

**FROM:** Audit and Risk Manager  
**TO:** Head of Finance  
**C.C.** Chief Executive  
Deputy Chief Executive (AJ)  
Strategic Finance Manager  
Portfolio Holder (Cllr Hales)

**SUBJECT:** Main Accounting System  
**DATE:** 31 March 2020

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has recently been completed by Ian Davy, Principal Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

## 2 Background

- 2.1 The main financial accounting system is the mechanism by which the Council manages its financial affairs. It encompasses the entire system of the monitoring and control of the Council's financial statements.
- 2.2 The accounts are run currently on the Total General Ledger system (TOTAL). However, a procurement exercise is currently being undertaken to replace the system.

## 3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 An extensive examination has been undertaken using the CIPFA systems-based control evaluation models for the main financial accounting system. This entailed completion of Internal Control Questionnaires (ICQs) and testing of controls in accordance with evaluation programmes. Detailed testing was performed to confirm that controls identified have operated as expected with documentary evidence being obtained where possible, although some reliance has had to be placed on verbal discussions with relevant staff.
- 3.3 The objectives that have been considered as part of this audit include:

- Staff at the Council are aware of relevant financial standards and the organisation's financial regulations and have access to these and relevant procedural documentation
- The system is appropriately structured and maintained to allow for transactions to be processed, both directly on the system and through appropriate feeder systems, and for accounts to be produced accordingly.

3.4 The expected controls within the CIPFA matrices are categorised into the following areas:

- Policies and procedures
- Financial information system
- Coding structure
- Feeder systems
- Journals
- Suspense and holding accounts
- Capital accounting
- Final accounts
- Whole of Government accounts.

3.5 Some specific tests were not performed as they were either considered not relevant to the operations at the Council or are covered under separate audits.

## 4 Findings

### 4.1 Recommendations from Previous Report

4.1.1 The current position in respect of the recommendations from the previous audit, reported in September 2016 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
1 Consideration should be given to obtaining a pre-list of draft monthly payroll by employee revenue cost centre for checking potential general ledger cost centre coding errors.	We have started doing this as a trial, with the electronic payroll file. In the past, incorrect codes normally defaulted to payroll suspense. These numbers are now very small.	The relevant Assistant Accountant (AA) advised that this is not generally undertaken, with teams doing their own budget monitoring each month. However, the incidence of incorrect codes remains small.

Recommendation	Management Response	Current Status
2 Consideration should be given to providing cost centre amendments to the Coventry City Council payroll team each month before the final payroll is run in order to reduce the need for payroll miscode journals.	Now we have started to review, in detail, the electronic payroll file, this has reduced errors significantly. Finance now regularly alerts HR about any coding errors to ensure that they are not repeated in the future.	The AA confirmed that coding errors identified would be flagged with HR as appropriate and provided sample evidence of a recent case (which had occurred twice despite the information being passed through).
3 The income suspense account code B357 should be reconciled immediately and, thereafter, quarterly.	This account is primarily a "dump" code for FST to return debtors payments to the ledger that they do not consider theirs. Treasury are usually informed by FST to transfer the payment to another account e.g. rents or Council Tax and this account is therefore outside of Treasury's control and is not capable of being reconciled to any control figure. Any balance on this account at year end will be written off to revenue.	Upon review of TOTAL it was confirmed that year-end balances are being rolled forward as opposed to being written off (see 4.7.3 below).

## 4.2 Policies & Procedures

4.2.1 The Code of Financial Practice (CoFP) sets out that the Head of Finance is:

- the officer responsible for the proper administration of the Council's financial affairs in accordance with Section 151 of the Local Government Act 1972 (the S151 Officer)
- responsible, under the general directions of the Council and Executive, for controlling the accounts and finance of the Council in every aspect
- agreeing the format of the accounting records and core financial procedures and systems
- the format of revenue budgets, accounting information and the method of their presentation.

As such, the CoFP sets out responsibilities but does not go into detail as to the actual procedures to be followed.

4.2.2 Following issues relating to the closure of the accounts for 2017/18, an action plan was drawn up to address the issues encountered. One of the actions was

to 'review the policies, working practices and procedures of the Accountancy team and document them'.

