

**FROM:** Audit and Risk Manager  
**TO:** Head of Finance  
**C.C.** Chief Executive  
Deputy Chief Executive (AJ)  
Strategic Finance Manager  
Principal Accountants

**SUBJECT:** Main Accounting System  
**DATE:** 19 September 2016

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2016/17, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where applicable. This topic was last audited in September 2013.
- 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 Code of Financial Practice at section 2.3 h iv) states "that the responsibilities of the Head of Finance includes agreeing the format of accounting records and core financial procedures and systems".
- 2.3 The main accounting system uses the Total General Ledger (Total) to manage the accounts. Total has financial transaction flows from subsidiary financial systems and the general ledger journal process which provides financial information to document the service income and revenue expenditure account and the balance sheet.

## 3 Scope and Objectives of the Audit

- 3.1 The overall objective of the audit was to report a level of assurance with regards to the controls in place for the main financial accounting system, to ensure that the council's operations and key objectives continue to be sufficiently resourced.
- 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 control objectives that have been considered as part of this audit include:

- Policies and procedures
- Financial information system
- Coding structure
- Feeder systems
- Journals
- Suspense and holding accounts
- Bank reconciliations
- Capital accounting
- Final accounts.

## 4 Findings

### 4.1 Recommendation from Previous Report

4.1.1 The current position in respect of the recommendations from the audit reported in September 2013 is as follows:

Recommendation	Management Response	Current Status
1 The Master Hierarchical Cost Centre schedule should be periodically reviewed and discontinued codes deleted.	Need to be done is recognised, but have to consider retention of sufficient history for reference.	The preferred implementation process is for discontinued codes to be inactive, as demonstrated during testing.
2 Staff should be encouraged to enter clear header narratives in journal include overwriting default entries from journal templates where applicable.	Meeting to be arranged with the Principal Accountants to consider the form this will take.	Sample testing confirmed that journal header narrative correctly described the journal category.

### 4.2 Policies and Procedures

4.2.1 The Code of Financial Practice (COFP) was inspected to evaluate the framework for the main financial accounting system. Testing confirmed that the format for financial procedures and systems were adequately documented in section 2.3 of the COFP.

4.2.2 The accounting policies included in the draft unaudited 2015/16 accounts were compared to the CIPFA disclosure checklist for accounting policies. Audit testing confirmed compliance with the disclosure checklist.

4.2.3 The monthly procedure for payroll, debtors and creditor control account reconciliations were evidenced and confirmed that they had been completed as at June 2016.

4.2.4 Enquiries were made with a newly appointed member of staff with the objective of establishing if they had received appropriate induction training for the Total procedures. Verbal confirmation was received that the training did match the new employee's needs.

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

4.3.1 Testing was undertaken to ensure that the interfaces between Total and other, subsidiary, financial system were operating effectively.

4.3.2 A sample of six Total transaction batch control totals was successfully verified to the relevant subsidiary financial systems.

4.3.3 The 2016/17 service revenue budget book format is by service cost centre and subjective activity heading. A sample of five budget book cost centres, was checked to confirm that the relevant cost centres had been set up on Total. This test proved satisfactory.

4.3.4 The control for ensuring that the opening balance sheet values (as at 1 April 2015) contained within Total had been appropriately brought forward was tested. It was confirmed that the figures were accurate, based on the journal processed in October 2015 that had required processing following the sign-off by external audit.

#### 4.4 **Coding Structure**

4.4.1 A test to confirm that requests to add new account codes to the Total hierarchy were authorised by service budget holders was completed. Supporting documentation provided by finance staff confirmed that the budget holder had initiated the account code change as a result of completing the revenue budget monitoring process and codes were correctly set up.

4.4.2 The staff access rights to Total was tested with the objective of confirming that access controls were in place. Evidence provided from the Total parameters was inspected which verified that access was correctly limited to finance and financial services staff team members.

#### 4.5 **Feeder Systems**

4.5.1 The process for feeder system closedown to the Total General Ledger as at 31 March 2016 was reviewed to verify that a systematic approach was undertaken. Evidence inspected confirmed that a clear process and sequence of controls had been correctly instigated by finance staff.

