

## Board of Management Audit & Assurance Committee

<b>Date of Meeting</b>	<b>Wednesday 26 May 2021</b>
<b>Paper No.</b>	<b>AAC4-H</b>
<b>Agenda Item</b>	<b>5.7.1</b>
<b>Subject of Paper</b>	<b>Internal Audit Report – General Ledger</b>
<b>FOISA Status</b>	<b>Disclosable</b>
<b>Primary Contact</b>	<b>Henderson Loggie</b>
<b>Date of production</b>	<b>19 May 2021</b>
<b>Action</b>	<b>For Discussion and Decision</b>

### 1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

## 2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

## 3. Key Insights

This internal audit of General Ledger provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

## 4. Impact and implications

Refer to internal audit report.

# City of Glasgow College

## General Ledger

**Internal Audit Report No: 2021/02**

**Draft issued: 17 May 2021**

**Final issued: 19 May 2021**

**LEVEL OF ASSURANCE**

**Good**

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## Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

<b>Good</b>	System meets control objectives.
<b>Satisfactory</b>	System meets control objectives with some weaknesses present.
<b>Requires improvement</b>	System has weaknesses that could prevent it achieving control objectives.
<b>Unacceptable</b>	System cannot meet control objectives.

## Action Grades

<b>Priority 1</b>	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Assurance Committee.
<b>Priority 2</b>	Issue subjecting the organisation to significant risk and which should be addressed by management.
<b>Priority 3</b>	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



## Management Summary

### Overall Level of Assurance

Good	System meets control objectives.
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### Risk Assessment

The systems and controls reviewed do not link directly to any of the strategic risks included on the City of Glasgow College's Risk Register.

### Background

As part of the Internal Audit programme at the College for 2020/21 we carried out a review of the systems in place around the College's General Ledger (GL). The Audit Needs Assessment, completed in March 2017, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

A GL maintains the structure for the recording of financial information for any organisation within a chart of accounts to record its income, expenditure, cash balances, liabilities and assets. The GL manages the financial operations of the College and provides the source framework for updates on its financial position on a monthly basis along with its annual financial statements. Therefore, accurate maintenance and controls around the GL are essential to the effective management and successful operation of the College.

This audit reviews the effectiveness of the control framework in place around the College's GL and their application. .

## General Ledger

### Scope, Objectives and Overall Findings

The scope of this audit was to review the College's processes for month-end financial closure; year-end financial closure; updating of user access rights on the financial system; and core financial controls for validating the financial records of the College.

The table below notes the objectives for this review and records the results:

Objective	Findings		
	1	2	3
<b>The specific objectives of this audit were to obtain reasonable assurance that:</b>			
1. The chart of accounts, coding structure, reports and procedures are adequate in respect of production of the College's management accounts and annual financial statements.	Good	0	0
2. Key controls are in place over the trial balance structure, control account reconciliations and journal entries.	Good	0	0
3. There is adequate control and reconciliation of the main feeder systems to the General Ledger.	Good	0	0
		<b>0</b>	<b>0</b>
<b>Overall Level of Assurance</b>	<b>Good</b>	System meets control objectives with some weaknesses present.	

### Audit Approach

We assessed whether the above objectives have been met by documenting the systems and controls through interviews with Finance staff. We also established whether the expected key controls were in place by reference to standard control risk assessment templates designed for a GL system.

Compliance testing was carried out, where necessary, to ensure that the controls in place were operating effectively.

## General Ledger

### Summary of Main Findings

#### Strengths

- There are documented procedures in place detailing the required steps to be taken as part of the GL close down and financial reporting process;
- The documented procedures are supported by checklists which document the key tasks involved in the production of month-end reports and year-end accounts;
- Access to the chart of accounts is restricted to the management team within Finance;
- User access to the Finance system is controlled by the bluQube system administrator, with a process in place for the authorisation, creation and deletion of user accounts;
- The system access controls ensure that only approved staff within the Finance team can create or amend the GL accounts and cost centre codes in place;
- There is a defined month end process in place to review the financial transactions which encompasses:
  - Journal processing including payroll and correcting items;
  - Major control accounts are reconciled on a monthly basis with reconciling items being investigated and resolved;
  - Reconciliation of the cash book and college's bank accounts with the recorded income and expenditure;
  - Preparation of and reconciliation of the trial balances; and
  - Creation of the Profit & Loss and Balance Sheet reports;
- An adequate process is in place for the transfer of financial information from feeder systems to the GL; and
- On completion of the month end process, the College's Finance team produces and issues the monthly financial reports (and at year end the figures for the annual financial statements) from the GL.

