

Electoral Office for Northern Ireland

Audit fieldwork 2010/11

Review of Elections

24 December 2010



PROFESSIONAL KNOWLEDGE.

Ref: BC/LB/am

Private and Confidential

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24 December 2010

Dear Sir

Re: Fieldwork visit – Review of Elections

Introduction

1. We recently completed our internal audit fieldwork visit in respect of the 2010/11 financial year in relation to the Electoral Office for Northern Ireland's ("EONI's" or "the Office's") system for Elections. Specifically, this review focused on the internal control systems in place in respect of the most recent election to the United Kingdom Parliament, which were held in May 2010. This report summarises our findings.

2. We previously reviewed the EONI's controls in relation to elections as part of our 2009/10 fieldwork. Our review focussed specifically on the European Parliamentary Election which was held in June 2009. We considered that a "satisfactory" level of assurance was appropriate. As part of this year's review we completed a follow-up of the internal audit recommendations made by us in the 2009/10 year.

3. Our review identified that two out of six recommendations made in 2009/10 have been fully implemented by management, two recommendations have been partially implemented and that two recommendations have not been implemented by management. We

have provided details of our follow-up review at **Appendix C**.

Background

4. Elections in Northern Ireland are funded by HM Treasury via the Northern Ireland Office's ("NIO's") Financial Services Division ("FSD"). The Parliamentary Elections (Returning Officer's Charges) (NI) Order 2010 sets out the maximum recoverable expenses in respect of the recent Parliamentary election as being £2,499,000.

5. The Office utilises a separate bank account specifically for the purposes of expenditure and receipts in relation to the UK Parliamentary Election. The bank account is reconciled on a monthly basis and subject to review by the Chief Electoral Officer. The EONI undertakes election expenditure in accordance with the Offices' established procurement procedures.

Scope

6. This review was undertaken in accordance with the Office's 2010/11 Internal Audit Plan, approved by the Audit Committee on 5 August 2010.

7. The fieldwork visit focussed on assessing the following controls in respect of the systems operating in respect of elections:

- 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 the monthly election expenditure reports provided to the Chief Electoral Officer are accurate.

8. We also undertook a follow up review of internal audit recommendations made in respect of our 2009/10 review of Elections.

9. This report is addressed to the Chief Electoral Officer and it is not to be released beyond the Electoral Office’s management and staff, without our prior written consent. 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

10. 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 the Electoral Office’s system of internal control.

11. 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 which may exist. The responsibility for these matters rests with management and the Chief Electoral Officer.

Findings

12. Our review noted the need for EONI to monitor election expenditure in relation to Parliamentary elections on a constituency-by-constituency basis to ensure compliance with legislation. We also identified minor issues in relation to the receipt and retention of documentation in relation to the drawdown request process.

13. We have attached at **Appendices A** and **B** the key findings identified in the course of our work. These are set out as follows:

Weaknesses	Appendix	Priority
Election expenditure	A	Medium
Drawdown requests	B	Low

14. The findings included in this report were discussed with Mr Graham Shields (Chief Electoral Officer), Ms Jocelyn McCarley (Assistant Chief Electoral Officer Registration), Mrs Liz Murray (Assistant Chief Electoral Officer Elections), Mrs Margaret McMullen (Head of Corporate Services) and Mr Peter Mullan (Finance Officer) on 23 November 2010. A draft of this report was issued for management comments on 3 December 2010. Management comments were received on 23 December 2010.

Assurance rating – Satisfactory

15. In our opinion, there are a number of improvements which could be incorporated within the Office’s system for risk management, control and governance for elections particularly in the need to implement procedures to monitor election expenditure on a constituency-by-constituency basis. We also identified minor issues in relation to the retention of drawdown request documentation.

16. However, the existing risk management, control and governance systems in place for elections are basically sound and provide **satisfactory** assurance regarding the effective and efficient achievement of the Office’s objectives in relation to elections.

