

## **Item: 3**

**Monitoring and Audit Committee: 9 February 2023.**

**Internal Audit Report: General Ledger.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the internal audit report on processes and controls relating to the General Ledger.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That Internal Audit has undertaken an audit of the processes and controls relating to the General Ledger, the Council's main accounting register which operates via the Integra 2 accounting software system provided by Capita.

#### **2.2.**

The findings contained in the internal audit report, attached as Appendix 1 to this report, concerning processes and controls relating to the General Ledger.

**It is recommended:**

#### **2.3.**

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

#### **3.1.**

The general ledger is the Council's main accounting register and operates via the Integra 2 accounting software system provided by Capita. Integra is an integrated financial system that also incorporates the Council's purchase to pay system, purchase and sales ledgers.

#### **3.2.**

There are a number of feeder systems which submit data to the general ledger including the systems for Council Tax, Housing and Council Tax benefit, housing rent, payroll, cash management and pensions.

### **3.3.**

The objective of this audit was to review whether processes and controls for the general ledger and interfaces from feeder systems are operating effectively.

## **4. Audit Findings**

### **4.1.**

The audit provides substantial assurance that the processes and procedures relating to the general ledger are well controlled and managed.

### **4.2.**

The internal audit report, attached as Appendix 1 to this report, includes one low priority recommendation within the action plan. There are no medium or high level recommendations made as a result of this audit.

### **4.3.**

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

## **5. Corporate Governance**

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

There are no financial implications associated directly with the recommendations in this report.

## **7. Legal Aspects**

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

## **8. Contact Officers**

Andrew Paterson, Chief Internal Auditor, extension 2107, email [andrew.paterson@orkney.gov.uk](mailto:andrew.paterson@orkney.gov.uk).

Peter Thomas, Internal Auditor, extension 2135, email [peter.thomas@orkney.gov.uk](mailto:peter.thomas@orkney.gov.uk).

## **9. Appendix**

Appendix 1: Internal Audit Report: General Ledger.



## Internal Audit

### Audit report

### General Ledger

**Draft issue date: 18 November 2022**

**Final issue date: 23 November 2022**

<b>Distribution list:</b>	<b>Service Manager - Accountancy</b>  <b>Head of Finance</b>  <b>Corporate Director for Enterprise and Sustainable Regeneration</b>
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## Audit Opinion

Based on our findings in this review we have given the following audit opinion.

### Substantial

**The framework of governance, risk management and control were found to be comprehensive and effective.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

The objective of this audit was to review whether processes and controls to the General Ledger and interfaces from feeder systems are operating effectively within the Council.

Our audit has confirmed that controls over operating the General Ledger are working well with several areas of good practice evident, for example:

- Access to the main accounting system is restricted to appropriately approved members of staff with users granted different levels of access rights based on their specific job descriptions and user requirements.
- Approved budget figures are inputted correctly into the accounting system, Integra 2.
- Control accounts are in place which are checked and cleared regularly for transactions interfaced into the General Ledger from all feeder systems to ensure that interfaced data is recorded accurately on the General Ledger.
- Accurate bank reconciliations are regularly carried out.

The small IT support team to the Integra system have updated and streamlined processes, recent examples of these are automating the processes to making journal entries and virements into the General Ledger. A virement is the activity of transferring budget values between cost centres within the same service.

It is anticipated that the Integra system will undergo a major software update in 2023.

The assistance provided by officers contacted during the course of the audit is gratefully acknowledged.

The report includes 1 recommendation which has arisen from the audit.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
1	0	0	1

The assistance provided by officers contacted during this audit is gratefully acknowledged.

## Introduction

The General Ledger is the Council's main accounting register and operates via the Integra 2 accounting software system provided by Capita. Integra is an integrated financial system that also incorporates the Council's purchase to pay system.

There are also a number of feeder systems which submit data to the general ledger including cash office daily files, payroll and pensioner payments, purchase ledger and sales ledger.

