

Subscription Rooms – Financial Reporting Error



Distribution

Audit and Standards Committee

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Executive Summary

Introduction

The council's Asset Review Programme identified the Subscription Rooms were due to be reviewed in 2016. Following a report to the Strategy and Resources Committee on 13 October 2016 a Task and Finish Group was constituted to undertake the review.

The work of the Task and Finish Group progressed to an options appraisal that resulted in a recommendation to the Strategy and Resources Committee (5 December 2017). This report detailed the findings of the Task and Finish Group and, in accordance with the council's reporting template, included a section on the 'financial implications' of the report.

Included within the 'financial implications' section of the report, was a table showing the financial budget and outturn position for the Subscription Rooms. This table, the paragraph following the table, and paragraph 1.1 of the report contained errors that overstated the net costs attributable to the Subscription Rooms.

Internal Audit has undertaken an investigation and produced a report covering the:

- Control failures that offered the opportunity for inaccurate financial reporting; and
- Actions required to enhance financial reporting clarity and accuracy assurance.

Key Findings

The Internal Audit investigation has highlighted:

Key process and control lapses offered the opportunity for the financial reporting error to occur and go undetected.

Internal controls that formed part of the operating systems were not applied, with the reasons given for not applying the controls being other work pressures. However, operating arrangements must ensure the application of, and compliance with, internal controls at all times.

Internal Audit has worked with the Accountancy Manager to develop an action plan to introduce and enhance controls to help mitigate the risk of a financial reporting error occurring in the future. The areas where enhanced controls will, or have been introduced are:

- A robust independent check of financial information provided to service managers, Corporate Team, Members and included in committee reports;
- A structured data extraction and reconciliation process to include the reconciliation of data contained within spreadsheets, to the main financial system in order to ensure data integrity is maintained;
- The introduction of a formalised process to clarify the purpose for requested financial information, how it will be used and the intended audience. This process will support and ensure financial information provided by the Finance Team is defined, clear and will aid end user understanding;

- The 'financial implications' section of reports will be completed in light of finance information contained within the report. New financial information will not be introduced into the financial implications section;
- A formalised process will be introduced to support the monitoring and management of workloads, work prioritisation and resources, particularly at key points within the financial year; and
- Through a combination of processes including personal verification, internal reporting, performance appraisal, feedback from team meetings, etc., the Accountancy Manager and Senior Managers within the Finance Team will gain assurance that internal controls are effective and complied with.

Conclusion

The information and explanations provided by the Accountancy Manager, which have been verified / evidenced via the Internal Audit investigation, has identified the key reason for the financial reporting error occurring and it going undetected, was due to a number of lapses in internal control.

In mitigation, work pressures have been cited as the main influencing factor for the lapses in internal control. Internal Audit has obtained evidence to show work was being undertaken on the tasks stated, but the extent of the impact of that work cannot be determined retrospectively.

The relationship between workload, work prioritisation, resources and the maintenance of effective internal control and compliance is a key management challenge.

The above said, processes must continue to operate to ensure control is maintained no matter what other pressures may be present.

The examination of the arrangements now introduced by the Accountancy Manager and the successful implementation of the other agreed actions within this report will be tested as part of a formal internal audit follow-up review to be undertaken early on in the next financial year.

Recommendation 1	Category	High	
<p>An independent check of financial information provided to service managers, Corporate Team, Members and included in committee reports will be introduced. This check will include the verification of accuracy of the information contained within reports upon which decisions or significant actions will be taken. It will also test the appropriateness of the presentation of the financial information in relation to the main thrust of the report.</p> <p>A practice note will be produced for the Finance Team to include the bullet points listed in paragraph 7 of the internal audit report. A compliance assurance process will be introduced.</p>			
Risk(s)			
That financial information used to inform or support key decisions is not accurate, or clear in relation to the matter under consideration.			
Management Response			
<p>The formalised internal control process implemented for reports stemming from the Finance Team will be extended to all financial information provided to service managers, Corporate Team, Members or included in committee reports. A schedule of the reports or statements containing financial information, with evidence that the internal check and approval has operated, will be maintained by the Finance Team.</p> <p>A practice note will be produced and circulated to all Finance Team members.</p>			
Person Responsible	Accountancy Manager	Completion Date	End Feb 2018

