

THE HIGHLAND COUNCIL

Audit and Scrutiny Committee

Date: 20th August 2009

Agenda Item	8
Report No	AS/18/09

External Audit Reviews

Report by Depute Chief Executive & Director of Finance

Summary

The purpose of this report is to present the reports issued by the Council's External Auditors (Audit Scotland) since the last meeting of 11th June 2009, and to highlight the main issues to Members.

1. Introduction

1.1 Audit Scotland have recently issued two reports:

- Review of Internal Audit 2008/09, issued on 30 June 2009;
- Oracle FMS ICT review, issued on 1 July 2009.

The main findings from the individual reports, the key risk areas identified by Audit Scotland, and the report conclusions are detailed in Sections 2 and 3 below.

2. Review of Internal Audit

2.1 Introduction

The following criteria was used to assess the Council's Internal Audit function:

- Status – the status of internal audit in the Council and whether it is objective;
- Scope – the nature and extent of internal audit assignments;
- Quality – the standard of audit work and whether internal audit staff have adequate technical training and proficiency;
- Management – whether internal audit is properly planned, supervised and reported.

2.2 Main Findings

A total of five risk areas were identified by Audit Scotland. These are summarised below within the relevant criteria headings, together with details of the actions being undertaken by the Head of Internal Audit and Risk Management to address these risks.

- Scope – three risks were identified within this criteria, relating to slippage in the 2008/09 audit plan; the reasons for the slippage; and contingency, and special investigation allowances.

These risks have been recognised by the Head of Internal Audit and Risk Management and have already been addressed. The process introduced in

August 2008, of reporting any deleted audits to the Audit and Scrutiny Committee will also continue.

- Quality – one risk associated with the failure to complete work within time budgets and/ or relevant quality standards, contributes to slippage in the plan. This risk has been recognised, and a formal monitoring process is in place to review the progress of each audit assignment on a weekly basis.
- Management – one low risk with regard to the work undertaken for the Islands Councils on an agency basis. The Head of Internal Audit and Risk Management decided to take no action on this point as there are only 20 days in 2009/10 and in his opinion, there are a number of benefits from this arrangement.

2.3 Conclusion

Audit Scotland concluded that Internal Audit within the Highland Council meets professional standards. Areas for improvement have been identified, including the need to make a more realistic provision for unplanned work, the need to manage time budgets and staff performance effectively and the need for the Internal Audit staffing establishment to be kept fully resourced.

3. **Oracle FMS ICT review**

3.1 Introduction

A review was undertaken of the Oracle Financial Management System (Oracle FMS), which is used by the Council, the Joint Boards and Transport Partnership. This review gathered information and reviewed the computing controls in the following areas:

- FMS outline;
- Access controls;
- Input controls;
- Processing controls;
- Output controls;
- System effectiveness.

3.2 Main Findings

A total of eight risk areas were identified and the following areas for improvement were reported:

- Members of the Finance System Administration Team provide system administration tasks for both the electronic procurement system and Oracle FMS. These staff have access to powerful tools that control the purchasing and payment process of transactions from start to finish.
- System audit routines are not used to monitor sensitive transaction or the activities of individual users with extensive access rights.
- The reconciliation process between the various modules of Oracle FMS is incomplete.

- There are a number of prior year purchase and sales invoices on the system, which have not been addressed fully. There are also a number of unprocessed transactions on the system, which should be cleared.

The risk areas identified from the review are listed in the Action plan, which also details the actions agreed by management in response to these risks.

3.3 Conclusion

It was concluded that the system is generally well managed, and in particular:

- System documentation for scheduled processes, and loading and processing of files from other systems feeding into the FMS is well prepared.
- Checklists are available for staff dealing with system management tasks.
- User set up procedures are effectively controlled.

Recommendation

Members are invited to consider the above External Audit reports.