#### Opportunities for Improvement

The audit did not identify any control weaknesses, but we have identified the following area where process improvements may be achieved:

- The routine approach in place for posting journals is currently a manual process. Introduction of an automated approach for the processing of journals could allow the College to realise operational benefits, including a more streamlined and efficient process and a reduction in the risk of input errors to the GL.

#### Acknowledgements

We would like to take this opportunity to thank the staff at the College who helped us during our audit.

## Main Findings and Action Plan

**Objective 1: Obtain assurance that the chart of accounts, coding structure, reports and procedures are adequate in respect of production of the financial statements.**

The College utilises the bluQube (Symmetry) financials accounting software to manage its GL (and chart of accounts) to record its income, expenditure, cash balances, liabilities and assets. From this information source the College prepares and reports its financial position on a monthly basis through monitoring reports for budget holders, and annually through the financial statements. The GL is underpinned by the chart of accounts, which categorise all financial transactions undertaken by the College.

These accounts are supported by cost centre codes, which enable financial transactions to be recorded against core departments or project budgets. Access to the chart of accounts and cost centre codes within bluQube financials is restricted to the management team within Finance. Only these named individuals have the authority and capability to set up, amend the chart of accounts or remove costs centre codes. There is a formal procedure for the setting or amending of these accounts and cost centre codes.

Based on this structure the bluQube financial system, with inputs from other related systems including the payroll and purchasing systems, provides the basis for the monthly financial reports to the budget holders, the Executive Leadership Team and the Board of Management (as well as providing the source data for the annual accounts).



## General Ledger

**Objective 1: Obtain assurance that the chart of accounts, coding structure, reports and procedures are adequate in respect of production of the financial statements.**

There is a documented month end financial process in place which detail the steps to be taken to complete specific tasks including:

- Final processing of transactions including purchase ledger, sales ledger, cash book including petty cash, payroll and other operating expenses;
- Reconciliation of the cash book and College's bank accounts and recorded the cash balance within the GL;
- Journal processing, including payroll and correcting items;
- Preparation of, and reconciliation of, the trial balances;
- Creation of the Profit & Loss and Balance Sheet reports; and
- Preparation and issue of the monthly financial reports to all budget holders and relevant senior managers.

The Head of Finance also maintains a checklist of the actions which require to be undertaken (and when these actions must be completed) as part of the month end close process. In addition, a timetable is in place to undertake these tasks in order to produce the monthly financial reports within defined timescales.

Following the completion of the month end process financial reports are issued to all budget holders with a consolidated monthly financial report is issued to all Executive Leadership Team members. In addition, financial accounts and reports are submitted to all meetings of the Finance and Physical Resources Committee and at each Board of Management meeting.

It is our view that these measures provide an effective control framework for the maintenance and security of the GL, with a documented approach in place for the monthly Finance close down process and the production of financial reports.

## General Ledger

### **Objective 2: Obtain assurance that key controls are in place over the trial balance structure, control account reconciliations and journal entries.**

As outlined above, there is a defined month end close down approach in place to ensure accurate financial recording and reporting. There are documented procedures and controls in place, and these are summarised below.

#### **Journals processing**

The documented approach for the processing of journals is set out within targeted guidance, which requires the completion of a template detailing the amount, the reason(s) for the journal, and details of the GL accounts to be debited and credited. All journals requested are reviewed and approved by a senior manager within the Finance team. On a monthly basis, standard routine journals are prepared, reviewed and approved before being posted to the GL, these include:

- Payroll journals, from the three payroll systems in place;
- Required journals from the Cashbook;
- Creditors and debtors control accounts (with the balances reviewed and where required adjusted); and
- Correcting journals that have arisen from a review of control accounts and identification of miscoding by either budget holders themselves or through review by the Finance team.

As part of our audit testing, we sampled 25 completed journals to ensure that each journal demonstrated a valid reason and had been appropriately authorised. Our testing confirmed that in all journals tested the required controls had been consistently applied.