4.5.2 Debtors, creditors and payroll are feeder systems to Total. Evidence that the control accounts in the ledger are reconciled by finance staff and the reconciliation is up to date was tested. The reconciliations were reviewed to supporting documentation, and all three control accounts have been correctly reconciled as at June 2016.

4.5.3 In the Total hierarchy an account code 9999 has been set up as a feeder system default code with the objective of the account being monitored and subsequently cleared if incomplete transactions are processed. Visual account

enquiry of account 9999 confirmed that a nil balance was present demonstrating that transactions are promptly cleared for this account.

#### 4.6 **Journals**

- 4.6.1 One of the menu options in Total is "coding correction journals". This is used where the original coding of a financial transaction is incorrect.
- 4.6.2 A sample of six 2016/17 general ledger journals was tested to ensure that there was supporting documentation and appropriate authorisation. It was found that all six journals had a supporting audit trail and were authorised appropriately.
- 4.6.2 As a result of testing of code correction journals it was noted that the payroll feeder system journals had examples of staff incorrectly coded to service revenue cost centres. Ideally, key feeder systems for financial transaction data such as payroll should be checked prior to processing in the Total General Ledger.

#### **Risk**

**Incorrect data may be held within the accounting systems giving rise to error and misstatement.**

#### **Recommendations**

**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.**

**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.**

#### 4.7 **Suspense and Holding Accounts**

- 4.7.1 There are eight suspense account codes in the Total General Ledger. The balance on each was reviewed to confirm that monthly reconciliations are performed and a process is in place to reclassify financial transactions to the correct account code.
- 4.7.2 Total audit trails and working papers provided by Accountancy confirmed that seven of these suspense accounts had been reconciled. However, income suspense account code B357 had not been reconciled and had a credit balance of £3,399.51 at the time of the audit.

#### **Risk**

**If suspense accounts are not regularly reconciled there is a risk of error and misstatement within the accounts.**

#### **Recommendation**

**The income suspense account code B357 should be reconciled immediately and, thereafter, quarterly.**

## 4.8 **Bank Reconciliations**

- 4.8.1 The bank reconciliation compares the month end statement balances to the Total General Ledger. In 2016/17 the process for reconciling the receipt bank statement to ledger at month end changed. Service income on line returns (OLR) of bank receipts via the PARIS receipt system are now reconciled to transaction postings in the Total General Ledger. The Northgate OLR receipt report function which worked well in the test environment is currently not working properly resulting in the monthly bank reconciliations for the receipts bank account for April and May 2016 not being reconciled fully. The differences at May month end, however, are not considered to be material. No recommendation is made here as the Principal Accountant is fully aware of the OLR report problem and is dealing with it.
- 4.8.2 The bank reconciliation for the payment bank account at June 2016 was reviewed to verify that the reconciliation has been completed and balanced satisfactorily. Audit testing of the payment bank account reconciliation for June confirmed that the reconciliation had correctly taken place and balanced to supporting documentation.
- 4.8.3 The bank reconciliation for the receipt and payment bank statement balances was compared to the Total bank account B370 balance as at 31 March 2016. Testing confirmed that the reconciliation was well-evidenced, balanced correctly and signed off by the Principal Accountant (Capital).

## 4.9 **Capital Accounting**

- 4.9.1 The 2015/16 capital accounting policies per note 1 of the draft accounts were tested for compliance with the CIPFA code of practice for Local Authority Accounting. Audit testing confirmed that the capital accounting policies were compliant with CIPFA's code of practice.
- 4.9.2 The council's fixed assets are recorded on the Logotech system which is controlled by the Principal Accountant (Capital). The 2015/16 annual depreciation charge for fixed assets was tested to ensure that it had been correctly applied to the general fund and housing assets.
- 4.9.3 Logotech system reports for annual depreciation were successfully traced to the general ledger journals; it was also confirmed that depreciation charges by service revenue cost centres had been correctly posted in the ledger.
- 4.9.4 An additional depreciation test to ensure that the 2015/16 annual depreciation charge was correctly based on the net book value as at 1<sup>st</sup> April 2015 and the residual life of assets was undertaken. The results of the test confirmed that the Logotech asset record annual depreciation charge had been correctly calculated.
- 4.9.5 An audit test to verify that individual fixed assets have unique Logotech identifier control records was undertaken. A sample of two fixed assets in existence at 1<sup>st</sup> April 2015 was chosen. Both assets chosen were confirmed as having individual Logotech asset numbers.