- 4.2.3 Detailed 'closedown' guidance has been drawn up as a result and a closing programme timetable is also in place that sets out the various stages to be followed for the final accounts, which includes notes on what needs to be done (or has been done, as it is a working document) at each stage.
- 4.2.4 Specific testing on whether the procedures ensure that the Council complies with relevant statutory accounting requirements / best practice etc. has not been performed.
- 4.2.5 Instead, reliance is placed on the work of the Council's external auditors (Grant Thornton) who, in their 'findings' report have to give an opinion as to whether the Council's financial statements 'have been properly prepared in accordance with the CIPFA / LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. No significant issues were raised in their report (for the closure of the 2018/19 accounts) and, as such, assurance has been gained that the procedures are sound.
- 4.2.6 The Strategic Finance Manager (SFM) advised that the majority of staff in the Accountancy section were involved in the resolution of the previous year-end issues and, as such, were aware of the relevant new processes. The exceptions to this were the new Principal Accountants (PAs) and the Apprentice Assistant Accountant. They are going through the processes when they are picking up relevant tasks and, in some cases, are formally writing up the procedure notes where previous versions were handwritten.

#### 4.3 **Financial Information System**

- 4.3.1 The current finance system (TOTAL) provides the relevant accounting information. Based on the fact that the Council's external auditors were able to give an unqualified opinion on the final accounts for 2018/19, it is concluded that the system is able provide appropriate data.
- 4.3.2 However, as identified in the Business Case document relating to the procurement of a new finance system, there are general 'usability' issues with TOTAL and staff are generally unhappy as to the ability to access and analyse information held on the system. The scope for the procurement exercise, therefore, includes a number of outcomes relating to improved access to accurate management information.
- 4.3.3 Four systems have now been identified for review and demonstrations have taken place. As part of the demonstrations, attendees were asked to assess whether the systems will be able to (amongst other things) provide the relevant information and be able to meet the relevant accounting standards.
- 4.3.4 The main 'feeds' in terms of income and expenditure are actually modules of the TOTAL system (i.e. creditors / debtors) and, as such, there is no data uploaded to the ledger. However, payroll is run by Coventry City Council and an upload to TOTAL is required.

- 4.3.5 The relevant AA advised that, following receipt of the payroll files (by HR from Coventry City Council), the payroll costing file is saved (as a text file) in the relevant folder on the server to allow the interface to run. Emails are subsequently received from IT to confirm that the interface has worked (i.e. that the payroll files have uploaded onto TOTAL). She will also perform reconciliations to confirm that the amounts on the ledger reconcile to the amounts on the payroll reports provided (see 4.5.5 below).
- 4.3.6 The SFM advised that in terms of banking transactions, anything that does not reconcile is held on the PARIS suspense account. This was covered in the recent Banking Arrangements audit, so has not been re-performed here.
- 4.3.7 The budget book sets out all of the cost centres that have been set up for the current financial year. This includes 'regular' budgets for services / establishments as well as codes for specific events (e.g. cycle tours, Commonwealth Games etc.). A small sample of cost centres from those detailed on the budget book were verified to TOTAL to confirm that they had been set up as expected and this did not identify any issues.
- 4.3.8 The amounts brought forward to the current financial year for the balance sheet codes were checked to the closing balances for 2018/19. All were found to have been brought forward appropriately.

#### 4.4 **Coding Structure**

- 4.4.1 The master hierarchy spreadsheet (for cost centres and subjective codes) is held on the shared L drive within the Finance Common / FMS folder. Thus, it is available to all staff. Information held within the network and on the spreadsheet confirm that this is being kept up to date.
- 4.4.2 A link to a hierarchy spreadsheet is also available on TOTAL. However, this was found to link to an old spreadsheet. The SFM advised that the new PA (Systems), who has recently joined the Council, will be tasked with reviewing the hierarchy (including the capital codes which are not currently included) on an ongoing basis.

