

Electoral Office for Northern Ireland

Internal Audit report

“Other Financial Systems”

21 November 2008

Ref: BC/PP/ab

Private and Confidential

D Bain Esq
Chief Electoral Officer
Electoral Office for Northern Ireland
St Anne's House
15 Church Street
Belfast
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21 November 2008

Dear Sir

Re: Fieldwork visit – “Other Financial Systems”

Introduction

1. We recently completed our internal audit fieldwork visit in respect of the 2008/09 financial year in relation to the Electoral Office for Northern Ireland's ("EONI's") "other financial systems". This report summarises our findings.

Background

2. The underlying statutory basis for the electoral system in Northern Ireland is set out in the Electoral Law Act (Northern Ireland) 1962 (as amended by Article 6 of the Electoral Law (Northern Ireland) Order 1972) and the Representation of the People Act 1983 and the Northern Ireland (Miscellaneous Provisions) Act 2006.

3. The Chief Electoral Officer is a Crown appointment and is operationally independent of Government. The Chief Electoral Officer is required to carry out the functions conferred on him by law. The main duties of the Chief Electoral Officer are:

- a) to act as electoral registration officer for all constituencies of Northern Ireland;
- b) to act as returning officer for all elections and referendums in Northern Ireland;
- c) to recommend to the Secretary of State for Northern Ireland by 16 April each year whether or not an election canvass should be undertaken each year;
- d) to act as an assessor to the Boundary Commission for Northern Ireland;
- e) to act as an assessor to the Local Government Boundaries Commission and
- f) to lead and manage EONI.

4. Whilst undertaking the preparation of our Strategic Internal Audit Plan and Audit Needs Assessment ("the Strategic Plan"), we identified a number of financial systems under the responsibility of the Head of Corporate Services, which we considered to be "medium" or "low risk". These were grouped together under the heading "other financial systems" and can be summarised as follows:

- a) income;
- b) fixed assets;
- c) bank and cash; and
- d) financial and management information.

5. We note that our Strategic Plan was approved by the Management Board of EONI on 21 August 2008.

6. The Head of Corporate Services has responsibility for overseeing the management of each of these areas. The Finance Section is responsible for undertaking the operations of each of these areas. The Finance Section currently comprises a Finance Officer and two Finance Assistants.

Scope

7. Detailed control objectives were identified for each "other financial system" in advance of our fieldwork visit. The background details and specific control objectives identified for each area are outlined in *Appendices A to D* of this report.

8. 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

9. 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.

10. This review has been conducted within the context of an internal audit review process designed to address key risks on an annual basis. Only three and a half days were allocated to this review and consequently we conducted a general assessment of the key aspects of the systems and focused 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 "other financial systems".

11. 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

12. We have attached at *Appendices A to D* the key findings identified during the course of our review. These findings are set out under each of the areas as follows:

Area	Number of recommendations	Appendix
Income	2	A1 – A3
Fixed Assets	2	B1 – B3
Bank and Cash	2	C1 – C3
Financial and Management information	2	D1 – D3

13. The findings included in this report were discussed with Mrs Margaret McMullen (Head of Corporate Services) and Mr Peter Mullan (Finance Officer) on 14 October 2008. A draft of this report was issued to EONI on 13 November 2008. Following subsequent discussions with management, an amended draft was issued for client comments on 19 November 2008.

Management responses

14. 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 – Satisfactory

15. In our opinion, there are a number of improvements which could be incorporated within EONI's internal control systems for "other financial systems", particularly in relation to the lack of an up to date financial procedures manual and the lack of formal review of the banking arrangements. However, the existing controls in place within to "other financial systems" are basically sound and provide **satisfactory** assurance regarding the effective and efficient achievement of EONI's objectives in relation to "other financial systems".

16. We have attached a definition of our assurance ratings at *Appendix F* of this report.

Other matters

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

18. If you have any queries in relation to this correspondence, please do not hesitate to contact Brian Clerkin or Pauline Poots.

Yours faithfully

ASM Horwath

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Income

A1

Background

A1.1 The total electoral office funding for the 2007/08 financial year amounted to £2.408 million, which represented a reduction of approximately £900k from the previous year. We understand that this reduction was possible as a result of the replacement of the annual canvass by the system of continuous registration and through a number of other efficiency measures. We note that EONI's budget in relation to the 2008/09 year amounts to £3.02 million.

