

Chapter 20

Financial Control and Governance

Financial Control and Governance

20.1 Government departments and offices must ensure that an effective system of internal control is established and maintained. This is the primary means of ensuring that financial transactions are duly processed, authorised and recorded and that material errors or irregularities are either prevented or would be detected in a timely manner.

Chapter Focus

This chapter reports certain deficiencies in the control and associated governance arrangements operated by the Valuation Office during 2010 together with the response of the Accounting Officer to the audit findings.

Deficiencies in Control Systems

20.2 In the course of the audit of the 2010 Appropriation Account it was noted that there were significant shortcomings in the Valuation Office's financial control system. These included the following

- Monthly reconciliations between the accounting records and the banking records had not been performed throughout the year. Regular reconciliations of this kind are important to help detect errors or irregularities in a timely manner and align the books of account with the banking records.
- A system was not in place to ensure that all accounting entries were properly authorised and an appropriate accounting trail maintained. The absence of these controls could expose the Office to accounting errors.
- There was an unsatisfactory level of erroneous and incorrectly processed accounting entries which had not been detected in a timely manner. This was due to a lack of comprehensive review of accounting entries which is a fundamental means of ensuring that processing is complete and accurate.
- The Office had not maintained an accurate register of assets and controls were not in place to ensure that assets were only disposed of or scrapped after due authorisation.

20.3 A new accounting system was introduced in early 2010. The migration of data to the new system was a protracted process which was not completed until well into 2011. A controlled and documented process, sufficient to provide assurance that the migration had been accurately effected, was not employed. This gave rise to extended audit procedures to validate the books of account.

Deficiencies in Governance

20.4 Shortcomings in governance identified in the course of the audit included the following

- Periodic financial reports were not reviewed by the Office's Management Committee on a regular basis. Such reviews are necessary in order to provide an acceptable level of oversight over the Office's financial performance.
- The Office's internally resourced part-time internal audit unit did not have an audit programme drawn up on the basis of an assessment of the risks facing the Office. No internal audit reports were produced in 2010.
- The Office has an Audit Committee which met on five occasions in 2010. A review of the minutes of its meetings indicates that it endeavoured to review the range of risks facing the Office and to follow up on actions that management had agreed to take. However, the effectiveness of its work was reduced by the lack of appropriate internal audit arrangements. The Committee had only one external member in 2010, whereas at least two external members is recommended in the Report of the Working Group on Accountability of Secretaries General and Accounting Officers.¹⁷⁵

Response of the Accounting Officer

20.5 The Accounting Officer has indicated that the position in 2010 was complicated by the switch to a new accounting system. Nevertheless, he has acknowledged that there were significant shortcomings in control and governance arrangements during the year. He has indicated that he has taken or put in train the following actions to deal with those shortcomings

- Following a review, he has arranged to outsource specific internal audit functions to a firm of accountants who will report to the Head of internal audit.
- The Audit Committee has been reconstituted to include two external members and with a more specific Charter.
- A comprehensive review of internal financial controls has commenced under the new internal audit arrangements.
- An inventory of all assets has been undertaken, the assets identified have been incorporated into a new register of assets and an instruction has issued that disposals are to be documented and approved by the Office's Finance Officer in advance.
- A revised procedure for regular reconciliation of transactions as processed by the Office and its banker (the PMG) and of payroll suspense accounts is being put in place.
- Arrangements to ensure that public procurement requirements and guidelines are fully complied with have been strengthened.
- There will be regular discussion of financial and risk matters at the Management Committee.

¹⁷⁵ Chapter 6 of the Report of the Working Group on the Accountability of Secretaries General and Accounting Officers, July 2002.

Conclusion

There were considerable shortcomings in control and governance arrangements operated by the Office in 2010. A fully effective control process informed by a comprehensive risk assessment is necessary to help ensure that financial transactions are duly processed and recorded.

Regular reconciliation of banking transactions is also necessary in order to identify errors, adjust for items not recorded in the financial records and prove the accuracy of the Office's books of account.

Feedback based on internal audit arrangements appropriate to the size of the organisation and to the complexity of its operations are important in supporting a strong financial control environment and in providing a source of assurance to the Accounting Officer and the Audit Committee of the Office. Where this process is not focused and based on a risk assessment there is an increased risk of control failure and potential financial loss.

Notwithstanding the foregoing, and based on the testing completed as part of the audit and following the adjustments made as a result, I am satisfied that the Appropriation Account of the Office properly presents its transactions for 2010 and that the measures being taken should strengthen the Office's financial management.

