

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

SUBJECT: Internal Audit Report – Journal Processing

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Journal Processing.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Journal Processing.

3 BACKGROUND

- 3.1 A review of Journal Processing was undertaken as part of the audit plan for 2013/14.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for processing journals were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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DATE	8 May 2014

EAST LoTHIAN COUNCIL – INTERNAL AUDIT JOURNAL PROCESSING

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14 a review was undertaken of the internal controls surrounding Journal Processing. A sample of 29 manual journal entries was selected for examination and a summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A detailed Statement of Current Working Method is in place for the processing of journal entries.
- A user access form is held for all staff with access to post manual journals – all forms had been authorised by the appropriate line manager.
- All journals posted on the Great Plains ledger system had been allocated a unique reference number.

1.3 Areas with Scope for Improvement

- There was a lack of adequate segregation of duties – staff with operational responsibility for debtors and banking had been granted access to process journal entries. *Risk – errors and irregularities may occur and remain undetected.*
- The arrangements in place for the review and authorisation of journal entries require review. *Risk – errors and irregularities may arise and remain undetected.*
- The list of users with access to process journal entries requires review – the list contained four members of staff who no longer process journal entries as part of their current duties. *Risk – access levels may be inappropriate.*
- There was a failure to comply with the procedures in place – in three cases there was a lack of adequate documentation on file to support the journal entries processed. *Risk – lack of a clear audit trail.*
- Inconsistencies were identified in the retention of documentation – in four cases Officers had not printed off the journal entries or filed them in a central location. *Risk – lack of a clear audit trail.*

1.4 Summary

Our review of Journal Processing has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

May 2014

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that a copy of the Statement of Current Working Method is provided to all employees who are currently able to process journals.	Low	Service Manager Corporate Finance	Agreed		May 2014
3.2.1	Management should review the list of users with access to process journals – members of staff who have been inactive or no longer require access as part of their current duties should be removed.	Medium	Service Manager Corporate Finance	Agreed		June 2014
3.3.1	Management should review the adequacy of the control arrangements in place to ensure effective segregation of duties in the processing of journal entries.	Medium	Service Manager Corporate Finance/Service Manager Business Finance	Although Management are prepared to carry out a review, there is a requirement that audit provide greater clarity about the nature and scale of the risk. Whilst it is recognised that segregation of duties can often strengthen controls, this does not necessarily secure optimum use of resources and the most efficient management of risk.		June 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that appropriate procedures are in place for the review and authorisation of manual journals.	Medium	Service Manager Business Finance	We will ensure the review and countersignature of manual journals on a regular and frequent basis (minimum monthly), allowing the Service Manager to raise any specific query with staff on a timely basis. Prior authorisation is not viewed as an essential or practical requirement, given the low risk level and professional / experience mix of staff involved.		June 2014
3.5.1	Management should ensure that for journals processed, all information is entered in the journal reference section.	Low	Service Manager Corporate Finance/Service Manager Business Finance	Agreed. Relevant staff will be reminded of these requirements.		May 2014
3.5.2	Management should ensure that the procedures in place are adhered to by all staff and that copies of all manual journals processed are printed off and held centrally.	Medium	Service Manager Corporate Finance/Service Manager Business Finance	Agreed		May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2 (cont)	Management should explore the possibility of producing a report detailing all manual journals processed and a sample of entries should be checked to ensure compliance with the procedures.			Although there are system constraints, Management will explore the possibility of developing such a report.		June 2014
3.5.3	Management should ensure that appropriate supporting documentation is retained for all manual journals processed.	Medium	Service Manager Corporate Finance/Service Manager Business Finance	Agreed – relevant staff will be reminded.		May 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.