Signature:

Designation: Depute Chief Executive & Director of Finance

Date: 5th August 2009

Ref:

Background Papers

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The Highland Council

Review of Internal Audit 2008/09

30 June 2009



 AUDIT SCOTLAND



The Highland Council

Review of Internal Audit 2008/09

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Summary

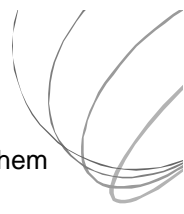
Introduction and scope

1. Internal audit is an independent appraisal function established by management for the review of the internal control systems of an organisation. Its' role is to examine, evaluate and report on the adequacy of internal control as a contribution to the economic, efficient and effective use of resources.
2. The Highland Council's internal audit section consists of 11 posts led by the Head of Internal Audit and Risk Management.
3. The following criteria were used to assess the internal audit function:
 - status – the status of internal audit in the council and whether it is objective;
 - scope – the nature and extent of internal audit assignments;
 - quality – the standard of audit work and whether internal audit staff have adequate technical training and proficiency;
 - management – whether internal audit is properly planned, supervised and reported.
4. The action plan details those areas where improvements could be secured in the operation of internal audit through management action.
5. The issues identified in this report are only those which have come to our attention during the course of our review and are not necessarily all the risks that may exist.

Main findings

Status of internal audit

6. The purpose, authority and responsibilities of internal audit must be formally defined. The position of the Head of Internal Audit within the council should reflect the influence that the post has on the council's control environment. Internal audit should be independent of the activities it audits to enable auditors to be impartial in performing their duties.
7. The council's Financial Regulations formally establish the terms of reference, role and objectives of internal audit. The authority of internal audit and the right of access to all the council's premises, records, assets and staff are clearly defined. The Regulations also specify that the Head of Internal Audit has the right of free and confidential access to the Chair of the Audit & Scrutiny Committee (referred to as 'the Committee' in the remainder of this report).



8. The council's internal audit staff must complete a declaration of any interests which may prevent them from making impartial judgements and recommendations. This strengthens the independence of approach.
9. The council's internal audit is free to communicate fully with chief officers, the Chair of the Committee and with external audit. The relationship with external audit has developed further this year and is based on full and frank discussions and co-operation between the two sets of auditors.
10. The status of internal audit is at the appropriate level within Highland Council.

Scope of internal audit

11. The council has an Internal Audit Charter, approved by the Committee, which establishes the overall strategy governing the work of internal audit. Operational work is detailed in the annual Tactical Plan, again approved by the Committee, which sets out the specific audit assignments to be undertaken for the year ahead. Assignments are identified for inclusion in the plan through consultation with Service Directors and by applying the risk assessment methodology laid down in the Internal Audit Manual. The risk methodology is also used to prioritise the assignments that have been identified.
12. The Head of Internal Audit and Risk Management reports on progress against the plan to each meeting of the Committee. In August 2008 slippage against target was reported and a number of audit assignments were deferred or deleted from the plan. A similar exercise was done later in the year. The assignments deferred or deleted were considered to be 'lower' priority although they were derived from a formal risk assessment process and the lack of planned coverage could therefore potentially impact on the council's control environment. This has been the first year that slippage of work against the audit plan has been formally highlighted and reported to the Committee although slippage had occurred in previous years.

Risk area 1

13. The main reasons for the slippage were time being spent on unplanned projects (which equated to near the equivalent of one full time member of staff against a budget of 65 days), increased work on irregularity and fraud investigations (150 days against a budget of 65 days) and staff vacancies in the year. Most of the unplanned project work related to Caithness Heating and Power (CHaP) and we recognise the importance of this issue and the need for audit involvement in the CHaP Operational Support Team. The number of irregularity and fraud investigations arising in 2008/09 was also far greater than the previous year. However, there is still an issue in relation to the level of planned 'contingency' and 'unspecified investigation' days allocated at the planning stage.

