

SOUTH LANARKSHIRE COUNCIL

INTERNAL AUDIT REPORT

Lanarkshire Valuation Joint Board

**Budget Monitoring
and Reporting
2010/11**

Report Number: I214918

AUDITOR: Hunter Dallas

DRAFT REPORT: February 2011

FINAL REPORT: March 2011







1 Introduction and background

- 1.1 North and South Lanarkshire Councils have appointed Lanarkshire Valuation Joint Board (LVJB) to discharge the function of Electoral Registration and Assessor.
- 1.2 In November 2010 the management Board of the LVJB approved a revenue budget of £3.735million for 2011/12.
- 1.3 This audit was included in the Audit Plan for 2010/11.
- 1.4 The audit work involved a combination of interviews with appropriate staff and examination of original documentation.
- 1.5 This report will be discussed at a Board Meeting of the Lanarkshire Valuation Joint Board.

2 Audit Objective and Scope

- 2.1 The audit objective was to give assurance that the accounting processes and practices in operation within LVJB are robust.
- 2.2 The audit covered an examination of:
 - 2.2.1 Overall accounting process
 - 2.2.2 Accounting policies and practices
 - 2.2.3 Financial Information Systems
 - 2.2.4 Budgetary Control
 - 2.2.5 Coding Structure
 - 2.2.6 Security of Data
- 2.3 Transactional samples were selected from the 2010/11 financial year and current manuals and procedures were examined and assessed.
- 2.5 Previous audit reports relating to this area of work include the 2008/09 audit, I542010 Information Management which examined information security within LVJB.

3 Main Findings

Accounting Processes, Policies and Practices (Scope Points 2.2.1 & 2.2.2)

- 3.1 Accounting procedures were comprehensive. The existence of LVJB specific Financial Regulations give assurance that there is a sound basis for consistent accounting processes and practices to be followed. The LVJB final accounts for 2009/10 received a clear certificate from the External Auditors which stated that all relevant accounting practices are being complied with.
- 3.2 The LVJB Procedural guide which details the relevant local financial operational processes for monitoring expenditure and income was reviewed during the course of the audit. This document was last updated in 2004. Despite some minor changes to the internal procedures (naming conventions etc) having taken place since this date, there has been no update of this document to date.
- 3.3 The procedural guide is specifically only for the LVJB's internal processes. This includes the recording of purchase orders raised and the matching of invoices received to these orders. All payments of invoices are made by SLC Creditors.

Financial Information Systems (Scope Point 2.2.3)

- 3.4 LVJB employ a Microsoft Access¹ database to track and monitor all orders raised, invoice receipts and payments made. The system provides a clear audit trail, by allowing a match to be made between the orders raised and the invoices that are received for the goods and/or services procured. The system was developed to enable the Administration Manager to monitor committed and actual expenditure and income. The system is maintained by the LVJB Administration Manager and is used to produce budget monitoring and expenditure (actual and committed) reports, on a regular basis, to the Assessor, his Depute and line managers.
- 3.5 Local procedures, as outlined in the LVJB Procedural guide, provide guidance on screen printing and use of systems but they only allow authorised LVJB officers to raise a purchase order on an official LVJB hard copy order form. The forms are retained in a secure location. The Microsoft Access system is updated for these orders raised. Access to this module of the system is password protected. The budget line to which the commitment of expenditure is entered on the manual order form and is recorded within the system.
- 3.6 Invoices received by LVJB are matched to the order as recorded on the system. A double check is made at this stage on the coding of the order and the invoice. LVJB secretaries write the account code on the invoice with reference to the order information recorded on the Access database. These employees who are also responsible for completing and batching the invoices have been issued with a list of valid account codes. Coding of the invoices is either done manually for 'one-off' items or for more regularly purchased items the Microsoft Access system will provide the relevant subjective code to be used.
- 3.7 Batches of invoices are sent over to SLC Creditors for payment. Batches contain no more than 25 invoices and the batch headers are authorised by an appropriate officer within LVJB. There is no 'electronic' link between the LVJB's Microsoft Access database and

¹ Microsoft Access is a relational database management system from Microsoft that combines a relational database engine with a graphical user interface and software-development tools. Users can create tables, queries, forms and reports, and connect them together with macros. Advanced users can develop rich solutions with advanced data manipulation and user control

SLC's Oracle FMS systems. All documents are re-keyed. Any documents with an invalid ledger code are returned to LVJB.