A1.2 The cost of European and United Kingdom parliamentary elections are met by HM Treasury whilst the cost of any Northern Ireland Assembly elections is found from the "Northern Ireland block". District councils meet the cost of their elections apart from costs incurred by EONI which are treated as EONI Operating Costs

A1.3 EONI's non-election costs are funded by the Northern Ireland Office ("NIO"). This funding is "drawn down" by EONI on a needs basis.

A1.4 In addition, EONI recoups a statutory proportion of its registration expenditure from each of the twenty six District Councils in Northern Ireland, based on the size of the electorate in each Council. We understand that the current formula does not result in full cost recovery and the Chief Electoral Officer has raised this matter with the Sponsoring Department and has asked that it be addressed as a matter of urgency.

Control Objectives

A1.5 The following control objectives were identified in respect of income:

- a) to ensure that election income is not drawn down in advance of need;
- b) to ensure that receipts are lodged in a complete and timely manner;
- c) to ensure that there is segregation of duties between recording receipts and lodging receipts;
- d) to ensure that cash is securely stored prior to being lodged;
- e) to ensure that receipts are accurately posted to the debtors ledger;
- f) to ensure the debtors ledger is reviewed for recovery of outstanding balances owing;
- g) to ensure that actual receipts are compared with budgeted receipts; and
- h) to ensure that a management audit trail exists.

Income from District Councils

A2

Weakness

A2.1 Whilst undertaking our previous review of income during the 2005/06 year, we stated that each of the *"twenty six District Councils in Northern Ireland are recharged for expenses incurred by EONI in relation to the registration of voters within the Council area"*. We noted that the basis upon which the charging of registration expenses were calculated was developed several years ago and noted that the recharging mechanism does not take into account changing cost structures within EONI or any of the costs associated with the employment of the Chief Electoral Office.

A2.2 Our recent discussions with management identified that whilst the Chief Electoral Officer has raised this matter directly with the Sponsoring Department and has formally identified the issue in EONI's Annual Report, that a satisfactory resolution has not yet been reached.

Effect

A2.3 Failure to ensure that District Councils are appropriately charged for all costs relating to the registration of local electors within their areas increases the risk that the consolidated fund will experience a shortfall.

Recommendation

A2.4 We endorse the proactive steps taken by the Chief Electoral Officer in relation to seeking clarification on this matter. We recommend that the Chief Electoral Officer continues to discuss this matter formally with the NIO with a view to reaching an expedient resolution.

Bank lodgements

A3

Weaknesses

A3.1 Whilst undertaking our detailed testing, we selected and reviewed a sample of five lodgements to ensure that in each instance, lodgements were made in compliance with the prescribed procedures. We noted the following minor issues:

- a) in four out of the five instances reviewed, we were unable to determine who had lodged the cash. Our subsequent discussions with management identified that the giro slip, which records the name of the individual making the lodgement, is generally retained by the bank; and
- b) in one instance, a lodgement had not been made on a timely basis (we noted the delay amounted to twenty one days from the date of receipt of cash to the date of the lodgement).

Effects

A3.2 Failure to maintain a transparent audit trail for the receipt of cash and the preparation of lodgements increases the risk that any lack of segregation of duties, administrative errors or fraud will remain undetected.

Recommendations

A3.3 We recommend that EONI introduce a procedure whereby the signature of the person making the lodgement is retained for audit trail purposes. We also recommend that all relevant staff are reminded of the requirement to ensure that lodgements are undertaken on a timely basis.

Fixed Assets

B1

Background

B1.1 The NIO's Financial Services Division ("FSD") is responsible for maintaining a register of EONI's fixed assets. EONI advise the FSD of all fixed assets additions by coding related payments as fixed asset additions on the NIO payment reports. All fixed assets are capitalised and expensed in accordance with the NIO Capital Accounting and Budgeting procedures. In accordance with EONI's Management Statement and Financial Memorandum, EONI's Information Technology Section also maintains a fixed asset register. FSD are also responsible for the calculation of the depreciation charge on EONI's fixed assets.

B1.2 We noted that the budgeted capital expenditure for fixed assets during the 2008/09 year amounts to £65,000.

Control Objectives

B1.3 The following control objectives were identified in respect 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 expensed and capital expenditure is capitalised; and
- g) to ensure that fixed assets are reviewed for impairment.

