



APPENDIX 3

Audit of Main Accounting System

Draft Report Issued: 12th June 2024

Director Draft Issued: 2nd August 2024

Final Report Issued:

Audit Report Distribution

Client Lead:	Senior Manager Finance Group Accountant Financial Systems and Control
Senior Manager:	Chief Finance Officer (S151 officer) Director of Resources
Others:	Chief Executive
Audit Committee:	The Audit Committee due to be held on 17 th September 2024, will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1. Introduction

- 1.1 Main Accounting System is one of the key main financial internal audits covered in the Audit Plan on a regular, cyclical basis. It records all financial transactions and provides information for the preparation of management accounts, statutory accounts and financial returns. To help ensure the reliability of financial information for both decision making and reporting purposes, it is essential that effective accounting controls are operated on a regular and consistent basis.
- 1.2 Following Local Government Re-organisation, Cumberland are using the legacy County system (e5). However, the three district council systems remain in use for aspects of the accountancy process and act as feeder to the main accounting system. This audit has focused on controls in place for the main accounting system only.
- 1.3 Core Financial Systems are hosted by Cumberland Council on behalf of itself and Westmorland and Furness Council. They plan to disaggregate in March 2025.
- 1.4 The last reviews undertaken in this area were:
 - Cumbria County Council - Reasonable assurance (May 2022)
 - Carlisle City Council - Reasonable assurance (March 2022)
 - Copeland Borough Council - Reasonable assurance (September 2022)
 - Allerdale Borough Council – High assurance (July 2022)

2. Audit Objective

- To review arrangements for the management, administration and the underlying controls within the main accounting system.

3. Audit Scope

- Opening balances
- Trial balance
- Coding structure
- Feeder systems
- Journals
- Suspense and control accounts
- Budgetary control
- Operational policies and procedures
- Systems access

4. Audit Limitations

- 4.1 There were no instances whereby the audit work undertaken was impaired by the availability of information.

5. Assurance Opinion

5.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 5 levels of assurance opinion which may be applied (See Appendix C for definitions).

From the areas examined and tested as part of this audit review, we consider the current controls operating within main accounting system provide **partial assurance**. As audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

6. Summary of Recommendations

6.1 There are two levels of audit recommendation; the definition for each level is explained in Appendix C. Audit recommendations arising from this audit review are summarised below:

Scope areas	High	Medium
1. Opening balances (see section 7.1)	1	-
2. Trial balance (see section 7.2)	-	-
3. Coding structure (see section 7.3)	-	2
4. Feeder systems (see section 7.4)	-	-
5. Journals (see section 7.5)	-	1
6. Suspense and control accounts (see section 7.6)	1	-
7. Budgetary control (see section 7.7)	-	-
8. Operational policies and procedures (see section 7.8)	-	1
9. Systems access (see section 7.9)	-	2
Total Number of Recommendations	2	6

6.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Completion of all actions will be followed up by Internal Audit on a regular basis.

6.3 Findings Summary (good practice / areas for improvement):

Following Local Government Reorganisation, the Finance Team have applied considerable effort in managing and operating the main accounting system for the new Cumberland Council. Given the limited resources available and the technical constraints encountered, this has been a significant challenge.

Two high graded risk exposures have been identified resulting in an overall partial assurance grading.

Cumberland Council brought forward balances from legacy Council 2023/24 closing accounts,

have not been finalised.

Suspense and control accounts require review, then regular monitoring and authorisation.

A further 6 medium grade recommendations have been made to help further enhance the control environment.

Detailed feeder system schedules are maintained.

An annual budget cycle is in place and all cost centres have named budget holders.

Senior Manager comments
The findings and recommendation contained in this report are noted.

7. Audit Findings and Recommendations

7.1 Opening balances

7.1.1. Work to establish the opening balance sheet for Cumberland Council was in progress at the time of the audit. This work includes completing and finalising the outstanding Copeland Borough Council accounts for financial years 2019-20 to 2022-23, completing the audit of Allerdale Borough Council's 2022-23 Statement of Accounts, and the verification of disaggregated balances transferred from the former Cumbria County Council. It also includes tasks relating to the identification and elimination of intra-authority transactions and the classification and presentation of balances.

7.1.2. Management recognise that finalising the Council's opening balance sheet is a priority and work has been undertaken where possible to progress this but further activity is required. Until this process is complete, Cumberland Council will be unable to complete its Statement of Accounts for 2023-24.

Recommendation 1 – Put a documented plan and timeline in place to finalise brought forward balances and eliminate intra-authority transactions

7.2 Trial balance

7.2.1. The primary purpose of preparing a trial balance is to ensure the accuracy of an entity's double-entry bookkeeping system. It can then be used as the basis for forming the Council's primary financial statements.

7.2.2. The initial trial balance provided to audit was unbalanced. The systems issue causing this was resolved and a trial balance that that nets to zero was subsequently verified.

