

The Electoral Office for Northern Ireland

Internal Audit report 2007/08

Fixed Assets

10 January 2008

Ref: BC/lb

Private and Confidential

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Chief Electoral Officer
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2nd Floor
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10 January 2008

Dear Sir

Re: Fieldwork visit – Fixed Assets

Introduction

1. We recently completed our internal audit fieldwork visit in respect of the 2007/08 financial year in relation to the Electoral Office for Northern Ireland's ("EONI's") system for fixed assets. This report summarises our findings.

Background

2. The Northern Ireland Office ("NIO") Financial Services Division ("FSD") maintains a register of the EONI's fixed assets. EONI inform the FSD of fixed assets additions by coding payments as fixed asset additions on the NIO payment reports. We note that EONI capitalise fixed assets in accordance with the NIO Capital Accounting and Budgeting procedures. A disposal form is prepared to record a fixed asset disposal and the FSD amend the fixed asset register accordingly. In addition, in accordance with the EONI's Management Statement and Financial Memorandum the EONI Information Technology section also maintain a separate fixed asset register. The register records assets held at headquarters and at each of the local area offices.

3. FSD are also responsible for the calculation of the depreciation charge on EONI's fixed assets.

Scope

4. In line with EONI's annual internal audit plan, approved by the Board on 16 August 2007, the fieldwork visit focussed on assessing the following control objectives in respect of the system of fixed assets:

- a) to ensure that payments for fixed assets are complete, accurate, timely, bona fide, paid only once and appropriately authorised;
- b) to ensure that a fixed asset register is maintained;
- c) to ensure that the fixed asset register is updated on a timely manner to reflect additions and disposals;
- d) to ensure that fixed assets are depreciated in accordance with the accounting policies stated in the annual accounts;

- e) to ensure that disposals of fixed assets are identified and the profit/loss on disposal is correctly calculated;
- f) to ensure that revenue expenditure is capitalised and capital expenditure is expensed; and
- g) to ensure that fixed assets are reviewed for impairment.

5. This report is addressed to the Chief Electoral Officer (“CEO”) 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 and International Relations Division (“RIR”) – 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,

Basis of assurance

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

7. This review has been conducted within the context of an internal audit review process designed to address key risks on an annual basis. Only 1 day was allocated to this review and consequently there was a requirement to conduct a general assessment of the key aspects of the systems and then to focus on a limited number of specific areas. In these circumstances, this review should not be regarded as being an extensive and detailed review sufficient to test and assess all aspects of EONI’s fixed assets.

8. We planned and performed our internal audit work to obtain reasonable assurance that the systems were operating as described and that the accounting records were not materially misstated on account of fraud or error. 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 that fixed assets are capitalised in accordance with the NIO Capital Accounting and Budgeting procedures. However, we noted that there are weaknesses in relation to the timeliness of updating the EONI fixed assets register to reflect additions, the completion of physical verifications of fixed assets and the introduction of an adequate system of tagging fixed assets.

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

Weakness	Appendix
Physical fixed asset verifications	A
Fixed asset tags	B
Fixed asset additions	C
Recording the location of fixed assets	D

11. The findings of this 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 12 October 2007. A draft of this report was issued to EONI for management comments on 14 November 2007.

Management responses

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

Assurance rating – limited

13. In our opinion, there are a number of improvements which could be incorporated within EONI's internal control system for fixed assets particularly, in relation to updating the EONI fixed assets register to reflect fixed asset additions, the completion of physical verifications by the EONI IT section on an annual basis, the modification of the fixed asset register to record comprehensive details of the location of each fixed asset and the introduction of a revised system to ensure that fixed additions have been correctly coded by FSD by reference to the monthly budget reports.

14. We have attached a definition of the assurance ratings at *Appendix F*.

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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Physical fixed asset verifications

A

Weakness

A1. A physical verification of fixed assets should be completed by the EONI IT section on an annual basis at headquarters, and at each of the local area offices. We noted from our discussion with EONI Management that this physical verification was not completed during 2006. We understand that an annual physical verification commenced in September 2007.

Effect

A2. In the absence of completing a fixed asset physical verification on a regular basis it may not be possible that all asset impairments or disposals have been identified.

Recommendation

A3. Whilst we acknowledge that a physical verification was being undertaken by the EONI IT section at the time of our fieldwork we recommend that EONI Management ensure that this is completed on a periodic basis. We also recommend that evidence of the current review is maintained for audit trail purposes, and issues and corrective actions identified from the review are documented.

Fixed asset tags

B

Weakness

B1. As part of our detailed testing we selected a sample of four fixed assets to perform a physical verification and noted one instance that the asset tag was damaged and it was necessary to verify the asset by reference to the serial number. We note that each fixed asset addition is allocated a unique tag number by the EONI IT Section using adhesive labels. Our discussion with the Head of Information Technology noted that EONI is aware that a number of asset tags are damaged and that the adhesive labels are inadequate. We were informed that the EONI IT section will be replacing the adhesive labels with durable asset tags during the course of the annual physical verification process.

Effect

B2. Damaged or missing asset tags hamper the efficient identification of assets during the physical inspection process.

Recommendation

B3. Whilst we acknowledge that EONI Management were aware of the deficiencies under the current tagging system and have taken proactive steps to address we recommend that EONI Management ensure that the new system of tagging used will be durable and is completed as part of the annual physical verification. We also recommend thereafter that EONI IT identify damaged asset tags and replace as necessary as part of the annual physical verification process.