Fixed asset procedures

B2

Weakness

B2.1 Our review identified that EONI have developed a policy for undertaking verification exercises on all fixed assets on a regular basis and have formally documented asset disposal and asset transfer forms. However, we noted that procedures in relation to the management of fixed assets have not yet been formally documented.

B2.2 Our discussions with management indicated that the financial procedures manual is currently under review and that a fixed assets section will be included in the revised procedures manual.

Effect

B2.3 Failure to formally document procedures in relation to the management of fixed assets and communicate these procedures to EONI personnel, increases the risk that fixed assets may not be procured, managed or disposed of in accordance with best practice.

Recommendations

B2.4 We recommend that policies and procedures in relation to the management of fixed assets be formally drafted, approved by management and be reviewed on an annual basis. We also recommend that these procedures be communicated to all EONI personnel.

Update of the fixed asset register

B3

Weakness

B3.1 While undertaking our review of asset management we noted that, in addition to the annual verification exercise undertaken by the IT Section, each of the Local Area Offices undertake verification checks. On completion of the verification exercises undertaken by each of the Local Area Offices the IT Section is provided with updated details on the following:

- a) asset identifier;
- b) location;
- c) make and model;
- d) item description;
- e) serial number; and
- f) responsible officer.

B3.2 The IT Section is responsible for using this information to update and maintain the "master" fixed asset register. Our review of the information provided by each of the Area Offices following each verification exercise and of the "master" fixed asset register identified that whilst the location of each asset had been provided by each of the Local Area Offices, this information had not been completed on the "master" fixed asset register.

Effect

B3.3 Failure to maintain a complete and up to date and accurate fixed asset register increases the risk of misappropriation of EONI's assets.

Recommendation

B3.4 We recommend that the "master" fixed asset register be updated and completed as soon as possible.

Bank and cash

C1

Background

C1.1 EONI currently maintains one bank account ("the sub account") with the Bank of Ireland for its day to day operations. EONI's day to day costs are paid by the NIO's Financial Services Division ("FSD"). We note that election costs are met from a separate account opened for each election and closed as soon as practicable thereafter. The accounts are funded from the Consolidated Fund through the Sponsoring Department.

C1.2 A petty cash "float" of £40.00 is maintained at EONI Headquarters to purchase sundry items. Petty cash expenses are recorded in a petty cash book which is the subject of review by the Head of Corporate Services each time the petty cash float is replenished.

Control Objectives

C1.3 The following control objectives were identified in respect of bank and cash:

- a) to ensure that bank accounts are reconciled in a timely and accurate manner;
- b) to ensure that bank reconciliations are adequately reviewed;
- c) to ensure that cash is stored securely;
- d) to ensure that adequate controls are in place over cheque signatories; and
- e) to ensure that a management audit trail exists.

Review of banking services

C2

Weakness

C2.1 Our discussions with management identified that a formal review of banking arrangements has not been formally undertaken. Our review of Managing Public Money Northern Ireland ("MPMNI"), issued in June 2008, identified that banking arrangements should demonstrate the following key principles:

- a) whether the best possible use of the different ways of making payments and collecting receipts is being used e.g. electronic methods;
- b) whether commercial bank accounts are kept in credit or whether any balances which are not immediately required are reduced to a minimum;
- c) whether the terms negotiated with banks are competitive;
- d) whether systems for providing information about payments, receipts and balances, and about whether banks are providing a satisfactory service, are effective and efficient; and
- e) whether arrangements to safeguard against fraud are effective.

C2.2 Whilst undertaking our detailed testing we noted that the most recent bank signatory list on file is dated August 2002 and that it refers to the previous Chief Electoral Officer and the previous Change Manager. Our subsequent discussions with management indicated that, in instances where changes to the signatory list are required, EONI issues a letter to the Bank of Ireland instructing that the list be updated. However, we understand that the bank does not provide any written confirmation that this change has been processed.

C2.3 We also noted that EONI currently receives hard copy bank statements on a daily basis. We understand that EONI has not made enquiries with regard to the use of on-line banking.

Effects

C2.4 Lack of review of banking arrangements increases the likelihood that EONI's banking arrangements do not offer best value for money.

C2.5 Failure to review the list of authorised signatories increases the risk that the signatory list is not up to date. Failure to ensure that the signatory list is up to date increases the likelihood of misappropriation of funds.

