

Electoral Office for Northern Ireland

Internal Audit report 2009/10

Elections

20 November 2009

Ref: BC/LB/am

Private and Confidential

D Bain CBE
Chief Electoral Officer
The Electoral Office for Northern Ireland
2nd Floor
St Anne's House
15 Church Street
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20 November 2009

Dear Sir

Re: Fieldwork visit – Elections

Introduction

1. We recently completed our internal audit fieldwork visit in respect of the 2009/10 financial year in relation to the Electoral Office for Northern Ireland's ("the Office's" or "EONI's") system for elections. Specifically, this review focused on the internal control systems in place in respect of the most recent elections to the European Parliament, which were held in June 2009. This report summarises our findings.

Background

2. Elections in Northern Ireland are funded by HM Treasury via the Northern Ireland Office's ("NIO's") Financial Services Division ("FSD"). The European Parliamentary Elections (Returning Officer's Charges) (NI) Order 2009 set out the maximum recoverable expenses in respect of the recent European Parliamentary election being £2,401,538.

3. We understand that in previous elections there were strict legislative requirements on how the allocated budget could be utilised. However, following legislative revisions the Returning Officer is now free, subject to the usual procurement, probity and value for money criteria, to utilise the Returning Officer's expenses as he feels necessary.

4. The Office utilises a separate bank account specifically for the purposes of expenditure and receipts in relation to the European Parliamentary Election.

Scope

5. In line with EONI's 2009/10 internal audit plan, approved by the Management Board on 6 August 2009, the fieldwork visit focussed on assessing the following control objectives in respect of the elections system:

- a) to ensure that election expenditure is undertaken in accordance with EONI's procurement procedures;
- b) to ensure that election income is not drawn down in advance of need;

- c) to ensure that the election bank account is reconciled on a timely basis; and
- d) to ensure that the monthly election expenditure reports provided to the Chief Electoral Officer are accurate.

6. This report is addressed to the Chief Electoral Officer and as required by our terms of appointment, copies of all finalised reports are also issued to the NIO's Head of Internal Audit, the Northern Ireland Audit Office and the Rights, Elections and Legacy Division (previously the Rights and International Relations Division) – the relevant sponsoring division within the NIO. No duty of care is accepted to any party other than those to whom the report is addressed. No responsibility is accepted for any reliance placed upon our report, should it be used for any purpose other than that stated above.

Basis of assurance

7. We conducted our internal audit work in accordance with the Government Internal Audit Standards (“GIAS”). Our work included an examination, on a test basis, of transactions processed in accordance with EONI's system of internal control.

8. We planned and performed our internal audit work to obtain reasonable assurance that the systems were operating as described. However, you should not rely on our work to identify all instances of fraud or error. The responsibility for these matters rests with management and the Chief Electoral Officer.

Findings

9. Our review identified effective controls in respect of the procurement and authorisation of purchases. However, we noted the need to formalise the calculation supporting the drawdown request for election funds. We have also made recommendations to enhance the financial information provided to the Chief Electoral Officer.

10. We have attached at *Appendices A to C* the key findings identified during the course of our review. These appendices are broadly analysed by category of weakness as follows:

Weakness	Appendix	Priority
Drawdown requests	A	Low
Financial expenditure reports	B	Low
Processing purchases and payments	C	Low

11. The findings included in this report were discussed with Mr Douglas Bain (Chief Electoral Officer), Mrs Margaret McMullen (Head of Corporate Services) and Mr Peter Mullan (Finance Officer) on 5 November 2009. A draft of this report was issued for management comments on 13 November 2009 and 18 November 2009. Management comments were received on 19 November 2009.

Management responses

12. We have attached an implementation table at *Appendix D* which records management's responses and proposed implementation dates for each of the audit recommendations.

Assurance rating – satisfactory

13. In our opinion, there are a number of minor improvements which could be incorporated within EONI's internal control system for the elections, particularly in relation to formally documenting the calculation of drawdown requests to evidence need and enhancements to the financial information provided to the Chief Electoral Officer. However, the existing controls in place within the elections are basically sound and provide **satisfactory** assurance regarding the effective and efficient achievement of EONI's objectives in relation to the elections.