#### **Advisory**

**The link on TOTAL should be updated to reflect the hierarchy. (NB this may only be relevant in the short term until TOTAL is replaced.)**

- 4.4.3 The SFM advised that requests for new codes generally come from budget holders, with staff within the Accountancy team being able to create new codes as required. There is no current requirement for authorisation although it may be that the new system requires this level of authorisation.
- 4.4.4 The expectation is that the PA (Systems) will become the 'gate keeper' to ensure that all new code requests are seen by him to ensure that the hierarchy is maintained appropriately and will be the authoriser if the new system requires this. Due to the planned changes, no specific testing on recent changes / new codes was thought to be relevant.

4.4.5 The Total General Ledger and applicable feeder systems are configured so that, in advance of financial transactions occurring, the relevant cost centre and subjective income or expenditure code are set up and validated. Any transaction with a code not matching a valid code is coded to a Total General Ledger Suspense Account. The TOTAL Suspense Account (9999) was shown to be in balance at the time of audit testing (see 4.7 for further suspense account information).

#### 4.5 **Feeder Systems**

4.5.1 An extract was run from TOTAL of the current balance across all cost centres. This currently nets to zero as expected.

4.5.2 A search on TOTAL identified a number of specific control accounts. Reconciliations of specific control accounts (the main debtor and creditor control accounts) are performed by the relevant AA, with Crystal Reports being generated and reconciled to the batch audit reports run on TOTAL.

4.5.3 The debtor control account was found to currently reconcile, whilst a minor variance was noted on the creditor control account. The AA explained the current situation and provided an email to show that this is being addressed.

4.5.4 The SFM advised that the other control accounts would not be reconciled on an ongoing basis. However, they would be reconciled at the year-end as part of the final accounts process for external audit.

4.5.5 As suggested above, payroll payment reconciliations are undertaken between the files provided by Coventry City Council and TOTAL on a monthly basis. The reconciliation spreadsheet shows the variations which have mainly been due (this year) to childcare vouchers and an issue relating to the 'redundancy' payoff for one member of staff. The AA advised that issues are generally passed to Coventry City Council via HR, with the PA (Housing) being copied in so that she is aware of the issue.

4.5.6 The majority of feeder systems do not require any manual intervention with automated tasks importing transactions to the ledger. The only exception to this is the payroll system which is imported onto the ledger via an IT interface following the upload of relevant files. Any 'invalid' entries should be picked up as part of the reconciliations performed.

#### 4.6 **Journals**

4.6.1 The SFM highlighted that the onus for identifying posting errors lies mainly with the relevant budget holders as part of their budget monitoring processes, although some would be picked up by Accountancy staff as part of their reconciliation processes / payroll postings etc. Budget managers should flag miscodings to their assigned accountant who will enter journal corrections.

4.6.2 Testing was undertaken on a sample of journals to ensure that they had been appropriately processed and authorised where required, with supporting information being attached to the system to show why it had been needed.

- 4.6.3 One of the journals sampled did not initially have the supporting documentation attached to the system (by a staff member that has now left). When queried with another member of staff, they located the supporting documentation and attached it as appropriate.
- 4.6.4 Upon review of the supporting documentation, the majority included codes, the correct amounts, and reasons / narratives. Specific points of note were:
- A few did not include any / all relevant codes. Upon discussion with the relevant members of staff, they were found to be known / standard codes.
  - Two included minor discrepancies in amounts shown.

### **Advisory**

**Whilst Accountancy staff may know their own 'standard' codes, others may not do so, so all relevant codes should be included on journal supporting documentation to provide others with this information.**

- 4.6.5 Only specific journals require (retrospective) authorisation (based on the amount being journalled). However, the authorisation process was not up-to-date at the time of testing, so neither of the two relevant journals had been authorised. The process also allows for a separation of duties if there is a conflict of interests between who is scheduled to undertake the authorisation and the person who processed the journal. This was not an issue in the relevant cases.