- 3.8 A sample of 20 invoices was selected at random from the Accounts Payable module within the Oracle FMS system. Each document was matched to the LVJB Microsoft Access system and the ledger coding of each invoice was verified. A 100% match was obtained and all invoices were coded to the correct Oracle FMS ledger code.
- 3.9 Further audit testing identified that 7 of the 20 invoices selected (35%) were not paid within 30 days of receipt. Of these 7 invoices, 3 were paid late due to errors in the original invoice by the supplier. The remaining 4 invoices were paid late due to issues with invoice batches being sent through the internal mail system and becoming misplaced
- 3.10 LVJB employees have extensive technical and operational knowledge of Microsoft Access databases but all of this support knowledge is held 'in-house'. This skill set would be able to carry out remedial work, if required. Furthermore, in the event of a database error data can be re-instated from the network back up of the previous day.
- 3.11 Microsoft Access, and any system developed using this application, is however not supported by South Lanarkshire Council Finance and IT Resources. The overall risk to sound financial management relating to failure of this database is mitigated by LVJB's use of SLC's financial management system.
- 3.12 The South Lanarkshire Council (SLC) Finance and IT accountant responsible for the accounting of LVJB, oversees the preparation of the income and expenditure monitoring reports for LVJB. The invoices that LVJB receives are passed to SLC Creditors for recording and payment.

Budgetary Control (Scope Point 2.2.4)

- 3.13 The LVJB administration team and Assessor work closely with the office of the Treasurer to the Board of LVJB to finalise the budget. The 2011/12 budget was based on the previous year's figures, adjusted for known changes and funding levels from both local authorities.
- 3.14 Budget review papers are prepared for each budget line. Expenditure is reviewed in detail and all relevant information is taken into account.
- 3.15 It is common practise for the budget to be presented by the Treasurer to the Board of LVJB in the November or December before the start of the new financial year. The LVJB Revenue Budget of £3.735million for the 2011/12 financial year was approved by a meeting of the Board on 29 November 2010.
- 3.16 The approved budget is uploaded to the Oracle FMS system by SLC Finance Services. The LVJB Administration Manager then performs an independent check to ensure that the uploaded budget reconciles to the approved budget figures.
- 3.17 Budgetary responsibility for the LVJB budget lies, primarily, with the Assessor and his Depute. In practice, however, day to day management of the budget is delegated to the Administration Manager.
- 3.18 LVJB receives the Budgetary Control Statements provided by SLC Finance at the end of each four-weekly cycle. The LVJB Administration Manager reviews these reports in conjunction with the information that is collated locally. Any discrepancies or variances are

investigated and if applicable, the appropriate corrective paperwork is raised with the SLC Finance accountant who oversees the LVJB accounting process. The LVJB Administration Manager and the SLC Finance accountant are in regular contact.

- 3.19 The LVJB Administration Manager has regular meetings with the Assessor and his Depute to discuss budgetary performance. Budget monitoring is a regular agenda item at the LVJB Management team meetings.
- 3.20 Using all the relevant information available the LVJB Administration Manager will prepare a forecast expenditure report for the Assessor and his depute. This probable outturn is prepared half way through the financial year, prior to the budget being prepared and is updated through the remainder of the financial year up to the year end.
- 3.21 Reliance is placed on the Microsoft Access system to produce management information reports to allow Managers to monitor and control the levels of committed and actual expenditure and to ensure that it does not exceed budgeted targets.
- 3.22 At the end of January 2011 there was an under spend on the LVJB budget of £76k. This variance was mainly due to carrying staff vacancies.

Coding Structure (Scope Point 2.2.5)

- 3.23 LVJB have adopted the SLC Oracle FMS account coding structure². These have been input into the LVJB Microsoft Access system and users can access the codes relevant to LVJB via a drop down list. Secretarial employees within LVJB, who are responsible for completing and batching invoices, have been issued with a list of valid account codes.
- 3.24 The financial procedures, as reviewed in paragraph 3.2, lay down a procedure to ensure that all transactions are coded to the appropriate code. The LVJB Administration Manager will reconcile the Microsoft Access invoice records to the reports from Oracle FMS for invoices processed and paid. The budget and expenditure review process will identify any mis-matches of expenditure to budget. Any identified mis-codings will be corrected by a manual journal.
- 3.25 Any document which attempts to be coded to an invalid code or combination of codes will be rejected by the Oracle FMS system. The originator of the document will then be contacted to correct the coding and represent the document.
- 3.26 The amendment, including the creation and deletion, of accounting codes is controlled by SLC Finance Services.

Security of Data (Scope Point 2.2.6)

- 3.27 All data held by LVJB is contained within a secure location. Electronic data is held on servers which are safeguarded against attack following SLC data security protocols. It is recognised that comprehensive controls have been implemented over the electronic data that LVJB holds. Hard copy information and copy invoices are stored in cabinets within LVJB offices. (See Audit Report I542010 Information Management 2008/09)
- 3.28 Original invoices, which are sent to SLC Creditors for payment, are retained within SLC HQ

² Oracle FMS account coding structure is, basically, a three tier system. The top tier is the 'Cost Centre', which is the logical level to group accounts at usually for budget responsibility. Secondly the 'Subjective' or account code, this is the main indicator of what is being accounted for. Finally the 'Sub Analysis' which allows a greater granularity of detail in relation to the subjective coding.

and are scanned and stored electronically.

