

**Electoral Office for Northern Ireland**

**Audit fieldwork 2010/11**

**Review of Fixed assets**

24 December 2010



Ref: BC/LB/am

## Private and Confidential

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24 December 2010

Dear Sir

## Re: Fieldwork visit – Review of Fixed assets

### 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") system for fixed assets. This report summarises our findings.

2. We previously reviewed the EONI's controls in relation to fixed assets as part of our 2007/08 fieldwork. We considered that a "satisfactory" level of assurance was appropriate. We made recommendations 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.

### Background

3. 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.

4. A disposal form is prepared to record a fixed asset disposal and the FSD amend the fixed asset register accordingly.

5. 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 IT assets held at headquarters and at each of the local area offices.

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

### Scope

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

8. The fieldwork visit focussed on assessing the following controls in respect of the systems operating 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 and updated on a timely manner to reflect additions and disposals;

- c) to ensure that fixed assets are tagged and subject to physical inspection;
- d) to ensure that fixed assets are securely held; and
- e) to ensure that fixed assets are reviewed for impairment.

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 absence of a fixed asset register in respect of EONI's non-IT fixed assets. We also noted that the Omagh Area Electoral Office do not currently maintain an equipment log book in respect of removable fixed assets i.e. laptops in accordance with EONI's operational procedures.

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 |
|--|----------|----------|
| Development of a non-IT Fixed Asset Register | A        | Medium   |
| Equipment Log Books                          | B        | Low      |

14. The findings included in this report were discussed with Mr Graham Shields (Chief Electoral Officer), Mrs Margaret McMullen (Head of Corporate Services), Mr Peter Mullan (Finance Officer), Ms Jocelyn McCarley (Assistant Chief Electoral Officer Registration) and Mrs Liz Murray (Assistant Chief Electoral Officer Elections) 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 fixed assets particularly in relation to the development of a non-IT fixed asset register.

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

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

## 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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## Development of a non-IT Fixed Asset Register

A

### Weaknesses

A1. EONI's Management Statement and Financial Memorandum, states that "EONI should keep an accurate and up-to-date register of its fixed assets, as well as a register of all movable assets having a residual value, such as laptop computers, and shall maintain a record of their location and the member of staff responsible for them."

A2. Our review identified that whilst the Northern Ireland Office's ("NIO's") Financial Services Division ("FSD") maintains a register of EONI's fixed assets this is primarily for financial accounting purposes (which records summary details, by area office, of IT and non-IT capitalised assets, date of purchase, cost, accumulated depreciation and net book value) rather than as a complete fixed asset inventory recording each individual asset.

A3. We understand that on an annual basis FSD will provide the register to EONI and staff within the IT section will undertake to verify the assets recorded on the register. We understand that this review was most recently undertaken in August 2010. Our review identified that as at November 2010, approximately seventeen items recorded on the register had not yet been verified by EONI staff. We also note that this review identified three assets which had been disposed of but had not been removed from FSD's register.

A4. We note that whilst EONI's IT section maintain a separate register of EONI's IT assets, which includes those assets which have not been capitalised, a similar register of EONI's non-IT assets has not been developed. Our review and discussions with management also indicated that EONI's non-IT assets are not tagged.

A5. We understand that Management consider the development and maintenance of an internal non-IT assets register would provide additional assurance in respect of the control of EONI's non-IT assets.

### Effect

A6. In the absence of tagging non-IT assets and maintaining an internal non-IT asset register there is a risk of misappropriation of EONI's non-IT assets.

Development of a non-IT Fixed Asset Register (cont'd)

A

| Recommendations and management action plans   |  |  |   |   |
|---|--|--|---|---|
| Recommendations   | Status<br>(Recommendation accepted / not accepted) | Comment  | Responsibility                              | Timeframe   |
| A7. We recommend that a register is developed in respect of EONI's non-IT assets, to include those assets which have not been capitalised. For this purpose, we recommend that all non-IT fixed assets be tagged with a unique number. Furthermore, we recommend that all non-IT assets be subject to physical verification on a regular (at least twice yearly) basis. | Accepted   | <p><i>Policies and procedures in relation to the management of non-IT assets to be drafted and included in the Financial Procedures Manual.</i></p> <p><i>Non-IT assets to include those assets which have not been capitalised to be tagged with durable tags securing unique identification number to each item and recorded with the location on a master register.</i></p> | Finance Officer and Area Electoral Officers | 31 March 2011 and physical verification on a six monthly basis thereafter |

## Equipment Log Books

B

### Weaknesses

B1. We understand that electronic equipment including laptops and projectors are taken off site for the purposes of EONI’s Schools Initiative and other presentations and information sessions on electoral identification cards. Our review indicated that EONI’s IT section developed and issued procedures in respect of the “Control of Electronic Assets” in November 2008. These procedures include required controls in relation to the loan, or removal, of fixed assets by the Area Electoral Offices. Our review of the procedures indicated that in the event of the removal of IT assets from an Area Electoral Office the Area Electoral Officer should be advised and the removal of the asset recorded in an equipment log book.

B2. During our review we noted that whilst the Omagh Area Electoral Office were aware of the procedures, an equipment log had not been devised or implemented. We were advised that the Area Officer maintains details of the school initiatives in the outlook calendar and will be aware when the laptops are taken off site.

### Effect

B3. In the absence of a properly maintained equipment log there is limited assurance as to the whereabouts of fixed assets taken off site. Furthermore, in the event of a fixed asset being misplaced or damaged when taken off site there is a limited accountability trail.

### Recommendations and management action plans

| Recommendations   | Status<br>(Recommendation accepted / not accepted) | Comment   | Responsibility             | Timeframe |
|---|--|---|----------------------------|-----------|
| B4. We recommend that Management ensure that all Area Electoral Offices have devised an equipment log in accordance with the “Control of Electronic Assets” procedures. | Accepted   | Reminder issued to all Area Electoral Offices 22 December 2010. | Head of Corporate Services | Completed |

## Assurance ratings definitions

C

| Level of assurance  | Definition  |
|---------------------|---|
| <b>Substantial</b>  | There is a robust system of risk management, control and governance which should ensure that objectives are fully achieved.   |
| <b>Satisfactory</b> | 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.   |
| <b>Limited</b>      | 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.                                    |
| <b>Unacceptable</b> | 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

D

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

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