Risk areas 2 & 3



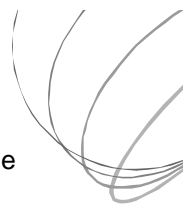
Standard of internal audit work

14. A key competency for internal auditors is that they have the appropriate qualifications and training to enable them to carry out their work on a professional basis. The internal audit staff are all appropriately qualified or studying and have regular and targeted training as appropriate.
15. There is an audit manual in place and this is an important tool to establish policies and procedures as a guide for audit staff. This has recently been updated to reflect developments in the audit approach.
16. A review of a sample of assignments and the supporting working papers held electronically using the Galileo system highlighted that the standard of working papers and documentation was satisfactory for the majority of audits reviewed. However, in certain instances, draft reports and the supporting working papers were inadequate and required considerable work and management input before a final draft version of the report could be released to the client. For example 54 days were spent on an assignment which had been allocated a reasonable time budget of 29 days and in another instance an audit took 25 days against a reasonable time budget of 15 days. The failure to complete work within the time budgets and/or to the relevant quality standards contributes to slippage in the plan, exacerbates resourcing problems and may be indicative of some performance issues within the section.

Risk area 4

Management of internal audit

17. The Committee is responsible for considering the programme of internal audit work and for considering the outcomes and actions arising from internal audit reports. Summarised reports of completed audit assignments are submitted to the committee and detailed reports are available to members on request. The Committee also receives the Annual Report which contains a summary of the work carried out during the year, performance data and an opinion on the overall effectiveness of the council's control environment.
18. Internal audit reports include an action plan agreed with the relevant managers who sign up to implement the recommendations, within a timescale, arising from the work undertaken. Systematic procedures are in place for follow up of agreed actions, including the reporting of progress across the council as part of the council's quarterly performance review process.
19. Both the Head of Internal Audit and Risk Management (appointed in July 2008) and the Principal Auditor (appointed in November 2008) are relatively new to their current positions though they were both previously employees of the Internal Audit section. The new management style has placed greater emphasis on setting realistic budgets and putting formal budget monitoring arrangements in place while improving the overall standard of reports by Internal Audit. This will enhance the status and productivity of Internal Audit. A new relationship, a more 'partnership' approach, has been forged with external audit and this will lead to real benefits to the Council. However the new management arrangements and their aspirations have been compromised by the staff vacancies during the audit



year, equating to nearly 2 FTE posts, which has contributed to the slippage in audit work and made the role of management considerably more challenging.

- 20. Within internal audit planned work is done for the Islands Councils on an agency basis. While this only amounts to 20 days and is good practice for joint working / shared services, useful for deriving income and enhancing staff development, the prudence of carrying out such work when slippages may jeopardise internal control and/or resources are tight should be formally considered. Similarly consideration should be given to the possibility of the occasional use of temporary staff if, following an assessment of residual risk arising from slippages, the council is going to be exposed to unacceptable risk.

Risk area 5

- 21. A new staffing structure has been recently approved for internal audit and recruitment is actively taking place. This should assist the Head of Internal Audit and Risk Management in setting and meeting an achievable audit plan for future years.

Conclusion

- 22. Overall we found the provision of internal audit at Highland Council to meet appropriate professional standards, although we did identify areas for improvement. These include the need to make a more realistic provision for unplanned work, the need to manage time budgets and staff performance effectively and the need for the internal audit staffing establishment to be kept fully resourced.

Acknowledgement

- 23. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.