Recommendation 2		Category	High
<p>A structured data extraction process has been introduced to ensure data extracted from the finance systems and imported into spreadsheets is specific to need, accurate, timely and reconciled. This process will also reconcile financial data manipulated and analysed in spreadsheets, to the main finance system to ensure data integrity is maintained.</p>			
Risk(s)			
<p>The integrity and accuracy of information extracted from the main finance system is not assured leading to inaccurate financial analysis and reporting. The integrity of financial data is not assured once imported into spreadsheets.</p>			
Management Response			
<p>A formal process has been introduced as detailed in Appendix A of the Internal Audit Report. Arrangements are in place to ensure the integrity of data held within spreadsheets.</p>			
Person Responsible	Accountancy Manager	Completion Date	Actioned

Recommendation 3		Category	High
<p>A formalised process will be introduced to clarify the purpose for requested financial information, how it will be used and the intended audience. This process will support and ensure financial information provided by the Finance Team is defined and clear.</p>			
Risk(s)			
<p>Financial information is provided in a format that is not appropriate to need or for which conditions or constraints exist which are not made clear to the end user.</p>			
Management Response			
<p>A formalised process is being introduced to ensure information requesters clearly state the intended purpose of the financial information required. The response from the Finance Team will ensure any conditions or constraints in respect of the financial information is clear and the financial information provided is presented in an appropriate format to aid clarity and understanding.</p> <p>A version control process has also been implemented for reports.</p>			
Person Responsible	Accountancy Manager	Completion Date	End Jan 2018

Recommendation 4		Category	High
<p>The 'financial implications' section of reports to be completed in light of finance information contained within the report. New financial information will not be introduced into the financial implications.</p> <p>A practice note will be produced for the Finance Team to include the bullet points listed in paragraph 9 of the internal audit report. A compliance assurance process will be introduced.</p>			
Risk(s)			
Conflicting, inaccurate, misinterpretation of, or potentially misleading financial information being provided.			
Management Response			
A practice note is being produced and circulated to all Finance Team members.			
Person Responsible	Accountancy Manager	Completion Date	End Feb 2018

Recommendation 5		Category	High
<p>A formalised process will be introduced to support the monitoring and management of workloads and resources, particularly at key points within the financial year. The process will aid the management and control of requests made by the organisation of the Finance Team, informing effective work prioritisation. Also included will be timely feedback processes to those who request or require financial information.</p>			
Risk(s)			
Inadequate workload and resource management results in internal control failures leading to errors, including inaccurate reporting of financial information.			
Management Response			
<p>During the final accounts process (Mar-May) and production of the annual Statement of Accounts and Audit (May-July), the finance team are unable to respond to information requests without redirecting resources that are concentrated towards a statutory reporting deadline. Finance will undertake early communication with the rest of the organisation to ensure other staff are aware of the limited ability to respond to workload changes.</p>			
Person Responsible	Accountancy Manager	Completion Date	End Mar 2018 (in preparation for 2017/18 closedown)

Recommendation 6		Category	High
Through a combination of processes including personal verification, internal reporting, performance appraisal, feedback from team meetings, etc., the Accountancy Manager and Senior Managers within the Finance Team will gain assurance that internal controls are effective and complied with.			
Risk(s)			
Internal controls are ineffective or compliance lapses offer the opportunity for error.			
Management Response			
A process will be introduced to ensure management and supervision is effective in monitoring and maintaining internal controls.			
Person Responsible	Accountancy Manager	Completion Date	End Mar 2018