C2.6 Lack of available online banking facility increases the likelihood of inefficient working practices emerging within the Finance Section.

Recommendations

C2.7 We recommend that EONI undertake to formally review their banking arrangements to ensure they are receiving best value for money. We also recommend that EONI make enquiries with regard to on-line banking facilities.

C2.8 We recommend that EONI obtain an up to date list of signatories. We also recommend that in instances where changes to the signatory list are required, that an updated signatory list is requested and obtained.

Timeliness of bank reconciliations

C3

Weakness

C3.1 Our review identified that EONI prepares a "financial abstract" on a monthly basis (a summary of the monthly opening balance, payments and receipts during the month, the closing balance and a summary bank reconciliation). This "financial abstract" is prepared by EONI's Finance Section and is issued to FSD by the third working day of each month. We selected a sample of "financial abstracts" and reviewed the information contained therein and the timeliness by which these were sent to FSD.

C3.2 In addition to preparing the "financial abstract", we noted that the Finance Section also prepares detailed monthly bank reconciliations. These reconciliations and the supporting documentation are reviewed by the Finance Officer and approved by the Chief Electoral Officer. We selected a sample of four detailed bank reconciliations and noted the following:

- a) delays in the preparation of the monthly bank reconciliations ranged between nine and fifteen days; and
- b) delays in the checking and approval of the monthly bank reconciliations ranged between eleven and seventeen days.

Effect

C3.3 Failure to prepare detailed bank reconciliations on a more timely basis results in financial information being prepared and issued to the NIO's FSD in advance of this information being reviewed by the Chief Electoral Officer.

Recommendation

C3.4 We recommend that detailed bank reconciliations are prepared and reviewed on a more timely basis. We also recommend that management consider the feasibility of preparing the detailed bank reconciliation in conjunction with the preparation of the monthly "financial abstract".

Financial and management information

D1

Background

D1.1 We note that in advance of each election the Head of Corporate Services prepares an estimate of the total election cost, split into each of the main expense categories, based on previous elections' costs. This estimate is sent to the EONI's sponsoring division within the NIO, the Rights, Elections and Legacy Division, who negotiate with HM Treasury to agree a budget for the election expenditure. Following agreement of the election expenditure budget, legislation is enacted which details the maximum amount payable by way of fees and charges for the various officials and temporary staff employed during the election process.

D1.2 EONI submits a bid for non-election expenditure funding to the NIO for each three year spending review period. As part of the budgetary process, EONI prepares detailed budgets for each of the three years. Under the three year Comprehensive Spending Review ("CSR"), EONI have a budget allocation of £9.62 million. At the start of each financial year, the EONI's management team analyse and apportion EONI's budget allocation between its various expense categories.

Control Objectives

D1.3 The following control objectives were identified in respect of financial and management information:

- a) to ensure that budgets are properly constructed, based on known facts and on realistic assumptions;
- b) to ensure that the budgetary process is integrated with the strategic and operational planning process;
- c) to ensure that budget reports are relevant, timely, reliable, accurate and complete;
- d) to ensure that roles and responsibilities are clearly established with regard to reviewing, monitoring, managing and amending the budgets; and
- e) to ensure that a management audit trail exists.

Delegation of budgetary responsibilities

D2

Weakness

D2.1 Our discussions with management identified that, with effect from 1 October 2008, additional financial responsibilities will be formally delegated from Headquarters to each of the Area Electoral Offices. Whilst we understand that training has provided to each of the Area Offices in this regard, we noted that the Financial Procedures Manual has not yet been revised to document these changes.

Effect

D2.2 Failure to amend and update the Financial Procedures Manual on a timely basis may result in inconsistent working practices emerging.

Recommendations

D2.3 We recommend that the Financial Procedures Manual is updated to reflect the changes in the budgetary structure. We also recommend that, on completion, this Section of the Financial Procedures Manual is communicated with each of the Area Electoral Offices.

Accuracy of management information

D3

Weakness

D3.1 Our discussions with management identified that, with effect from 1 April 2008, EONI no longer utilises the SUN financial system to generate financial and management information. We note that EONI is therefore reliant on the NIO's FSD providing management information on a monthly basis. Our discussions identified two key concerns with regard to the information being received:

- a) *delays*: during April and May 2008 we understand that due to ongoing staffing issues and networking problems being experienced in FSD, that there were delays in issuing management information to EONI; and
- b) *accuracy of the information received*: we understand that, since April 2008, EONI has identified errors in the monthly information being received. We understand that these errors have been communicated with FSD and that these changes have been reflected in the subsequent monthly reporting pack.