### **Risk**

**Journals may be inappropriate.**

### **Recommendation**

**The journal authorisation process should be brought up to date.**

## **4.7 Suspense & Holding Accounts**

- 4.7.1 The suspense accounts in place were identified through a search of cost centres on the TOTAL system. This identified a number of different income and expenditure suspense accounts.
- 4.7.2 A brief review of the transactions on each account was undertaken. This confirmed that the majority of accounts had been cleared in a timely manner, with only two (relevant) accounts showing un-cleared items.
- 4.7.3 One of these only had one relevant item so was not considered an issue. The other had a number of items posted to it that hadn't cleared. However, in response to the previous audit, it was identified that this was a 'dump code' which should be cleared at year end. However, testing identified that balances were being carried forward as opposed to being written off at year end.

## **Risk**

**Accounts may be misstated if suspense balances are not cleared.**

## **Recommendation**

**The year-end write off of suspense account balances should be reconsidered as opposed to carrying forward the balances.**

- 4.7.4 Similar testing was undertaken on holding accounts, with them being identified in the same way as the suspense accounts.
- 4.7.5 Testing confirmed that the majority of accounts were having regular allocations to the relevant accounts, although one showed a balance that appeared to relate to a misposting, with an attempt to clear a previous error leading to a further issue due to the credit being input as a debit. This was referred to the relevant department for correction and has been actioned accordingly.
- 4.7.6 All accounts were found to be cleared at the 2018/19 year-end with the exception of two accounts that had minor amounts left due to adjustments and roundings.
- 4.8 **Capital Accounting**
- 4.8.1 Relevant policies in relation to capital charges, valuation and depreciation are set out in the Notes to the Accounts section of the annual Statement of Accounts. These are covered throughout the notes.
- 4.8.2 The Audit Opinion, included as Appendix E to the External Audit Findings confirmed that the Statement of Accounts, including the notes relating to accounting policies, had been prepared in accordance with relevant standards and, as such, assurance is gained from their work.
- 4.8.3 The Principal Accountant (Capital & Treasury) (PACT) provided extracts from the Logotech system for the two asset registers in place (i.e. the general fund assets and the HRA assets). The extracts were found to include various different categories of assets including housing stock, investments and operational buildings as well as heritage assets (including art works) and surplus assets. However, upon further review (during checks of the depreciation calculations – see below), it was identified that the extracts provided did not include all assets that are shown on the system.
- 4.8.4 Upon review of the system it was identified that the 'missing' assets were recorded, so the 'error' was attributed to the report generator. As the system is due to be replaced, no recommendation is thought to be warranted, although this should be noted as it may be an issue when the new system is populated.



## **Advisory**

**There will be a need to ensure that the reports identify all relevant assets to check that the new finance system has been populated appropriately.**

- 4.8.5 The PACT advised that the asset registers are updated as part of the year end process, so any current year acquisitions / disposals are not included on the register, so testing on these aspects was not possible.
- 4.8.6 The valuation of assets depends on their 'category'. HRA and investment properties are valued on an annual basis, with other assets being valued on a rolling basis, with a 20% sample (of 'other assets') being covered each year, covering different categories of assets which are then assessed to see if others in that class may need to be looked at based on materiality.
- 4.8.7 The valuations are undertaken by Carter Jonas. Their reports set out the qualifications of the staff performing the work and set out the basis of the valuation which makes reference to the CIPFA / IFRS 'code'.
- 4.8.8 The PACT advised that there are no expected impairments (although the previous impairment regarding Covent Garden Car Park may need reviewing).
- 4.8.9 The asset register spreadsheets provided by the PACT included the relevant general ledger codes where the depreciation is charged to. He highlighted that the system calculates the depreciation figures based on the data input.
- 4.8.10 As a result, only a very small sample of calculations was checked to ensure that they were correct. This test proved satisfactory.
- 4.8.11 One issue that the PACT raised with regards to the depreciation calculations is that Logotech cannot deal with the component accounting for HRA assets. These, therefore have to be calculated outside of the system. This is shown in the HRA journal spreadsheet.
- 4.8.12 The year-end depreciation journal, to charge the depreciation to the relevant revenue accounts, was reviewed and it was confirmed that supporting documentation was held with the journal (on TOTAL) that supported the recharges to the relevant revenue accounts.
- 4.8.13 Quarterly budget reports are presented to Executive that give an update on (amongst other things) any changes to the capital programme (e.g. slippage / new projects).