7.3 Coding structure

7.3.1. Audit were provided with a list of Cumberland Council nominal codes inherited from the legacy County Council. There were 3436 codes in total, although only 1139 of those were active (had a value posted to them in the financial year). It was noted that 412 of those codes related to legacy district Councils that now form part of Westmorland and Furness Council. Work is ongoing to purge the structure of inactive/ unused nominal codes.

7.3.2. There are four versions of the nominal accounts structure. It is noted that the profit and loss version is fully mapped to all relevant nominal codes, although further work is required on the other three, including version 2 - balance sheet. Until nominal mapping is complete for all versions, three of the four nominal account version totals will be numerically incorrect.

Recommendation 2 – Put a documented plan and timeline in place for finalising the nominal code structure and version mapping.

7.3.3. Changes to the coding structure are made by completing a change request proforma, detailing the codes that require change and the associated rationale. Change requests are then recorded in a manually maintained spreadsheet. It is noted that this process was not

operational until December 2023, although changes to the coding structure were being made by a limited group of business partners.

- 7.3.4. There isn't a formal authorisation process in place, increasing the risk that changes are made to the coding structure that do not align to the Councils reporting requirements.

Recommendation 3 – Maintain a documented audit trail of coding structure change authorisation.

7.4 Feeder systems

- 7.4.1. The main accounting system interfaces with a number of systems and applications that feed data for use within financial reporting. These include invoicing data, payroll and pension, property and construction related payments/expenses, adult and children social care supplier payments and debtors, and legacy council financial systems which are still operational.

- 7.4.2. Detailed feeder system schedules are maintained which document the detail of the interface, their frequency and related data inputs into the main accounting system. Each interface has monitoring arrangements in place as well as control records which monitor key information around receipt of data file, reference details, lines, sums and values between source system and main accounting system.

- 7.4.3. The feeder systems documentation also includes the reconciliation procedures between the totals that are passed over into the main accounting system and the issues around duplicate file references being processed generating errors on the system.

7.5 Journals

- 7.5.1. Journals are posted within the main accounting system by Finance Business Partnering, Banking and Financial Systems Teams. However, a formalised user access review of permissions granted to staff to assess their alignment with job responsibilities has not been undertaken since the inception of the Council (refer to section 7.9).

- 7.5.2. Segregation of duties between preparer, reviewer and approver of journals are not in place. Staff that have access to the journal posting model can prepare and post their journals without review and approval by an independent staff.

- 7.5.3. Audit understand that enforcing segregation of duties in the journal posting process is not pragmatic given the size and structure of the finance teams. There isn't a retrospective arrangement to review and authorise journals either.

Recommendation 4 – A retrospective review and formal authorisation of material journal postings should be undertaken on a monthly basis.

7.6 Suspense and control accounts

7.6.1. Suspense and control accounts exist within the main accounting system. However, there are no guidance documents available to demonstrate their purpose and the arrangements for regular review, monitoring and authorisation.

Recommendation 5 – Develop operational guidance procedures for all suspense and control accounts, to include regular review, monitoring and authorisation.

7.7 Budgetary control

7.7.1. An annual budget cycle is in place. A Budget Strategy 2024/25 report to Executive in October 2023 details the key reporting milestones along with planned activity in a budget process timetable.

7.7.2. Cost centres have a named budget holder. It is noted that some cost centres are grouped together with several named budget holders responsible for the same group of cost centres, at a higher element level.

7.7.3. The 2024/25 budget was approved by Council in March 2024 and loaded into e5. Subsequent budget movements are tracked using the 'Cash Limits' spreadsheet. The spreadsheet is reconciled with e5 and any differences investigated. Previous versions of the cash limits spreadsheet are saved to SharePoint. At the time of the audit the cash limits spreadsheet was being finalised for 2023/24. The 2024/25 cash limits spreadsheet has not been updated since the agreed 2024/25 budget was loaded into e5, with limited financial resources prioritising the 2023/24 year-end financial accounts.

7.7.4. Approval for virements (or transfers) between budgets is detailed within the financial procedure rules. It is noted that there are examples of material budget movements taking place that do not fully align to approval requirements. For example, transfers from reserves or service re-mapping. Although not use of budget from one directorate to fund another, management may wish to consider review and update of the financial procedure wording to further clarify exclusions to the virement approval requirements.

7.8 Operational policies and procedures

7.8.1. An assortment of procedure documents for main accounting systems were contained within InTouch intranet page. However, these related to main accounting system navigation rather than evidence of procedure guidance for activities within the audit scope. For example, journal and virement review and authorisation; suspense and control account clearance and reconciliation.

Recommendation 6 – Review and update documented guidance for main accounting operational processes

7.9 Systems access

7.9.1. User access to e5 requires completion of a standard user access request form by the Line Manager, indicating the user access permissions required. The request is further reviewed by the Directorate Finance Manager and approved prior to being sent to the Financial Systems and Controls team for granting the requisite access.

7.9.2. Audit reviewed a sample of user access forms. The operating process includes checking finance and line manager approval, although evidence of relevant emails is not retained for transparency and accountability.