June 2009

Action plan



Key risk areas and planned management action

Key risk area	Refer para no	Risk identified	Risk Category	Planned management action	Responsible officer	Target date
1	12	Continual slippage in the audit plan may lead to inadequate audit coverage which could adversely effect the council's control environment.	High	The audit planning process for 2009/10 ensured that all audits deleted from the 2008/09 audit plan were considered for inclusion. Any audits which have to be deleted during the course of the year will be reported to the Audit & Scrutiny Committee at the earliest opportunity in order to highlight potential risks to the Council's control environment.	Head of Internal Audit & Risk Management	Plan completed March '09. Ongoing reporting to A&S Committee.
2	13	There is a risk that the detailed risk assessment performed by internal audit will be undermined with the increase in auditors' time spent on investigative and project work.	High	Prior to undertaking any project work, the risks and materiality of that work will be considered against the work contained within the tactical plan. All significant project work will be reported to the Audit & Scrutiny Committee. With regard to investigation work, there is a clear need for Internal Audit involvement and again, this will be reported to the Audit & Scrutiny Committee.	Head of Internal Audit & Risk Management	Ongoing.
3	13	The plan, based on past performance, does not set aside sufficient days to provide flexibility in resources and/or assignments. This increases the risk of slippage in the planned work.	Medium	It is considered that 2008/09 was an exceptional year in terms of project and special investigations work. However, the plan for 2009/10 has allowed for an additional 30 days contingency for such work; an increase of 23%. This measure should reduce the risk of slippage in the planned work.	Head of Internal Audit & Risk Management	Actioned March '09.

Key risk area	Refer para no	Risk Identified	Risk Category	Planned management action	Responsible officer	Target date
4	16	Persistent failure to meet realistic time budgets for audit assignments may indicate performance issues and increases the risk of slippages in the audit plan work.	High	The risk of slippage in the planned work has been recognised and during 2008/09 a formal monitoring process was introduced. This process was to ensure that, on a weekly basis, the progress of each audit assignment is examined by the respective Manager to ensure that this is scheduled to remain within the budget set for that assignment. This is then reported to the Head of Internal Audit & Risk Management. Unfortunately, due to the heavy workload within the Section, the monitoring procedures were not rigorously enforced. These are now being undertaken weekly, as a matter of priority.	Head of Internal Audit & Risk Management / Principal Auditor / Computer Auditor	Ongoing.
5	20	Work for other councils puts additional pressure on staff resources and could make the slippage position more critical.	Low	This work represented 30 days in 2008/09 and has now reduced to 20 days in 2009/10. There are various benefits associated with this work and therefore no action is proposed.	N/A	N/A

Risk Categories:

High – must be addressed immediately to ensure basic controls are in place within the financial system.

Medium – should be addressed at an earliest opportunity to strengthen controls within the financial system.

Low - desirable control to enhance existing controls.

The Highland Council

Oracle FMS ICT review

1 July 2009



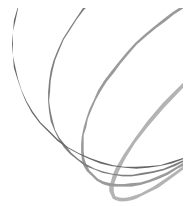
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The Highland Council 2008/09

Oracle FMS ICT review

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		Input controls
		Processing controls
		Output controls
		System effectiveness
		Action plan



Summary

Introduction

1. For the audit year 2008/09 we carried out a review of the Oracle Financial Management System (hereafter Oracle FMS). Oracle FMS is used by both the Highland Council (the Council) and its arm's length bodies as well as the regional Joint Boards (Northern Police, Fire and Rescue and Valuation) and Transport Partnership.
2. The objective of the review was to gather information about the system and the computing controls in place in the following areas:
 - **FMS outline** – to determine the scope of the system, automated processing functionality available and relationships between the various elements (modules) of the system.
 - **Access Controls** – to determine who can input, process and create reports on information held by the system, and who can amend standing data in the system.
 - **Input Controls** – to gather information on the way transactions are entered into the system and how it is ensured that these transaction data are accurate, complete and authorised.
 - **Processing Controls** – to gather information on how the system further processes transaction data without compromising the accuracy and completeness of the data.
 - **Output Controls** – to gain assurance that application system key output is complete, accurate and distributed appropriately.
 - **System effectiveness** – to gain assurance that the system is used in a way that improves the efficiency of the organisation.

