Argyll and Bute Council

Internal Audit Report

November 2020

FINAL

Systems Interfaces & Reconciliations

Audit Opinion: Substantial

	High	Medium	Low	VFM
Number of Findings	0	2	0	0

Contents

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to System Interfaces and Reconciliations. This review was carried forward into the 2020/21 audit plan as the work was not complete at the time the COVID-19 pandemic resulted in audit work being temporarily put on hold.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. The Council depends on systems and sub-systems to capture, process, protect and manage information to facilitate operations.

5. Information output from sub-systems is often required by main systems such as Accounts Payable, Financial Management and Payroll, to save manual input and protect the integrity of the information. The data can be extracted from the sub-system and transferred to the main system via an electronic interface.

6. The Council utilises several sub-systems to process invoices that require to be paid via the Accounts Payable system on a daily, weekly or monthly frequency. The Accounts Payable system, in turn, updates the financial management system (FMS) for accounting purposes.

7. The Council is required to put appropriate policy and technology based control measures in place to ensure that the three elements of information protection are maintained during the transfer of data:

   - confidentiality – information should be available only to those who rightfully have access to it
   - integrity – information should be modified only by those who are authorised to do so
   - availability – information should be accessible to authorised users who need it when they need it.

8. Interface reconciliations should confirm the correct number of transactions and total value of information extracted from the sub-system is accurately reflected in the main system.

9. Balance sheet reconciliations will confirm that the correct value of the interface is reflected in the FMS.

Scope

10. As outlined in the terms of reference agreed with the Head of Customer Support Services on 10 August 2020, the scope of the audit was to assess systems interfaces and reconciliations controls in place where information is transferred from a sub-system to generate payments via Accounts Payable. The following systems and sub systems were focused on:

Systems	Sub-systems
• Financial Management System (FMS)	• Open Revenues Benefits
• Oracle Payables	• Pecos Purchasing
• ResourceLink	• SEEMIS payments
	• Northgate ORBiS Non-Domestic Rates
	• Tranman Fleet Management System
	• Open Revenues Council Tax
	• CareFirst Care Charging
	• Concerto Property Management

Risks

11. The risks considered throughout the audit were:

- Audit Risk 1 – Completeness, accuracy and security of data is compromised
- Audit Risk 2 – The Council may be subject to fraudulent activity

Audit Opinion

12. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

13. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Recommendations

14. We have highlighted two medium priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- interface and reconciliation processes should be fully documented
- balance sheet reconciliations should be implemented for all relevant systems.

15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

16. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	The Council has, and complies with, appropriate policies/ procedures in relation to interface and reconciliation controls.	Audit Risk 1	Limited	Interface reconciliation processes are fully documented for two sub-systems and partially documented for two more, but there are no procedures for the remaining four sub-systems.
2	Access to information before, during and after the interface process is restricted to authorised users.	Audit Risk 1 Audit Risk 2	Substantial	Logical access to information before, during and after the interface is performed is appropriate.
3	Interface reconciliations are undertaken and any anomalies are followed up and rectified.	Audit Risk 1 Audit Risk 2	Substantial	Interface reconciliations are undertaken for all sub-systems.
4	Balance sheet reconciliations are undertaken in a timely manner and any discrepancies investigated.	Audit Risk 1 Audit Risk 2	Reasonable	Balance sheet reconciliations are undertaken for five of the eight sub-systems. They are not performed for payroll, the remaining three sub-systems or the SEEMiS clothing grant data.

17. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

The Council has, and complies with, appropriate policies/procedures in relation to interface and reconciliation controls

18. Process documentation is available for Open Revenue Benefits and CareFirst explaining how the data is extracted from the source systems and the reconciliation process is performed. For Northgate and Open Revenues Council Tax there is documentation on the data extraction process but no procedures to support the reconciliation process. There are no procedures for Tranman, PECOS, Concerto or SEEMiS.

Action Plan 1

19. Walk-through testing, using screen-sharing technology, confirmed that for those systems with documented procedures officers were complying with the available guidance.

Access to information before, during and after the interface process is restricted to authorised users

20. Access management is the responsibility of system administrators who ensure that user access rights and responsibilities are commensurate with job requirements. Logical access was

reviewed recently in a separate audit where system users were found to be appropriately authorised by management and made aware of their responsibilities.

21. ICT Applications officers have access to all interface tables, additionally two Financial Services officers have access to the PECOS and Concerto importer applications. This access is essential to allow minor adjustments to be made to details such as supplier site information or correct coding errors that would prevent data validation which would result in an interface rejection. Data is then interfaced to Oracle Payables and payments are created without the need to manually re-key invoices.