14. We have attached a definition of the assurance ratings and priority levels at *Appendix E* and *Appendix F* of this report respectively.

Other matters

15. We would take this opportunity to thank EONI's management and staff for their assistance and co-operation during the course of this assignment.

16. If you have any queries in relation to this correspondence, please do not hesitate to contact Brian Clerkin or Lacey Beckett.

Yours faithfully

ASM Horwath

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Drawdown requests

A

Weakness

A1. Election income is drawn down from HM Treasury on behalf of EONI by the Northern Ireland Office's ("NIO's") Financial Services Division ("FSD"). These monies are then lodged directly into EONI's election bank account. We note that the EONI's Finance Officer advises the Head of Corporate Services of the drawn down requested and this request is then submitted to FSD. We understand that the drawdown request is calculated on the basis of the balance of the election bank account adjusted for amounts that are due for payment. However, the calculation of the drawdown requirement is not formally documented.

Effect

A2. In the absence of formally documenting the calculation of the drawdown request Management have limited retrospective assurance that draw downs were not made in advance of need.

Recommendation

A3. Whilst we acknowledge that our review did not indicate that funds were drawn down in advance of need we recommend that the Finance Officer formally documents the calculation of the drawdown requirement which should be retained for audit purposes.

Financial expenditure reports

B

Weakness

B1. Our review indicated that a monthly “financial extract” is provided to the Chief Electoral Officer for each election which lists each of the payments and receipts processed during the month and a reconciliation of the election bank account which is supported with associated documentation (outstanding payment lists and bank statements). We also note that the financial extract is accompanied by the following supporting documentation:

- a) expenditure - purchase orders, invoices, goods received notes and photo-copies of cheques issued; and
- b) receipts - drawdown documentation, triplicate lodgement receipts and copies of lodgement slips.

B2. The information provided is comprehensive in that it provides the Chief Electoral Officer with all of the available information at a “micro” level. It does not however provide “macro” level information for the Chief Electoral Officer to consider how the cumulative election expenditure is progressing either in total or by expense category. Similarly, no actual versus budget information is included.

Effect

B3. We consider that the financial management information provided to the Chief Electoral Officer could be further enhanced to include a summary of the monthly expenditure and total expenditure incurred to date by cost category together with the respective performance against budget. We consider that this could enhance the level of scrutiny available to the Chief Electoral Officer and promote effective budgetary management.

Recommendation

B4. We recommend that Management review the level of information currently provided to the Chief Electoral Officer and ensure that it enables him to undertake an effective and efficient review. In particular, we recommend that a financial expenditure report is devised which reports, on a monthly basis, the monthly and cumulative expenditure incurred by category and which measures the actual outturn against the EONI’s allocated election budget. Thereafter, the Chief Electoral Officer should review the report and investigate variances arising.

Processing purchases and lodgements

C

Weaknesses

C1. We note that EONI have undertaken to pay invoices within ten days in accordance with DFP's Dear Accounting Officer ("DAO") 12/08 "*Supporting Business: Prompt Payments*". We note that the ten day prompt payment performance in respect of the non-election payments processed by FSD is formally monitored and reported by FSD. However, we were advised that whilst the Finance Officer records the dates of the receipt and payment of the election payments processed by EONI the timeframe taken to process election payments is not calculated and formally reported. We understand that the Finance Officer undertakes an informal review of the elections payment spreadsheet to ensure that payments are processed within the ten day target.