17. We have attached definitions of the assurance ratings and our priority levels at **Appendices D** and **E**.

Other matters

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

19. If you have any queries in relation to this correspondence, please do not hesitate to contact Brian Clerkin or Amanda McMaw.

Yours faithfully

ASM

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Election expenditure

A

Weakness				
<p>A1. The principal legislation governing UK Parliamentary elections is the Representation of the People Act 1983. Section 29 of the Act provides for payments by, and to, Returning Officers. The Act also enables the Secretary of State to specify the overall maximum recoverable amount that a Returning Officer may recover in respect of services rendered, or expenses incurred, in connection with a parliamentary election i.e. the 'election budget'.</p> <p>A2. The Parliamentary Elections (Returning Officer's Charges) (Northern Ireland) Order 2010 is made under Section 29 of the 1983 Act and specifically states the overall maximum recoverable amounts in respect of each of the eighteen constituencies within Northern Ireland in relation to the May 2010 election. We note that the total recoverable amount by EONI in respect of the May 2010 election, as stated in the 2010 Order, is £2,499,000. Our review and discussions with Management indicated that EONI have not monitored election expenditure on a constituency-by-constituency basis to ensure that the stated thresholds have not been breached at a constituency level. Management will now undertake to analyse the expenditure in this manner and are confident that EONI will not breach the constituency thresholds contained in the legislation.</p>				
Effect				
<p>A3. In the absence of monitoring expenditure on a constituency basis increases the risk that a constituency expenditure may exceed the prescribed levels consequently breaching the requirements of the Parliamentary Elections (Returning Officer's Charges) (Northern Ireland) Order 2010.</p>				
Recommendations and management action plans				
Recommendations	Status (Recommendation accepted / not accepted)	Comment	Responsibility	Timeframe
A4. We recommend that EONI analyse the UK Parliamentary Election May 2010 expenditure incurred to date on a constituency basis. In the event that the constituency thresholds are breached we recommend that EONI liaise with the NIO in this regard.	Accepted	Expenditure to date to be analysed on a constituency basis and NIO will be informed should any of the constituency thresholds exceed the prescribed level.	Head of Corporate Services	4 January 2011

Election expenditure (cont'd)

A

Recommendations and management action plans				
Recommendations	Status (Recommendation accepted / not accepted)	Comment	Responsibility	Timeframe
A5. We recommend that in the event that the regulations governing future elections provide a constituency-by-constituency expenditure limit that EONI prepare budgets on a constituency basis. We also recommend that expenditure incurred is coded to the relevant constituency. Furthermore, monthly expenditure reports should be prepared to report actual outturn against budget per constituency which should be subject to review by the CEO.	Accepted	Financial Procedures Manual to be reviewed to include revised procedures for preparation of budgets on a constituency basis, coding of expenditure and monthly expenditure reports.	Head of Corporate Services	31 January 2011 and all future elections thereafter

Drawdown requests

B

Weaknesses				
<p>B1. Election income is drawn down from HM Treasury on behalf of EONI by the Northern Ireland Office's ("NIO's") Financial Services Division ("FSD"). We understand that the drawdown process is as follows:</p> <ul style="list-style-type: none"> a) EONI's Finance Officer advises the Head of Corporate Services of the draw down amount to be requested which is then submitted to FSD; b) FSD will send a letter to their bank (the Northern Bank) requesting that the funds be transferred to EONI's bank account; c) FSD will email EONI to confirm that the request has been submitted and will attach a copy of the request; and d) requested funds are lodged directly into EONI's election bank account. <p>B2. We selected a sample of five drawdown requests during the period April 2010 to August 2010 for detailed testing. Our review identified in two instances the confirmation email from FSD to EONI to confirm the drawdown request had not been retained on file.</p>				
Effect				
<p>B3. In the absence of retaining documentation in respect of the drawdown requests provides a limited audit trail. Further, there is limited assurance that the funds have been requested to ensure the timely receipt of funds to EONI's bank account to process payments.</p>				
Recommendations and management action plans				
Recommendations	Status (Recommendation accepted / not accepted)	Comment	Responsibility	Timeframe
<p>B4. We recommend that Management endeavour to ensure that email confirmation of drawdown requests are received from FSD in all instances. Furthermore, we recommend that staff be reminded of the importance of retaining all documentation in relation to the drawdown process.</p>	<p><i>Accepted</i></p>	<p><i>Procedures reviewed and issued to Finance Staff 23 December 2010.</i></p> <p><i>Documented in Financial Procedures Manual.</i></p>	<p><i>Head of Corporate Services</i></p>	<p><i>With immediate effect</i></p>