## **4.9 Final Accounts**

- 4.9.1 The timetable for the closedown of the 2019/20 accounts clearly sets out responsibilities for Accountancy staff and other relevant individuals. Communications to others involved in the process are also logged.
- 4.9.2 Relevant documentation in relation to the closedown of the 2018/19 accounts, including working papers, was found to be held in the shared Finance Common drive on the network. Also included was an 'actions progress'

document, setting out some of the decisions that were being taken with regards to the closure of the accounts.

- 4.9.3 As previously highlighted, there had been issues with the closure of the accounts in previous years (with regards to timeliness as a result of information contained within draft accounts being incorrect (linked to an agency member of staff and controls over his access and authority), and rectification work having to be undertaken by the team). However, this issue was resolved for the closure of the 2018/19 accounts which were produced in a timely manner, with a report being prepared for Executive in November 2019 highlighting the remaining key issues and risks.
- 4.9.4 The Statement of Accounts was found to cover the sources of revenue and capital finance, expenditure incurred and the movement in the overall financial position as appropriate. Reliance was again placed on the report from the external auditors which did not highlight any issues with the format of the accounts.
- 4.9.5 The Statement of Responsibilities included within the copy of the Statement of Accounts is signed by the Head of Finance as the Responsible Financial Officer. The Annual Governance Statement included within the document is similarly signed by the Leader of the Council and the Chief Executive.
- 4.9.6 A separate annual report and statement of audit opinion is also produced and was found to have been reported to the Finance & Audit Scrutiny Committee in May 2019.
- 4.9.7 The Statement of Accounts was formally approved by Finance & Audit Scrutiny Committee on 30 July 2019 and was subsequently reported to Executive and Council (via the Finance Portfolio Holder statement).

#### 4.10 **Whole of Government Accounts**

- 4.10.1 The SFM that the Whole of Government Accounts (WGA) feed off the Council's accounts. At present, there is a manual process in place outside of the ledger to map the relevant codes across to the WGA coding. However, it is hoped that a specific hierarchy can be built into the new financial management system so that the information can be directly extracted without further manual intervention.
- 4.10.2 Due to time constraints on the audit and the fact that the SFM was new to the process (and had not prepared previous submissions himself), it was decided that specific testing was not to be undertaken. However, the SFM highlighted that no queries had been raised on previous submissions, so some assurance could be gained from this.

### 5 **Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the Main Accounting System are appropriate and are working effectively.
- 5.2 The assurance bands are shown overleaf:

<b>Level of Assurance</b>	<b>Definition</b>
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 Only a couple of minor issues were identified:

- The journal authorisation process needs to be brought up to date.
- Suspense account balances were not written-off at year end as previously suggested.

5.4 Further 'issues' were also identified where advisory notes have been reported. In these instances, no formal recommendations are thought to be warranted as there is no risk if the actions are not taken. If the changes are made, however, the existing control framework will be enhanced:

- The link to the hierarchy spreadsheet should be updated on TOTAL
- All relevant codes should be included on journal documentation to assist those who may not know the 'standard' codes
- There will be a need to ensure that the reports identify all relevant assets to check that the new finance system has been appropriately populated.

## 6 **Management Action**

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr  
Audit and Risk Manager

## Action Plan

## Internal Audit of Main Accounting System – March 2020

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.6.5	The journal authorisation process should be brought up to date.	Journals may be inappropriate.	Low	Strategic Finance Manager	The Journal Authorisation Process will be maintained in a more timely manner, with deadlines being set for when approvals need to be made by (within a fortnight of month end for Principal Accountant level, with 1 further week for Strategic Finance Manager authorisations.)	Ongoing
4.7.3	The year-end write off of suspense account balances should be reconsidered as opposed to carrying forward the balances.	Accounts may be misstated if suspense balances are not cleared.	Low	Strategic Finance Manager	The process is to be reviewed in conjunction with the Principal Accountant (Capital & Treasury) and the Accountancy Assistant, to agree the appropriate action. This will be reviewed as part of the 2019/20 final accounts.	End of April 2020

\* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.