Recommendation 7 – An email audit trail that aligns to user access form authorisation should be retained.

7.9.3. A review of user roles, permissions and entitlements on e5 is not performed. Audit note that management have not implemented this control due to resource constraints within the Financial Systems and Controls team. It is therefore recommended that a regular risk-based review and authorisation is undertaken, based on permission level and service provided. For example, officers with Administration or higher level access and Accounts Payable officers. A documented audit trail demonstrating review and authorisation will significantly increase the level of accountability and transparency for finance system security.

Recommendation 8 – A regular risk based review and authorisation of user roles, permissions and entitlements should be undertaken.

Appendix A – Management Action Plan

Sum of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Put a documented plan and timeline in place to finalise brought forward balances and eliminate intra-authority transactions	H	Errors, omissions and financial misreporting.	Outstanding tasks relating to opening balances to be recorded in the updated closedown plan.	Senior Manager Finance	November 30 th 2024

Sum of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 2 – Put a documented plan and timeline in place for finalising the nominal code structure and version mapping.	M	Increased risk of fraud, error and financial misreporting.	Plan outstanding work required on versions within the system structure and finish work to apply versions to nominals.	Group Accountant Financial Systems and Control	31 st October 2024
Recommendation 3 - Maintain a documented audit trail of coding structure change authorisation.	M	Increased risk of fraud, error and financial misreporting. / Increased risk of financial loss.	A review of the Council’s coding structure will be undertaken and an authorisation/ oversight process introduced for future change requests.	Senior Manager Finance	March 31 st 2025
Recommendation 4 – A retrospective review and formal authorisation of material journal postings should be undertaken on a monthly basis.	M	Increased risk of fraud, error and financial misreporting. / Unauthorised journals being raised.	A risk based review of monthly journal postings will be documented and authorised.	Senior Manager Finance	March 31 st 2025
Recommendation 5 – Develop operational guidance procedures for all suspense and control accounts, to include regular review, monitoring and authorisation.	H	Increased risk of fraud, error and financial misreporting. / Increased risk of financial loss.	Document all control and suspense accounts in operation. / Develop relevant operational guidance procedures to include regular review, monitoring and authorisation.	Group Accountant Financial Systems and Control / Group Accountant Financial Systems and Control/ Senior Manager Finance	October 31 st 2024

Sum of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 6 – Review and update documented guidance for main accounting operational processes.	M	Increased risk of fraud, error and financial misreporting. / Increased risk of financial loss.	Procedural guidance to be further developed for in-scope areas.	Group Accountant Financial Systems and Control / Senior Manager Finance	December 30 th 2024
Recommendation 7 – An email audit trail that aligns to user access form authorisation should be retained.	M	Increased risk of fraud, financial or data loss.	An email audit trail will be maintained for future inspection.	Group Accountant Financial Systems and Control	31 st July 2024
Recommendation 8 - A regular risk based review and authorisation of user roles, permissions and entitlements should be undertaken.	M	Increased risk of fraud, error and financial misreporting. / Increased risk of financial loss.	A regular risk based review and authorisation of user roles, permissions and entitlements will be undertaken.	Group Accountant Financial Systems and Control	30 th November 2024

Appendix B – Advisory Comments

Ref	Advisory Comment
7.7.4	consider review and update of the financial procedure wording to further clarify exclusions to the virement approval requirements.

Appendix C - Audit Assurance Opinions

There are five levels of assurance used; these are defined as follows:

	Definition:	Rating Reason:
Comprehensive	<p>There is a robust system of internal control designed to achieve service objectives.</p> <p>Risk Management processes are thorough.</p>	<p>The control framework is suitable, complete and consistently applied.</p> <p>Only minor advisory items have been identified.</p>
Substantial	<p>There is a sound system of internal control designed to achieve service objectives.</p> <p>Risk Management processes are advanced.</p>	<p>The control framework is suitable, complete and consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded controls.</p>
Reasonable	<p>There is a satisfactory system of internal control, helping to ensure that service objectives are generally achieved. Some issues have been raised that may increase risk exposure.</p> <p>Risk management processes require some improvements.</p>	<p>The control framework is adequate. Some controls are ineffectively applied and/or insufficiently embedded.</p> <p>Any high graded recommendations relate to a limited aspect of the control framework.</p>
Partial	<p>There is an insufficient system of internal control, reducing the likelihood that service objectives will be achieved. Some areas are satisfactory but a number of weaknesses have been identified.</p> <p>Risk management processes are weak.</p>	<p>The control framework is ineffective and/or inconsistently applied. A significant level of error has been identified.</p> <p>High graded recommendations have been made, covering several aspects of the control environment.</p>
Limited/ None	<p>Fundamental internal control weaknesses have been identified exposing system objectives to an unacceptable level of risk.</p> <p>Risk management is ineffective.</p>	<p>Significant non-existence or non-compliance with basic internal controls, exposing the system to error and/or abuse.</p> <p>High graded recommendations have been made, covering significant aspects of the control environment.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).