MAZARS

CROYDON

Final Internal Audit Report
Main Accounting System
January 2017

Distribution: Executive Director Resources (Final only)
Assistant Director of Finance and Deputy Section 151 Officer
Accountancy Manager

Assurance Level	Recommendations Made	
	Priority 1	0
Substantial Assurance	Priority 2	3
	Priority 3	3

Contents

Page

Executive Summary

2. Croydon Council use the integrated accounting One Oracle system. The Corporate Finance Team in the Finance Division is responsible for the reconciliation of the accounts receivable and payable control accounts, and the production of final accounts. The Oracle Support Team in ICT Services (managed by the London Borough of Lambeth) is responsible for setting up new account codes, controlling and reconciling interfaces between feeder systems and Oracle, and clearing general ledger suspense accounts.

1.1 This audit is part of the agreed Internal Audit Plan for 2016-17. The corporate risk register and discussions with directors highlighted risks which have informed the scope of the internal audit.

Detailed Report

Appendices

1. Terms Of Reference

2. Definitions For Audit Opinions And Recommendations

3. Statement Of Responsibility

2. Introduction

2.1 Croydon Council use the integrated accounting One Oracle system. The Corporate Finance Team in the Finance Division is responsible for the reconciliation of the accounts receivable and payable control accounts, and the production of final accounts. The Oracle Support Team in ICT Services (managed by the London Borough of Lambeth) is responsible for setting up new account codes, controlling and reconciling interfaces between feeder systems and Oracle, and clearing general ledger suspense accounts.

2.2 This audit is part of the agreed Internal Audit Plan for 2016-17. The corporate risk register and discussions with directors highlighted risks which have informed the scope of the internal audit.

3. Key Issues

Priority 2 Recommendations
Examination of the control accounts checklist identified that several control accounts were not up-to-date. **(Rec 1).**
The 2015/16 year end close down timetable was not properly completed and explanations for some delays in meeting targets were not provided. **(Rec. 2).**
Examination of a sample of 10 virements identified an instance where the virement total did not agree to the individual virements and another instance where approval for the virement could not be located. **(Rec 3).**

The priority three recommendations are detailed under item 4.

4. Actions and Key Findings/Rationale

Control Area 3: Completeness and Accuracy of Records

Priority	Recommendation 1	Detailed Finding/Rational
2	The control and suspense accounts to be regularly reviewed in line with the frequency detailed in the checklist.	Control accounts provide a check on the accuracy of entries made in the sub ledger and general ledger. A checklist is completed to record help monitor that these monthly control account reconciliations have been carried out as required.
	The checklist to be reviewed monthly and outstanding reconciliations followed up.	Discussion with the Accountancy Manager and examination of the checklist used to monitor the reconciliations that have been carried out identified that (as of November 2016):
		• The Accounts Receivable and Accounts Payable control accounts (both monthly reconciliations) had only been reconciled up to August 2016;
		• The Receipted Accruals and System Balance (both bi-annual reconciliations) and Suspense codes had not yet been reconciled this year;
		• The Cashbook to General Account reconciliation (monthly reconciliation) had not been completed since April 2016. Discussion with the Accountancy Manager established that the reconciliation process for this account had been recently revised and that staff were in the process of re-conducting these reconciliations; and
		• The Suspense code reconciliations (a quarterly reconciliation) had not yet been conducted this year, although separate evidence was provided by the Accountancy Manager to demonstrate that this was being cleared monthly and reported to him.
		Where reconciliations are not carried out regularly, there is a risk that discrepancies may not be identified in a timely manner which could lead to financial loss. There is also a greater administrative burden at year end, which has the potential to contribute to a delay in closing the accounts.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
Management will ensure that outstanding reconciliations are gathered, and the checklist is reviewed monthly. A review of this will be undertaken by the Assistant Director of Finance on a quarterly	Agreed	Accountancy Manager	By end of January 2017

Main Accounting System 2016-17

basis as part of the budget monitoring work to ensure compliance.			

Control Area 5: Year-end Procedures

Priority	Recommendation 2	Detailed Finding/Rational
2	Staff should be reminded to complete the closedown timetable as and when tasks have been completed. Management should conduct periodic checks to enhance the effectiveness of this control. Where tasks are not completed on time, the reasons why should be documented.	According to the Accounts and Audit (England) Regulations 2011, close-down accounts must be completed by the 30th September. As of 2017-18, according to The Accounts and Audit (England and Wales) regulations 2015, accounts must be completed by 31st July. The timetable produced by the Accountancy Manager for this financial year's close-down set a target of completion by the 31st July. Examination of the 290 tasks on the close down timetable for 2015/16 established that: • 197 had not been evidenced as completed. • 59 were completed after the respective specified deadlines, 15 of which were completed over a month late. Additionally, of the 59 cases, 38 were not supported by documented reasons as to why the tasks were completed late. The final accounts were closed after the target date. It is acknowledged that the Councils External Auditors did tacitly agree an extended deadline and that a lesson learned review has been conducted following this target being missed, with a slide show presentation being made to the relevant Finance staff in preparation for the 2016/17 close-down. Where reasons for late tasks are not documented, there is a risk that the Council is unable to account for why tasks were completed in an untimely manner. As a result, processes cannot be reviewed to ensure improved future performance.