22. Reconciliations of output from the source systems to the input received by Oracle Payables confirms that the number of records and total values are equal and no additional entries have been added to the interface table.

23. Following receipt of the data into Oracle Payables, only Financial Services officers with the appropriate access rights and responsibilities are able to edit information further. This access is required should there be any updates received either to the payment or supplier information as would be required as part of their normal duties for manually keyed invoices.

Interface reconciliations are undertaken and any anomalies are followed up and rectified

24. All the interfaces, bar PECOS to Oracle Payables, which were subject to audit review require manual intervention by a user to extract the data from the source system. These interfaces take place on either a daily, weekly or monthly basis depending on the system. The PECOS interface is automated and requires no manual intervention.

25. A sample of 58 interface reconciliations completed during the month of August was reviewed and we confirmed that all were completed on either the same day the interface took place or the next working day.

26. Designated sub-system users notify Financial Services when a file is ready to be imported and attach a report detailing the payments included in the interface file. This is used to confirm that the quantity of records and total value are the same in the output sub-system as are received in the receiving system.   Sample testing confirmed that all issues identified as part of the validation and import process are investigated and rectified by an appropriate officer and quantities and values were found to reconcile.

27. PECOS invoices are extracted from PECOS using an importer application developed in-house. The application validates the data by using look-up tables that are maintained by Financial Services. Any invoices that fail validation are investigated and rectified where possible, however some may remain rejected and require to be entered manually. Reasons for invoices entered manually are recorded and all details are scanned and retained within the Civica document management system. Standing data and look-up tables are updated where relevant to aid future data transfers. A reconciliation is then performed to ensure the sum of all the data transferred and received is correct. This is carried out by an appropriate officer and quantities and values reviewed were found to reconcile.

28. Documentation including email exchange, system lists and Oracle reports relating to the reconciliation processes is retained in a shared drive.

Balance sheet reconciliations are undertaken in a timely manner and any discrepancies investigated

29. Balance sheet reconciliations compare the value in the Council's general ledger to the corresponding value in the source system or sub-system and ensure that any difference between the two are investigated, explained and, if appropriate corrected.

30. Payroll is the Council's largest expenditure and is managed using the ResourceLink system, however, there is no balance sheet reconciliation exercise performed to ensure that the data extracted from this system is correctly reflected in the general ledger. The officer posting the interface journal is independent from the ResourceLink team and compares the total value of debits and credits to that of the previous month for reasonableness as no further information is provided.

31. Testing confirmed that balance sheet reconciliations take place for five of the eight sub-systems and are completed at regular intervals with any variances investigated, rectified and recorded. For the remaining three sub-systems, users do not have access to the Oracle general ledger system to perform this check.

32. The SEEMiS system is reconciled to the general ledger to ensure that education maintenance allowance payments are correct and enable a claim to be made to recover the funds from central government as this is a specific grant. The same process is not carried out for the school clothing grants data as these funds are provided via Council's financial settlement.

33. Tranman users are currently working with Financial Services staff to review controls in place and improve the quality of information provided to allow reconciliations to be performed.

Action Plan 2

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Documented Interface Procedures** There are no documented interface and reconciliation procedures to support the interfaces from Tranman, PECOS, Concerto or SEEMiS to Oracle Accounts Payable. For the interfaces to accounts payable for both Northgate and Open Revenues Council Tax there is documentation on the data extraction process but no procedures to support the reconciliation process.	Interface and reconciliation controls may be insufficient to provide robust system security. Additionally, documented guidance would not be available for interim staff should permanent staff become unavailable.	The interfaces for Tranman, PECOS, Concerto, SEEMiS, Council Tax and NDR are processed by Senior members of the Creditors team, current processes will be documented in procedure notes and made available to appropriate members of staff.	Creditors Supervisor 31 March 2021

Medium	2	**General Ledger Reconciliations** There is no reconciliation performed between the source system and the general ledger for ResourceLink, PECOS, Concerto and Tranman and the SEEMiS interface for clothing grants.	Data in the source system may not be accurately reflected in the general ledger.	Balance sheet reconciliations will be performed following consideration of data and technical requirements.	ResourceLink Pensions and Payroll Officer 31 March 2021 PECOS Category Management Officer 31 December 2020 Concerto Property Design Manager 31 March 2021 Tranman Performance Manager (Fleet) 31 December 2020 SEEMiS School Services Support Manager 31 December 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.