The main users in updating data held within the General Ledger are staff within the Finance Service but read only access to live information is provided to staff across the Council, based on access rights within Integra 2.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

## Audit Scope

The scope of this audit included a review of the following:

- Whether Financial Regulations detail the accounting procedures to be followed and are being adhered to.
- Approved budgets are uploaded to the General Ledger accurately.
- New financial codes and amendments to existing financial codes have been appropriately set up and approved.
- Redundant financial codes are blocked or removed as and when appropriate.
- Feeder uploads are reconciled to source systems and the General Ledger.
- Journals are appropriately completed, authorised and inputted into the General Ledger.
- Suspense and holding accounts are regularly reviewed and cleared.
- Bank reconciliations are accurate, comprehensive and are completed and signed off on a monthly basis.
- Final accounts are presented in a format consistent with the recommendations set out in the Code of Practice for Local Authority Accounting in the UK, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).
- Access to the General Ledger is restricted to appropriate personnel.

# Audit Findings

## 1.0 Policy and procedures

- 1.1 The Council's Financial Regulations and processes, in relation to the General Ledger, were reviewed and found to be suitable in setting out the usage of the General Ledger, which in turn facilitates the financial statements of the Council being compliant with legislation and in accordance with proper practices as set out within the Code of Practice for Local Authority Accounting in the UK, published by CIPFA and LASAAC.
- 1.2 Financial year end close down procedures are established and well defined. The Council's audited Annual Financial Statements are regularly approved and completed within their required publication date.
- 1.3 The annual budget cycle is well established and operates effectively in ensuring budgets are prepared promptly.
- 1.4 The access control document to the Integra system is well established. The required review date to be on or by 31 January 2022 has not yet taken place. A review of the Integra access control document should therefore be carried out.

### Recommendation 1

## 2.0 Financial Information System and Budgetary Control

- 2.1 The Integra system provides suitable screen enquiry and reporting functionality to enquire upon General Ledger transactions and balances.
- 2.2 The budget monitoring system provides suitable functionality for budget holders and line managers to enquire upon, scrutinise and monitor income and expenditure transactions recorded within the General Ledger.
- 2.3 Budgetary values are loaded accurately into Integra and checked for accuracy.
- 2.4 Budget virements are processed within designated levels of authority.

## 3.0 Coding Structure

- 3.1 The coding to the General Ledger is logically structured and the accounting code book is maintained in compliance with the designated structure.

## 4.0 Feeder Systems

- 4.1 Data from feeder systems are recorded fully and accurately within the General Ledger. Transactions from feeder systems which do not interface automatically are checked and manually posted into the General Ledger on a daily basis.

## 5.0 Feeder Systems

- 5.1 All journal transactions have a unique reference number and record the date and year, monthly accounting period, the value and the accounting codes for amounts debited and credited to the General Ledger.

- 5.2 Our review of 20 selected journal transactions provided suitable narrative and reason for the transaction and each was checked and approved before being processed into the General Ledger.
- 5.3 Our review of 10 selected virement transactions found that each was suitably compiled, checked, authorised and processed accurately.
- 5.4 There are several inbuilt controls within the Integra system, requiring, inter alia, the persons checking and authorising the transaction to be recorded and by different individuals. All journals have to be totalled correctly and balanced before they are processed within the General Ledger.

## 6.0 Reconciliations

- 6.1 Accurate and timeous bank account reconciliations are carried out each month by an Accounting Officer. The monthly and annual bank reconciliations are checked by the Team Manager and are approved by a senior manager.
- 6.2 All holding and suspense accounts within the General Ledger are reviewed and reconciled regularly.

## 7.0 Access to the General Ledger

- 7.1 Access to the main accounting system is restricted to appropriately approved members of staff with users granted different levels of access rights based on their specific job descriptions and user requirements.

## Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1) A review of the Integra access control document should be carried out.	Low	The access control document was last reviewed in March 2021. The document will continue to be reviewed regularly.	Financial Systems Manager	31 March 2024

## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
<b>Medium</b>	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.