Follow up of 2009/10 recommendations

C

ASM Ref	Recommendation as at November 2009	Management response	Action Taken / To be Taken	Implementation Date	ASM findings as at October 2010
A3.	Whilst we acknowledged that our review did not indicate that funds were drawn down in advance of need we recommended that the Finance Officer formally documented the calculation of the drawdown requirement which should be retained for audit purposes.	<i>Accepted.</i>	<i>Documented in the revised Financial Procedures Manual.</i>	<i>With immediate effect.</i>	Not implemented While our detailed testing identified that funds were not drawn down in advance of need in relation to the Parliamentary Election held in May 2010, we note that a detailed calculation of drawdown requirement was not formally documented in advance of drawdown requests being made.
B4.	We recommended 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 recommended 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.	<i>Accepted.</i>	<i>Documented in the revised Financial Procedures Manual.</i>	<i>With immediate effect.</i>	Partially implemented Our discussions with Management identified that a template report recording actual outturn against budget was devised and was issued to the Chief Electoral Officer for review in April 2010 and June 2010. We were advised that the CEO's review was not documented. Further, we were advised that reports were prepared thereafter but could not be provided for our review due to a technical error on the TRIM system. We recommend that during the next election the Finance Officer prepares the monthly report to record actual outturn against budget which should be reviewed by the CEO. We recommend that this review be evidenced by signature.

Follow up of 2009/10 recommendations (cont'd)

C

ASM Ref	Recommendation as at November 2009	Management response	Action Taken / To be Taken	Implementation Date	ASM findings as at October 2010
C7.	We recommended 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.	<i>Accepted.</i>	<i>Documented in the revised Financial Procedures Manual.</i>	<i>With immediate effect.</i>	Not implemented Our discussions with Management identified that performance against the prompt payment target in relation to election expenditure is not formally calculated and reported to the CEO on a monthly basis.
C8.	We recommended that bank reconciliations were undertaken within the ten day timeframe.	<i>Accepted.</i>	<i>Documented in the revised Financial Procedures Manual.</i>	<i>With immediate effect.</i>	Fully implemented We selected a sample of five bank reconciliations prepared during the period April 2010 to September 2010. Our testing identified that all bank reconciliations were undertaken within the ten day timeframe.
C9.	We recommended that staff were reminded to ensure that purchase orders are correctly coded.	<i>Accepted.</i>	<i>Reminder issued to Finance Staff 17 November 2009.</i>	<i>Completed.</i>	Partially implemented We were advised that staff were reminded. We selected a sample of ten purchases processed during the period April 2010 to September 2010. Our detailed testing identified that in two instances purchase orders were incorrectly coded to the suspense account.
C10.	We recommended that Finance staff were reminded of the requirement to copy the full lodgement slip for each lodgement undertaken in accordance with EONI's cash management procedures.	<i>Accepted.</i>	<i>Reminder issued to Finance Staff 17 November 2009.</i>	<i>Completed.</i>	Fully implemented We selected a sample of five election related lodgements processed during the period April 2010 to September 2010. Our detailed testing identified that in all instances a copy of the full lodgement slip was retained.

Assurance ratings definitions

D

Level of assurance	Definition
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

E

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

Priority rating	Definition
High	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	Weaknesses which could threaten the achievement of objectives. Remedial attention by management is required.
Low	Some weaknesses which could have an impact on the achievement of objectives. Action is required to monitor the situation and improve control.