BDO may need to observe and test confidential or personal identifiable data to ascertain the effective operation of controls in place. The organisation shall only provide the Shared Personal Data to BDO using secure methods as agreed between the parties. BDO will utilise the data in line with the Data Protection Act 2018 (DPA 2018), and the UK General Data Protection Regulation (UK GDPR) and shall only share Personal Data on an anonymised basis and only where necessary.



REQUIREMENTS

Outlined below is an initial information request relating to this audit. We have provided an overview of what we require from you and when we require each piece of information. We have tried to be specific wherever possible however, please do contact us as soon as possible if you are unsure about any of the information required.

DETAILS	RESPONSIBLE PERSON	REQUIRED BY
<ul style="list-style-type: none"> ▶ User access log to the general ledger system and evidence of any reviews of the log. ▶ Download of journal entries from 01/04/2023. ▶ Control account reconciliations monitor. ▶ Budget setting timetable and guidance for 2023/24. ▶ List of budgets / cost centres for 2023/24 where there are income targets. ▶ Budget monitoring guidance. ▶ Copies of financial of financial performance reports produced throughout 2023/24 and information on who they were reported to (management and Committee). ▶ Copies of any budget monitoring training to officers and Members. 	Lance Porteous	05/01/2024

Please note that this is an initial request and is not exhaustive - further information requiring your attention (including meetings) will be required at the time of our fieldwork.

Timely receipt of this information is critical to ensure that the objectives of the audit are met and that the work is completed on time. Any unreasonable delay in gaining access to required information or key members of staff will place audit timings at risk and may result in additional fees to you.

Where control weaknesses are identified during our review we may require access to additional information, or need to undertake extended sample testing. This may also result in additional fees to cover this work. Any such charges would be notified to you and agreed at the time the issue is identified.

Timing changes and cancellation:

In accepting this Terms of Reference document, you agree to the timing of this audit listed below. We will make every effort to accommodate timing changes or cancellation of the audit, however any changes within three weeks of the start of the fieldwork may result in fees being charged in respect of the audit. Changes with more than three weeks' notice will be accommodated at no charge.



KEY CONTACTS

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BRENTWOOD BOROUGH COUNCIL

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Lance Porteous	Lead Finance Specialist	E: Lance.Porteous@maldon.gov.uk

APPENDIX III - SAMPLE OF JOURNALS

Sample of 20 Journals provided by Council:

1	J000000006
2	J000000013
3	J000000016
4	J000000017
5	J000000035
6	J000000064
7	J000000081
8	J000000083
9	J000000094
10	J000000095
11	J000000115
12	J000000137
13	J000000142
14	J000000162
15	J000000163
16	J000000172
17	J1000
18	J1002
19	J1002
20	J1002

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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