Fixed asset additions

C

Weaknesses

C1. We note that FSD maintain a register of EONI's fixed assets. EONI inform FSD of fixed asset additions by coding payments on the NIO payment reports. We note that the EONI Finance do not verify that the NIO have correctly capitalised payments as fixed assets.

C2. As part of our detailed testing we selected a sample of four fixed assets held at the EONI Headquarters and vouched whether they were recorded by FSD on the EONI fixed asset register. We noted that whilst all of the fixed assets selected had been assigned an asset tag number two of the four assets were not recorded on the EONI fixed asset register. Furthermore, we also noted on the fixed asset register that there was a gap of fixed assets tag numbers recorded between 712 and 755. Our discussions with the Head of Information Technology noted that EONI were aware that fixed assets additions had not been reflected on the EONI register and would be identified as part of the forthcoming physical verification process.

Effects

C3. In the absence of EONI verifying that fixed assets have been correctly capitalised by the FSD EONI Management have no assurance that the fixed assets recorded are correctly stated in the NIO consolidated accounts.

C4. The EONI fixed asset register is not updated on a timely basis, to reflect the fixed asset additions, in accordance with the EONI's Management Statement and Financial Memorandum.

Recommendations

C5. We recommend on receipt of the monthly budget report provided by FSD that EONI Finance ensure that all payments recorded as assets within the NIO payment reports during the month have been correctly capitalised by the FSD.

C6. We also recommend that on the assignment of asset tags to fixed asset additions that the EONI IT section update the EONI fixed asset register on a timely basis.

Recording the location of fixed assets

D

Weaknesses

D1. We reviewed the EONI fixed asset register and noted that the following information is recorded in respect of each fixed asset:

- a) the asset verification number;
- b) office location (i.e. Headquarters or at a particular area office);
- c) description of the asset including make, model and serial number; and
- d) disposal date.

D2. Whilst we acknowledge that the office location is recorded for each fixed asset the specific location and staff member responsible for the asset is not recorded.

D3. We were also informed by EONI Management that it is common for fixed assets to be transferred between local area offices, as required, and the EONI fixed asset register is not amended to reflect the transfer. We understand that there is no system of informing the EONI IT section of the transfer of fixed assets between local area offices.

Effects

D4. In the absence of recording the specific location of the fixed assets with the staff member responsible and a formal process in respect of recording the transfer of fixed assets between local area offices there is a lack of accountability and an increased difficulty in tracing the location of fixed assets.

Recommendations

D5. We recommend that comprehensive details are recorded in respect of the location of fixed assets including the specific location within the particular office and the responsible staff member.

D6. We also recommend that an asset transfer form is created, which records the details of the new location and staff member responsible for the fixed asset. The form should be distributed to all relevant personnel. On receipt of completed transfer forms the EONI IT section should amend the fixed asset register accordingly.

Summary of recommendations and implementation schedule

E

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
A3.	Whilst we acknowledge that a physical verification was being undertaken by the EONI IT section at the time of our fieldwork we recommend that EONI Management ensure that this is completed on a periodic basis. We also recommend that evidence of the current review is maintained for audit trail purposes, and issues and corrective actions identified from the review are documented.	Accepted	Spot checks to be carried out by Managers throughout in year and reported to Head of Information Services via Trim Link. 100% checks to be completed by Head of Information Services by 30 September each year and released on TRIM record.	To be completed on an annual basis by 30 September each year.
B3.	Whilst we acknowledge that EONI Management were aware of the deficiencies under the current tagging system and have taken proactive steps to address we recommend that EONI Management ensure that the new system of tagging used will be durable and is completed as part of the annual physical verification. We also recommend thereafter that EONI IT identify damaged asset tags and replace as necessary as part of the annual physical verification process.	Accepted	This recommendation has been implemented. More durable tags have been procured and will be examined and replaced as necessary during the checking process described above.	Completed 31 October 2007.

Summary of recommendations and implementation schedule

E

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
C5.	We recommend on receipt of the monthly budget report provided by FSD that EONI Finance ensure that all payments recorded as assets within the NIO payment reports during the month have been correctly capitalised by the FSD.	Accepted	Finance Officer to check monthly that all payments recorded as assets within the NIO payment reports have been correctly capitalised by FSD and to keep electronic record of check. To be documented in the Finance Procedures Manual.	On a monthly basis from November 2007.
C6.	We also recommend that on the assignment of asset tags to fixed asset additions that the EONI IT section update the EONI fixed asset register on a timely basis.	Accepted	Finance Officer to inform Head of Information Services by means of electronic record of all disposal, replacement and new office equipment with immediate effect and IT section to update the assets register within five working days.	With effect from 1 November 2007.
D5.	We recommend that comprehensive details are recorded in respect of the location of fixed assets including the specific location within the office and the responsible staff member.	Accepted	Head of Information Services to contact offices to identify specific location of equipment and the staff member responsible for it and update assets register.	8 December 2007.
D6.	We also recommend that an asset transfer form is created, which records the details of the new location and staff member responsible for the fixed asset. The form should be distributed to all relevant personnel. On receipt of completed transfer forms the EONI IT section should amend the fixed asset register accordingly.	Accepted	Head of Information Services to create permanent asset form and issue instructions on its use including the amendment of the asset register. Further instruction to be issued to all staff reminding them of the need, for their own protection, to obtain a signature for any asset for which they are responsible which is issued to another person even for a few hours.	14 December 2007.

Assurance rating definitions

F

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.