- 4.9.6 The 2015/16 capital enhancement expenditure for existing house dwellings are reassessed by the appointed property valuer Carter Jonas at 31<sup>st</sup> March 2016. The aggregate value of the council dwellings per the valuation report was verified as being consistent with the value of house dwellings in the Total General Ledger at 31<sup>st</sup> March 2016.
- 4.9.7 A sample of two 2015/16 capital project financial control totals within the Total General Ledger were verified to the Logotech fixed asset register individual asset record as at 31st March 2016.
- 4.9.8 One asset had recently been demolished and, upon review, it was confirmed that the credit shown on Total agreed to the demolition figure included on Logotech.
- 4.9.9 A sample of two 2015/16 council house disposals under the tenant right to buy scheme were tested to confirm that they had been correctly accounted for in the general ledger, Logotech asset register and Active H rent system.
- 4.9.10 For both disposals the correct accounting entries were applied to the three systems. Examination of the Logotech fixed asset register also confirmed that disposal gains on sale and sale proceeds had been correctly calculated and asset records had been updated. Details of the 2015/16 tenant right to buy disposals held by the Principal Accountant (Housing) were also consistent with the three automated system records above.
- 4.9.11 Audit enquiries with the Principal Accountant (Capital) confirmed that all land and building assets were subject to a revaluation process as at 31<sup>st</sup> March 2016 following the appointment of the valuer Carter Jonas. The council housing dwellings are based on the Beacon Valuation principle dependent upon the age and configuration of the dwelling. A sample of three revalued housing dwellings updated valuations were successfully verified from the valuer's report to the unique Logotech property record.
- 4.9.12 A sample of two 2015/16 general fund buildings subject to impairment and revaluation with a recorded value as at 31<sup>st</sup> March 2016 were successfully verified from the valuer's report to the Logotech asset record.
- 4.9.13 The Principal Accountant (Capital) confirmed that plans were in place for the revaluation of assets (land and buildings), as required, to ensure that they were correctly valued at the year-end.
- 4.9.14 The 31 March 2016 reconciliation of the Logotech asset register with recorded values for fixed assets was checked to Total and land and building valuer reports (where applicable) with the objective of confirming that the financial values agreed. The test confirmed that the figures balanced.
- 4.10 **Final Accounts**
- 4.10.1 The process and controls for the 2015/16 accounts closedown timetable were reviewed and found to be satisfactory. Draft accounts were produced for reporting to the Executive on the 2 June 2016 in line with the timetable that had been set.

4.10.2 The report from Finance to the Finance and Audit Scrutiny Committee meeting of 26 July 2016 noted that External Audit's review of the financial statements for the year just ended would be reported to that Committee's meeting on 20 September 2016.

## 5 **Conclusions**

5.1 Following our review we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the Main Financial Accounting System are appropriate and are working effectively.

5.2 The assurance bands are shown below:

<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 Two recommendations were made relating to: i) pre-list of monthly payroll by employee revenue cost centre; and ii) quarterly reconciliation of income suspense code B357 and subsequent clearance.

## 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 the Main Financial Accounting System – September 2016

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer	Management Response	Target Date
4.6.2	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.	Incorrect data may be held within the accounting systems giving rise to error and misstatement.	Medium	Principal Accountant (Systems)	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.	Ongoing – formalise by end of Dec 2016.
4.6.2	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.	Incorrect data may be held within the accounting systems giving rise to error and misstatement.	Medium	Principal Accountant (Systems)	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.	Ongoing – formalise by end of Dec 2016.



Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer	Management Response	Target Date
4.7.2	The income suspense account code B357 should be reconciled immediately and, thereafter, quarterly.	If suspense accounts are not regularly reconciled there is a risk of error and misstatement within the accounts.	Low	Principal Accountant (Capital)	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.	March 2017.

\* 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.