Management Response		Agreed/Disagreed	Responsible Officer	Deadline
The closedown timetable for 2016-17 will be revised to track key dates and, should any be completed late, will require that a reason is documented. Management will, however move away from a detailed timetable containing hundreds of lines, and instead manage against key dates and interdependencies, with separate workgroups then conducting and reviewing the detailed tasks.		Agreed	Accountancy Manager	By end of January 2017

Control Area 6: Budgetary Control

Priority	Recommendation 3	Detailed Finding/Rational
2	The virement form for CORP001 should be amended and the amended virement approved. The approval for FR015 should be located, or the virement be resubmitted for approval. Managers approving virements should be reminded to properly check the virement forms, including arithmetic accuracy, before approving these.	Where a virement needs to be processed, a request form will be completed documenting the total amount to be debited. The virement request will also include the cost centres that will be debited and credited that make up this total. These must be approved by the appropriate authority. Examination of a sample of 10 virements established that: • for CORP001, which was for a total of £109,762,000, the total of the amounts to be debited and credited from the cost centres was £109,942,000, representing a variance of £180,000. • for FR015, which was for a total of £540,542.00, evidence of approval (in the form of an e-mail) for the virement could not be located. Where virements are not completed appropriately and evidence of approval retained, there is a risk of inappropriate approval or of inappropriate virements.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
The recommended tasks will be carried out.	Agreed	Financial Planning Manager	End January 2017

Main Accounting System 2016-17

Priority 3 Recommendations

	Recommendation	Detailed Finding/Rational
a)	Staff should be reminded to appropriately record all interfaces in daily task diaries, along with the relevant officer's initials.	All interfaces between the general ledger and feeder systems are recorded in a daily task diary maintained by the One Oracle Shared Applications Support Team. All interfaces conducted are initialled by the officers performing the task. Examination of a sample of 10 dates for the centralised cash interface, and five weeks for energy conservation interface identified that in one instance, for the energy conservation interface week 17, that the interface had not been recorded in the daily task diary.
b)	Staff should be reminded that all fields in the journal registers should be completed. Incomplete entries should be followed up.	When a journal is posted, staff fill the details into the relevant journal register, with details of the journal number; the period; a description and responsible officer/s. Examination of a sample of 10 journals evidenced that 3 had insufficient information stored on the journal register, as follows • VY2195 did not have a posted date filled in; • VY2116 did not have a posted date or detail who the journal was posted by; • PJ0097 did not have an amount or who the journal was posted by. Where the journal registers are not fully maintained, there is a risk that inappropriate journals are processed.
c)	The variance in the Accounts Payable control account reconciliation should be resolved.	On a monthly basis, the Accounts Payable and Accounts Receivable control accounts are reconciled to the purchase and sales ledgers. Examination of the control account reconciliations identified that there is a variance of £9,141.34 in the Accounts Payable control account reconciliation, due to compatibility issues when transferring from the R12 legacy system to One Oracle.

TERMS OF REFERENCE

MAIN ACCOUNTING

1.   INTRODUCTION

1.1   Six London borough councils selected Capgemini to implement, host and manage a new shared instance of Oracle's enterprise resource planning (ERP) software. The implementation was based on Capgemini's t-Gov "delivery portfolio", a set of standardised, Oracle-based software and business process components designed for use in local government. The six boroughs – Lambeth, Lewisham, Barking & Dagenham, Brent, Croydon and Havering – already use Oracle's ERP software, and upgraded to the latest release in October 2014, R12, as part of the new deal. Following the implementation a second wave of boroughs will be able to use the shared instance, known as 'One Oracle'.

1.2   The Corporate Finance Team in the Finance Division is responsible for the reconciliation of the creditors and debtors control accounts, and the production of final accounts. The Oracle Support Team in ICT Services is responsible for setting up new account codes, controlling and reconciling interfaces between feeder systems and Oracle, and clearing general ledger suspense accounts.

1.3   The corporate risk register and discussions with directors highlighted risks which have informed the scope of the internal audit.

1.4   This audit is part of the Internal Audit Plan for 2016-17 as agreed by the General Purposes and Audit Committee.

2.   OBJECTIVES AND METHOD

2.1   The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2   The audit will for each area included in the scope:

- Document and evaluate the risks and controls for each process to consider the key controls;

- Undertake sufficient testing of controls operating, on a representative sample basis; and

- Reach a conclusion on the effectiveness of the controls operating and report on findings.

3.   SCOPE

3.1   The audit will included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0

Analysis of Transactions	0	0	0
Completeness and Accuracy of Records	0	1	2
Journal Entries	0	0	1
Year-end Procedures	0	1	0
Budgetary Control	0	1	0
Risk Register	0	0	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

🟢	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
🟡	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
🟠	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
🔴	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

STATEMENT OF RESPONSIBILITY

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

January 2017

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.