#### **Bank Account reconciliations**

On a monthly basis the College's bank accounts balances and entries are reconciled against the transactions recorded within the cashbook, payments made, and the balances held within the GL. The Head of Finance reviews and confirms the completion of the bank accounts reconciliations. Our sample testing of the recorded bank account reconciliations confirmed compliance with the documented controls.

#### **Month end control account reconciliations**

Every month the Finance team undertake the following key control account reconciliations:

- Payroll - following completion of the payroll journal processing;
- Purchase ledger - ensuring all payments are entered and matched to the relevant invoices; and
- Sales ledger - ensuring that all cash received in the month is processed and matched to the relevant invoices.

On completion of these reviews, correcting journals are completed and posted to address any identified discrepancies, where deemed appropriate. As documented within the formal guidance the Head of Finance completes the reviews of the control accounts as part of the routine month end processes. Our testing of a sample of month end closures confirmed compliance with the documented controls.

## General Ledger

**Objective 2: Obtain assurance that key controls are in place over the trial balance structure, control account reconciliations and journal entries. (continued)**

### **Trial balances**

The Head of Finance also undertakes a review of the GL trial balances:

:

- To confirm the accuracy of coding and posting undertaken in month; and
- To review the variances and control of income and expenditure.

This approach is documented within the month end process and completed within a prescribed timetable. To confirm the process is completed on a monthly basis, a checklist is in place detailing the month end tasks to be completed and this provides documented confirmation that the tasks have been completed and who has completed each task. As part of our testing, we confirmed that this checklist is being reported as completed on a monthly basis.

## General Ledger

**Objective 2: Obtain assurance that key controls are in place over the trial balance structure, control account reconciliations and journal entries. (continued)**

Observation	Risks	Recommendation	Management Response		
<p>While our audit testing did confirm that journals were being prepared, approved and posted in line with current control requirements, it was also identified that this process was a manual process.</p> <p>During the six-month period between 1 June 2020 and 31 December 2020, in excess of 15,000 manual journal lines were raised, approved and posted. Of these journals, some 6171 ( or 41% of the amount posted) related directly to payroll journals.</p> <p>This current approach is labour intensive and requires a significant staff resource to complete every month. In addition, the level of manual intervention also increases the risk of incorrect financial recording and reporting due to transcription, or other errors, when processing these journals.</p> <p>The College is not currently maximising the potential benefits arising from automation of the journal process, including delivery of a more efficient approach and improvements in control, through a reduction in the risk of input errors (including transcription mistakes).</p>	<p>The current manual journal process is not as efficient as it could be and increases the risks of errors being recorded within the GL.</p>	<p><b>R1</b> The College should investigate the introduction of an automated monthly journal process to improve both the business efficiency and controls in place when updating the GL accounts.</p>	<p>The senior finance staff utilise the journal upload functionality within bluQube. The journals are not currently manually entered however there is staff time involved in preparing the spreadsheet for uploading.</p> <p>There is potential for improved integration with iTrent in generating the monthly payroll journals.</p> <p><b>To be actioned by:</b></p> <p>Vice Principal Corporate Services</p> <p><b>No later than:</b></p> <p>31 December 2021</p>		
			<table border="1"> <tr> <td><b>Grade</b></td> <td><b>3</b></td> </tr> </table>	<b>Grade</b>	<b>3</b>
<b>Grade</b>	<b>3</b>				

## General Ledger

### **Objective 3: Obtain assurance that there is adequate control and reconciliation of the main feeder systems to the General Ledger**

In addition to bluQube, there are also a number of related financial systems in place which feed into the college's GL. These include:

- The iTrent system which manages the three payroll in place within the College; and
- PECOS electronic purchasing system.

However, these systems do not directly feed into bluQube financials, which manages the GL. On a monthly basis journals from these systems are posted to bluQube, in order to update the GL. The posting of these journals forms an integral part of the month end procedure.

As highlighted in the findings above, we have reviewed these processes and are content that the required controls and checks are in place and are being complied with. Testing of this process did not identify any issues arising from the month end procedures, including testing of control account and bank account reconciliations.

Therefore, we are satisfied that there are adequate controls and reconciliations in place between feeder systems and the GL.

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