

REPORT TO: AUDIT AND RISK MANAGEMENT SUB COMMITTEE - 3 FEBRUARY 2003
REPORT ON: EXTERNAL AUDIT ABRIDGED REPORT
REPORT BY: EXTERNAL AUDITOR
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ITEM 2

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2001/2002 Audit

Dundee City Council

Main Accounting System

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EXECUTIVE SUMMARY

Introduction

Stewardship is a function of executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of the Council. This responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources.

Scope of the review

As part of our 2001/02 audit, we reviewed the operation of the main accounting system. The principal focus of the review was on the controls in place to ensure that:

- ◆ prior year balances are correctly brought forward
- ◆ all data input to the system is properly authorised
- ◆ data from feeder systems is correctly transferred to the financial ledger
- ◆ output properly reflects the financial data within the system
- ◆ output is produced in accordance with a prescribed timetable and in a format which contributes to the financial management of the body

This management letter sets out the findings from the review. The deficiencies outlined are those which came to our attention during the course of our normal audit work and are not necessarily all of the deficiencies that may exist.

Although we include in this management letter a number of specific recommendations to strengthen internal control within the areas reviewed, it is the responsibility of management to decide the extent of the control systems which are appropriate to the Council. We would stress, however, that an effective control system is an essential part of the efficient management of an organisation.

Key findings

The controls in place for prior year balances and for the timetabling and format of output are in place, as are the majority of the controls for the other areas reviewed. Overall, nineteen of the twenty-one expected controls appear to be operating satisfactorily and we are of the opinion that the current Powersolve system is satisfactorily controlled and the information held in the financial ledger is accurate.

It is our understanding that there is the intention to establish an internal 'Powersolve Users Group' to act as a forum for discussion and to bring improvements to the financial management of the Council. This is to be commended.

Several weaknesses were highlighted, however, the most important of which are:

- ◆ procedural instructions require to be updated to incorporate arrangements for bringing forward prior year balances
- ◆ authorisation arrangements for control of journal entry data input should be reviewed to segregate the tasks of raising, authorising and inputting of journals. Non standard journals should be strictly controlled
- ◆ journals can be “back posted” to prior ledger periods. This may result in subsequent distortions to budgetary and monitoring reports which have been finalised and acted upon
- ◆ back up copies of computer files are taken every night but are not stored in fire-proof cupboards in a location outwith Tayside House. This been the subject of previous comment in the management report *Information, Communications and Technology Review* dated 23 May 2002

Detailed recommendations on those areas where further improvement could be achieved are included in the following agreed action plan.

No.	Recommendation	Responsible Officer	Management Response	Action Date
Review finding: <i>the procedural instructions do not incorporate arrangements for bringing forward prior year balances.</i>				
1	The procedural instructions should be amended to incorporate the arrangements for bringing forward prior year balances. Risk Category: Medium	Principal Accountant Central Team	The Powersolve procedures manuals are in the process of being updated, particularly following the installation of Powersolve 2000. This work will include the physical procedures for prior year balances.	30/11/02
Review finding: <i>evidence was found of journals being prepared, authorised and input by the same officer. Non standard journals were also being used which did not provide for proper evidence of segregation and authorisation controls to be demonstrated.</i>				
2	The authorisation arrangements for control of journal entry data input should be reviewed to segregate the tasks of raising, authorising and inputting. The use of non standard journals should be strictly controlled. Risk Category: Medium	Principal Accountant Central Team	a) A memorandum will be circulated to Chief Officers advising that staff involvement in the creation and authorisation of journal entries must involve two members of staff; where possible, the input to Powersolve will be performed by a third member of staff. In addition, the creation, authorisation and input of journal entries must be correctly evidenced by initialling and (where appropriate) dating the form. b) The memorandum will also instruct that all types of non-standard journal entries will require to be submitted to the Central Accounting Team for approval prior to use.	31/10/02

No.	Recommendation	Responsible Officer	Management Response	Action Date
Review finding: journals can be “back posted” to prior ledger periods.				
3	<p>The arrangements for “back posting” of journal entries to prior ledger periods should be reviewed to limit potential later distortions of monitoring information which may have already been acted upon.</p> <p>It would also encourage timeous clearing of suspense accounts.</p> <p>Risk Category: <i>Medium</i></p>	Principal Accountant Central Team	<p>In order to allow timeous production of ledger reports for revenue monitoring work, various feeders (which do not significantly impact on revenue monitoring) are not posted until later. In addition, some time is required to allow e.g. Education staff to collate data and allocate costs of teaching staff to accurately reflect the actual use of staff. There are therefore requirements to “back post” into previous months. On the basis that this does not impact significantly on the integrity of the revenue monitoring reports, back posting should be permitted.</p> <p>However, in order to reduce the window for backposting, procedures will be amended to only allow posting to the current month plus two previous months.</p>	31/10/02