Main findings

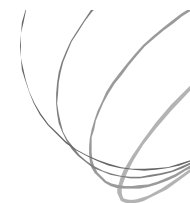
3. Oracle FMS is a shared services application system for the Council and the regional Joint Boards. The daily management of the system is carried out by the Finance System Administration Team at the Council (user management, scheduled processes, reporting) and Fujitsu Services (database and hardware management). We found that the system is generally well managed, in particular:
 - System documentation for scheduled processes and loading and processing of files from other systems feeding into the FMS is well prepared.
 - Checklists are available for staff dealing with system management tasks.



- The user set up procedures are effectively controlled, with additional sign-off required by the Finance Manager for staff not employed by the Council.
4. There are, however, a number of areas where improvements could be made:
- A large number of members of the Finance System Administration Team provides system administration tasks for both the electronic procurement system (Pecos) and Oracle FMS. This means that these individuals have access to powerful tools that control the purchasing and payment process of transactions from start to finish.
 - Although system audit routines are available, they are not currently in use to monitor sensitive transactions (such as change of bank account details) or the activities of individual users with extensive access rights.
 - The reconciliation process between the various elements (modules) of Oracle FMS is incomplete.
 - There are a number of prior year invoices (both purchase invoices and sales invoices) on the system which have not been addressed fully. In addition, there are a number of unprocessed transactions on the system which should be cleared.

Management action

5. A summary of the areas requiring management consideration is included in the action plan. Planned action, responsibilities and timescales for responding to the risk exposures identified within this report have been agreed with management. It is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
6. The contents of this report have been discussed and agreed with the Central Services Finance Manager, the Principal Account and the Finance Systems Officer to confirm factual accuracy. The co-operation and assistance given by all officers contacted during the course of this audit is gratefully acknowledged.



Findings

FMS outline

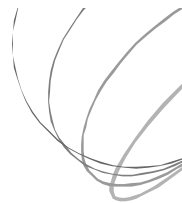
7. The Council first introduced Oracle FMS in financial year 1999/2000 as a replacement for the mainframe system LAFIS (local authority financial information system). A major upgrade to application version Oracle 11i took place for the financial year 2006/2007. When the system was initially implemented an outline of the system and the relationship between the various modules was part of the implementation process. The upgrade has not resulted in an update to this outline and as a result, interdependencies in functionality can only be inferred from data analysis and administrative routines taking place.
8. Initially, audit routines for Oracle FMS were not identified or carried out. A few years ago, consultancy was commissioned whereby Internal Audit and the consultant identified a number of fields that should be audited on a regular basis (for example, the supplier bank details field). Since the fields were identified and reports built, routine monitoring through these reports has not been carried out. Regular auditing of changes to sensitive fields or of sensitive activities should be part of the routine monitoring practices of any major system to mitigate the risk of fraud or error.

Risk area 1

9. The FMS is run as a shared service application for the Council and affiliated joint boards, as well as a few arms' length companies run by the Council. A formal agreement between the main contractor for the system (the Council, through Fujitsu Services, its IT services provider) and the other organisations (joint boards, transport authority) for the provision of accountancy services and the system is not considered required. This means that there is no formal means of escalating any issues arising from the service provision, without involving the Director of Finance who is also the Treasurer for the joint boards.

Access controls

10. Access to the system is controlled in two ways: by the allocation of a 'responsibility' (that is, the primary task allocated to a user, for example, Accounts Payable – AP or Accounts Receivable – AR) and the allocation of postable ledger codes to a responsibility. In this way, users should not be able to exceed their role or their business area. The main segregation in responsibility is that between clerks (staff who, for example, enter invoices on the system) and approvers/budget holders, with the former only able to enter invoice details on the system and the latter being required to approve the transaction.