Effects

D3.2 Failure to provide management information to EONI on a timely basis increases the likelihood that management cannot effectively monitor the budgetary position.

D3.3 Failure of the NIO's FSD to ensure the ongoing accuracy of the financial information within the monthly budget reports may result in unnecessary time being spent by EONI's Finance Officer in identifying and attempting to resolve these issues.

Recommendations

D3.4 We recommend that EONI continue to ensure that management information is being provided on a timely basis.

D3.5 We also recommend that management continue to scrutinise information provided and formally identify any instances where inaccuracies are identified. We also recommend that, until management gain additional assurance over the accuracy of the management information, that the Finance Officer undertakes a detailed review of this information in advance of providing the information to the Management Board.

Summary of recommendations and implementation schedule - Income

E1

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
A2.4	We endorse the proactive steps taken by the Chief Electoral Officer in relation to seeking clarification on this matter. We recommend that the Chief Electoral Officer continues to discuss this matter formally with the NIO with a view to reaching an expedient resolution.	Accepted	Reminders of the need to take action will continue to be given on a regular basis.	Ongoing until NIO act.
A3.3	We recommend that EONI introduce a procedure whereby the signature of the person making the lodgement is retained for audit trail purposes. We also recommend that all relevant staff are reminded of the requirement to ensure that lodgements are undertaken on a timely basis.	Accepted	New procedure and reminder issued to all staff on 20 November 2008.	Completed.

Summary of recommendations and implementation schedule – Fixed Assets

E2

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
B2.4	We recommend that policies and procedures in relation to the management of fixed assets be formally drafted, approved by management and be reviewed on an annual basis. We also recommend that these procedures be communicated to all EONI personnel.	Accepted	Policies and procedures in relation to the management of fixed assets to be drafted and included in the Finance Procedures Manual which can be viewed by all staff on TRIM.	31 December 2008 Reviewed on an annual basis thereafter.
B3.4	We recommend that the fixed asset register be completed as soon as possible.	Accepted	Master Fixed Assets Register updated with the location of each asset.	Completed.

Summary of recommendations and implementation schedule – Bank and Cash

E3

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
C2.7	We recommend that EONI undertake to formally review their banking arrangements to ensure they are receiving best value for money. We also recommend that EONI make enquiries with regard to on-line banking facilities.	Accepted	Currently reviewing banking arrangements to ensure EONI is receiving best value for money and enquiries made with regard to initiating on-line banking facilities for viewing Bank Statements.	31 December 2008.
C2.8	We recommend that EONI obtain an up to date list of signatories. We also recommend that in instances where changes to the signatory list are required, that an updated signatory list is obtained.	Accepted	Written request issued to Bank on 20 November 2008. Updated list will be obtained whenever an addition or deletion is made.	Completed.
C3.4	We recommend that detailed bank reconciliations are prepared and reviewed on a more timely basis. We recommend that management consider the feasibility of preparing the detailed bank reconciliation in conjunction with preparing the monthly financial abstract.	Accepted	Bank Reconciliation to be signed as reviewed at the same time as it is currently sent to FSD i.e. by 3rd working day of the month.	Completed.

Summary of recommendations and implementation schedule – Financial and Management information

E4

Reference	Recommendation	Management response	Action Taken / To be Taken	Implementation Date
D2.3	We recommend that the Financial Procedures Manual is updated to reflect the changes in the budgetary structure. We also recommend that, on completion, this Section of the Financial Procedures Manual is communicated with each of the Area Offices.	Accepted	The Financial Procedures Manual is currently being reviewed and will include the changes to the budgetary structure which can be viewed by all staff on TRIM.	31 December 2008
D3.4	We recommend that EONI continue to ensure that management information is being provided on a timely basis.	Accepted	Reminder issued to Financial Services Division 20 November 2008.	Completed.
D3.5	We also recommend that management continue to scrutinise information provided and formally identify any instances where inaccuracies are identified. We also recommend that, until management gain additional assurance over the accuracy of the management information, that the Finance Officer undertakes a detailed review of the information in advance of providing this information to the Management Board.	Accepted	Fully implemented	Completed.

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.