C2. Our detailed testing identified a number of minor issues in relation to the preparation of bank reconciliations, purchasing and payment procedures and the lodgement of election receipts. These and can be summarised as follows:

- a) **bank reconciliations** – bank reconciliations should be undertaken on a monthly basis within ten calendar days of the month end. We selected a sample of five bank reconciliations for detailed testing and noted that in three instances that the bank reconciliation was not prepared within the ten day timeframe. The delays ranged between seven to eleven calendar days after the month end;
- b) **purchasing and payments** – we selected ten purchases processed during the period April 2009 to August 2009 for detailed testing. We noted that in two out of ten instances the incorrect account code was recorded on the purchase order. However, we noted that the invoice was subsequently correctly coded by Finance; and
- c) **lodgements** – we selected five lodgements undertaken to the election bank account during the period March 2009 to August 2009 for detailed testing. We noted in one instance that a lodgement prepared by Finance had not been copied and included within the lodgement documentation in accordance with EONI's cash management procedures.

Effects

C3. In the absence of formally monitoring and reporting the prompt payment target in respect of election payments EONI are unaware of the in-year performance against the target and if there are any issues that require corrective remedial actions.

C4. In the absence of undertaking bank reconciliations on a timely basis increases the risk that unauthorised transactions are not identified on a timely basis.

C5. In the absence of correctly coding purchase orders increases the risk that purchases are miscoded.

C6. In the absence of the retention of a copy of the full lodgement slip there is a limited audit trail as to the make up of the lodgement and as to which staff member(s) were involved in the preparation of the lodgement.

Recommendations

C7. We recommend that the performance against the ten day prompt payment target in respect of election expenditure is formally calculated and reported to the Chief Electoral Officer as part of the financial expenditure reports.

C8. We recommend that bank reconciliations are undertaken within the ten day timeframe.

Processing purchases and lodgements (cont'd)

C

C9. We recommend that staff are reminded to ensure that purchase orders are correctly coded.

C10. We recommend that Finance staff are reminded of the requirement to copy the full lodgement slip for each lodgement undertaken in accordance with EONI's cash management procedures.

Implementation table

D

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
A3.	Whilst we acknowledge that our review did not indicate that funds were drawn down in advance of need we recommend that the Finance Officer formally documents the calculation of the drawdown requirement which should be retained for audit purposes.	Accepted	Documented in the revised Financial Procedures Manual.	With immediate effect.
B4.	We recommend that Management review the level of information currently provided to the Chief Electoral Officer and ensure that it enables him to undertake an effective and efficient review. In particular, we recommend that a financial expenditure report is devised which reports, on a monthly basis, the monthly and cumulative expenditure incurred by category and which measures the actual outturn against the EONI's allocated election budget. Thereafter, the Chief Electoral Officer should review the report and investigate variances arising.	Accepted	Documented in the revised Financial Procedures Manual.	With immediate effect.
C7.	We recommend that the performance against the ten day prompt payment target in respect of election expenditure is formally calculated and reported to the Chief Electoral Officer as part of the financial expenditure reports.	Accepted	Documented in the revised Financial Procedures Manual.	With immediate effect.
C8.	We recommend that bank reconciliations are undertaken within the ten day timeframe.	Accepted	Documented in the revised Financial Procedures Manual.	With immediate effect.
C9.	We recommend that staff are reminded to ensure that purchase orders are correctly coded.	Accepted	Reminder issued to Finance Staff 17 November 2009.	Completed.
C10.	We recommend that Finance staff are reminded of the requirement to copy the full lodgement slip for each lodgement undertaken in accordance with EONI's cash management procedures.	Accepted	Reminder issued to Finance Staff 17 November 2009.	Completed.

Assurance rating definitions

E

Substantial – There is a robust system of risk management, control and governance which should ensure that objectives are fully achieved.

Satisfactory – There is some risk that objectives may not be fully achieved. Some improvements are required to enhance the adequacy and / or effectiveness of risk management, control and governance.

Limited – There is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.

Unacceptable – The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Urgent action is required to improve the adequacy and effectiveness of risk management, control and governance.

Priority ratings

F

In prioritising recommendations for action, we have used the following definitions:

High priority

Significant weaknesses which could threaten the achievement of the organisation's objectives or the maintenance of an appropriately robust control environment. Remedial action by senior management is required.

Medium priority

Weaknesses which could threaten the achievement of objectives. Remedial attention by management is required.

Low priority

Some weaknesses which could have an impact on the achievement of objectives. Action is required to monitor the situation and improve control.