11. There are, however, a great number of non-standard responsibilities (that is, not AP or AR) which are less well defined. There is no document available that gives a description of what a person is allowed to do within the limitations of that responsibility. It is therefore not possible to gauge whether the tasks that can be carried out using a particular responsibility is appropriate. Generally speaking, the specific roles needed for users should be clarified on the basis of the user's day-to-day job responsibilities and with reference to segregation of duties responsibilities. The responsibility should then be built accordingly, taking logical grouping of tasks into account without making too fine distinctions between roles. Absence of clear definitions of roles and responsibilities limits the opportunity to check if tasks carried out on the system are appropriate, therefore may result in users potentially exceeding the remit allowed to their role, possibly leading to error or even fraud.

Risk area 2

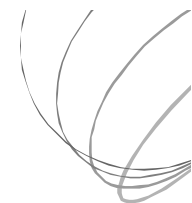
12. System administration tasks for Oracle FMS are carried out by the Finance Services Administration Team. The Finance Services Administration Team was set up to provide an efficient means of system administration for all finance systems in one location. Ten of the system administrators for Oracle FMS are also system administrators for Pecos, the national system used for procurement of goods and services. The system administrator responsibility has many powerful tools at its disposal. Combining the system administration roles for two large systems gives these users control from start to finish over the purchasing process which contravenes segregation of duties requirements.

Risk area 3

13. Users need to log on to Oracle FMS using a user ID and password. The password requirements for the system do not adhere to the corporate IT security framework. For some systems, implementation of more complex requirements as set out in the framework is not possible. However, it should be investigated whether Oracle FMS' password policy can meet the requirements, and this change should be implemented where possible.

Input controls

14. There are a considerable number of users who have a "GL" responsibility. This responsibility allows them to be able to manually enter journals. If a journal should exceed 20 lines, the details would be entered on a spreadsheet and uploaded by the Finance Services Administration Team.
15. As Internal Audit remarked in its report of March 2007 there is an excessive number of journals being processed at any time. The value of journals processed far exceeds the value of the two major expenditure elements in the accounts: purchase invoices or payroll payments.



16. For the periods October through December 2008, the figures are as follows (across all user organisations):

Type of ledger entry	Value £'000
Manual journals	80,924
Spreadsheet journals	38,195
Purchase invoices	146,533
Payroll	207,789

17. There are valid reasons for such a high number of journals (adjustments, re-allocations, etc); however there are also potential reasons why this could be a concern:

- Expenditure is not posted to the appropriate cost centre/subjective when it is posted from one of the feeding systems (such as the Northgate Housing Management System).
- Errors are made while posting journals, which subsequently have to be rectified with another journal. Detailed analysis of ledger data shows that this is a regular occurrence.
- The pervasiveness of corrective journals makes it hard to ascertain whether expenditure in areas is under- or overstated.

18. In addition to the excessive number of journals, the categories under which journals are posted are also varied. As there are standard journal categories set on the system and cannot be deleted, instructions to staff need to be clear as to which categories should be used. Using many different ones, and users defining categories inconsistently across services makes analysing outcomes difficult. Improved control over journaling would be expected to result in fewer errors,.

Risk area 4

Processing controls

19. Oracle FMS consists of a number of separate parts: General Ledger, Accounts Payable, Accounts Receivable and Projects. The data entered into the Accounts Payables and Receivables ledgers are posted nightly to the General Ledger using an automatic journal. There are two types of transactions journaled: the raising of the invoice and making / receiving the payment. A General Ledger control account is used to show the balance amount of invoices not paid – this amount should agree with the total amount of all the invoices on the separate Accounts Payable and Accounts Receivable ledgers. This reconciliation (balance on control account = value of all open invoices) is a control to show that the application system has correctly processed all the transactions and nothing has gone missing.