3.29 LVJB data held within the SLC Oracle FMS system is retained in line with the SLC information classification and data retention policies. The Oracle platform is fully supported and backed up.

3.30 The main areas where corrective action is required are detailed in 3.31, with references given to the relevant paragraphs of the Findings and Controls Section. Positive aspects noted during the audit are highlighted at 3.32.

3.31 The main improvement areas noted during the audit relate to:

- 3.31.1 Updating the office procedural guide to reflect the current practices (Rep Ref 3.2)
- 3.31.2 The assessment of devolved keying of invoices directly to Oracle FMS to eliminate supplier payment delays (Rep Ref 3.7 & 3.9)
- 3.31.3 Appraising alternative solutions, including Oracle FMS i-procurement module, to allow the improved monitoring of commitments against budget as an alternative to ongoing use of the Microsoft Access database (Rep Ref 3.16, 3.21, 3.29)

3.32 Various positive aspects were noted during the audit, particularly

3.32.1 Degree of assistance given to Internal Audit by LVJB in carrying out the fieldwork.

3.32.2 Standard anti-fraud checks are included in all audit assignments to ensure that fraud risks are identified and controlled. It is positive to note that no evidence of fraud was found during the course of the fieldwork.

3.33 Should recommended actions, relating to the improvement areas noted at 3.3, not be agreed or delivered, LVJB may be exposed to the following risks. These are assessed as not being material or 'high' risk areas.

3.33.1 Failure of an unsupported system leading to loss of business data.

3.33.2 Delayed payment to suppliers and erosion of good will.

3.33.3 Local procedures being outdated.



4 Audit Opinion

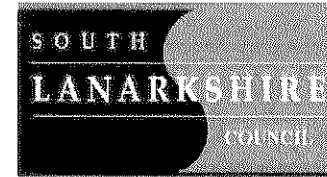
- 4.1 Overall, there is an adequate level of assurance that the accounting processes and practices in operation within LVJB are robust.
- 4.2 Heavy reliance is placed on the internally developed and supported Microsoft Access based solution for all order and invoice tracking, commitment accounting and local management information reporting. Despite being a proven legacy solution for LVJB, this is not an adequately supported platform for a vital part of the performance management of the organisation.
- 4.3 The assessment and adoption of devolved keying, directly into the Oracle Creditors module, would allow all invoices to be recorded in a timely and secure fashion and lead to suppliers being paid with the 30-day performance indicator. There is a need to consider appraising alternative solutions to the current legacy system which could deliver the necessary commitment accounting functionality and allow close monitoring of actual and committed expenditure against budget. The Oracle i-procurement module has the integrated functionality to deliver these requirements



5 Action Plan

Lanarkshire Valuation Joint Board had not identified any specific risk in this area of work. Internal Audit will record agreed actions in your risk register against a new risk. Please refer to the risk pro-forma table below.

Action/ Risk Ref	Report Ref	Recommended Action	Control	Responsibility	Comment/Agreed Action	Completion Date	Priority
1	3.2	Update the office accounting procedure manual to reflect the current system	PR	Tracy Russell, Administration Manager	Agreed	30 September 2011	L
2	3.7 & 3.9	Contact the SLC Corporate Finance Manager to explore the possibility and advantages of adopting devolved keying of invoices directly to Oracle Accounts Payable in order to eliminate supplier payment delays.	FC SE	Tracy Russell, Administration Manager	Agreed	30 September 2011	H
3	3.16, 3.21, 3.29	Evaluate the potential for direct FMS access and the suitability of Oracle FMS and i-Procurement, and other options if required, in meeting LVJB's budget monitoring and financial management requirements.	FC SE	Eddie Duffy Gary Bennett Senior Management Team	Agreed Oracle FMS demonstration is being arranged. Other options may also be explored and the following outline evaluation criteria have already been established; <ul style="list-style-type: none"> • purchase orders • invoice processing/recording/payment • budget monitoring, analysis and reporting • audit procedures • appropriate coding structures 	29 February 2012	H



Upon completion of each action, David Latta, ext 5967, should be notified in order that the action can be removed from Internal Audit's database of uncompleted audit recommendations to be reported to the Board. A formal follow-up review of these audit actions to assess the level of implementation will be undertaken after the date on which the last action falls due.

The action agreed above has been agreed between Internal Audit and the

Signed: _____ (Joan Allan, Risk & Audit Manager)

Date: 22.03.11

____ (Eddie Duffy, Assessor LVJB)

Date: 29.03.11

Risk Pro-Forma

	Per Risk Register	Recommendation Post Audit
RISK REFERENCE		New Risk to be Raised
RISK KEY DESCRIPTION		Financial monitoring system unsupported
INHERENT SCORE		6
RESIDUAL SCORE		1
ACTIONED BY INTERNAL AUDIT		NO