20. At the end of a period, the reconciliation process carried out by the Central Finance team for AP and AR consists of reconciling the balance of open invoices to the control account:
- For AP the reconciliation uses the Accounts Payable Trial Balance report and the balance on control account XD2400. Although the daily reconciliations agree, we were not able to perform a retrospective reconciliation because the AP Trial Balance report always shows the open invoices at the time of running the report. The report appears to have been incorrectly implemented, as it should be possible to run the report for a set date, as entered by the user in the “As of Date” parameter field. Correcting this configuration error would mean that reconciliations can be done monthly instead of being required daily.
 - For AR the reconciliation uses the Ageing Debtors report – which in contrast to the AP Trial Balance can be run for a date in the past – and the balance on a number of control accounts. However, the reconciliation is still incomplete and an Oracle consultant will be on site in March 2009 to help identify areas for change which should resolve the difficulties experienced.
21. When the AR reconciliation process cannot be completed, this carries the risk of hidden errors which would otherwise be discovered.

Risk area 5

22. Using the reports mentioned above, we found that there are a number of old invoices still on the system as “unpaid” or “past due date”. These invoices are for considerable amounts (both still to be received and still to be paid). In addition to impacting the collection and payment performance of the Council and Joint Boards, there could be an adverse effect on system performance when running the reports.

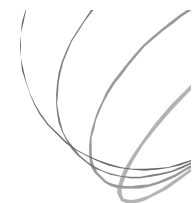
Risk area 6

Ageing debtors

23. As at 31 January 2009, there was a total of £7,481k outstanding with 9,905 debtors. The breakdown in age of the debtors is as follows:

Type of	Number of debtors *	Amount outstanding (£'000)	% outstanding from total debtors amount
Current (not past due date)	951	1,647	22%
Up to 90 days past due date	1,901	1,486	20%
Up to 1 year past due date	1,965	1,707	23%
More than 1 year past due date	5,850	2,641	35%

* one debtor may have several outstanding invoices in more than one category.



Unpaid invoices

24. As at 16 February 2009, the number of unpaid invoices on the ledger was 2,842 with a value of £812,077.05. However, a number of these invoices were for previous years, as follows:

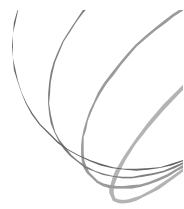
Invoice year	Number of invoices	Amount still to be paid - £
1996 - 1999	31	2,180
2000	6	426
2001	8	1,273
2002	9	28,897
2003	4	865
2004	6	329
2005	26	19,795
2006	69	28,542
2007	242	(35,639)
2008 (excl November and December)	240	15,814

25. Although the amounts are in itself not material, they are evidence of insufficient control over the payment process. Payments due are not being selected for payment as they should be (possibly because there were incorrect payment terms against the supplier). In addition, it is possible to enter a past or future year in Oracle as part of the invoice date. This would also result in invoices not being selected for payment.

Output controls

26. The Discoverer reporting tool is used to extract information from the FMS as needed. In addition, standard Oracle reports (such as the AP trial balance or the ageing debtors report) are available. The Discoverer reporting tool provides a great deal of flexibility for the Council to report information in the format and with the elements that are needed for financial management. The Discoverer reports were set up when the upgrade to Oracle 11i was carried out.

27. The BACS (bank automated clearance system) files are prepared three times per week by the Creditors section. There is segregation of duties in place between the Creditors section and Fujitsu Services who take care of the actual transmission of the files to BACS.



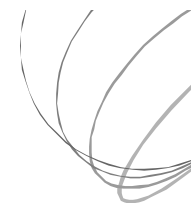
28. We noted, however, that there is little validation of the payment files. Individual payments over £0.5m are signed-off by the Head of Accounting, although no evidence of sign-off is held on file. There does not appear to be a sample approval test of amounts paid, nor whether payment amounts against a payee are reasonable or whether the existence of a payee is reasonable. There is a risk that unauthorised payments are made.

Risk area 7

System effectiveness

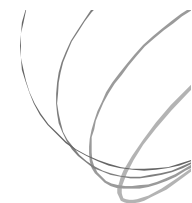
29. There is little performance monitoring in place. The only performance figure that is collected every quarter is payment performance, for the General Fund only. The figures taken for the first three quarters of financial year 2008/2009 show that 14% of payments made exceed the target of 30 days.
30. In any automated processing system, properly defined exception reporting ensures that anomalies in processing are picked up and corrected. A standard list of exception reports could not be identified, their purpose and who should action them. There are a number of exception reports that are regularly run, such as the "Invoices on Hold" report that identifies invoices that are not properly posted (due to distribution errors or the need for re-approval), and the Service Trial Balance report that ensures that posting to default codes is identified and rectified.
31. There were a few instances where anomalies that should have been picked up through exception reporting were not identified. Examples are:
- Entering invoices on the system in an incorrect year. This is an anomaly in Oracle; it allows any year to be entered on the system, even years well in the past or future.
 - Invoices in previous years that have not been paid (see paragraph 24).
32. The quality of exception reporting relies on identifying all steps in the automated transaction processing cycle and reporting on those transactions which have not been completed or have resulted in a different outcome. In addition, exception reports may be used to identify anomalous transactions for further investigation. Appropriate exception reporting can mitigate the risk of processing errors, identify training requirements and improve system performance.

Risk area 8



Action plan

No.	Ref.	Risk area	Agreed action / responsible officer / action due date
1	Para 8	Regular auditing of changes to sensitive fields or of sensitive activities should be part of the routine monitoring practices of any major system to mitigate the risk of fraud or error.	<p>Agreed action Audit reports on sensitive areas will be run regularly.</p> <p>Responsible officer Business and Technical Support Manager</p> <p>Action due date 30 September 2009</p>
2	Para 11	Absence of clear definitions of roles and responsibilities may result in users potentially exceeding the remit allowed to their role, possibly leading to error or even fraud.	<p>Agreed action Define the generic role associated with each responsibility.</p> <p>Responsible officer Service Finance Manager</p> <p>Action due date 31 December 2009</p>
3	Para 12	The system administrator responsibility has many powerful tools at its disposal. Combining the system administration roles for two large systems gives these users control from start to finish over the purchasing process which contravenes segregation of duties requirements.	<p>Agreed action Regular audit reports to be run to track FSAT activity on key components of system.</p> <p>Responsible officer Business and Technical Support Manager</p> <p>Action due date 31 December 2009</p>
4	Para 18	Lack of control over journaling may lead to errors and difficulty in analysing the outcome.	<p>Agreed action No action the control on whether journals have been made correctly is part of the budget monitoring process.</p> <p>Responsible officer Head of Accounting</p> <p>Action due date N/A</p>
5	Para 20	When the reconciliation process cannot be completed, this carries the risk of hidden errors which would otherwise be discovered.	<p>Agreed action Review of AR processes impacting on the reconciliation</p> <p>Responsible officer Service Finance Manager</p> <p>Action due date 31 March 2010</p>
6	Para 22	The existence of a considerable number of prior year invoices still open impacts on the collection and payment performance of the Council and Joint Boards. In addition, it may also affect system performance when running the reports.	<p>Agreed action Deal with unpaid old AP invoices on system by cancellation of those entered in error or correction of errors leading to control holds thus preventing payment.</p> <p>Responsible officer Service Business Support Officers</p> <p>Action due date 31 March 2010</p>



No.	Ref.	Risk area	Agreed action / responsible officer / action due date
7	Para 28	There does not appear to be a sample approval test of amounts paid in the BACS process, nor whether payment amounts against a payee or reasonable or whether the existence of a payee is reasonable. There is a risk that unauthorised payments are made.	Agreed action No action, the controls exercised on the payment process are the same regardless of payment method. Responsible officer Head of Accounting Action due date N/A
8	Para 31	Appropriate exception reporting can mitigate the risk of processing errors, identify training requirements and improve system performance.	Agreed action Review of which other useful exception reports could be run, and agreement with FSAT to run them. Responsible officer Service Finance Manager Action due date 31 March 2010