

City Auditor's Report to  
Audit Committee  
2023 November 09

ISC: UNRESTRICTED  
AC2023-1146

## **Manual Journal Entries Continuous Auditing Project**

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### **PURPOSE**

The purpose of this report is to communicate the outcome of the Manual Journal Entries Continuous Auditing Project.

### **PREVIOUS COUNCIL DIRECTION**

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties, and functions of the position. In accordance with Bylaw 30M2004 (as amended), the City Auditor reports the outcome of all audits to the Audit Committee (including Administration's response and corrective actions to be taken in regard to specific recommendations). The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 33M2020.

### **RECOMMENDATIONS:**

That the Audit Committee:

1. Receive this report for the Corporate Record; and
2. Recommend that Council receive this report for the Corporate Record.

### **HIGHLIGHTS**

- What does this mean to Calgarians? Our continuous auditing data analysis results identified prioritized opportunities to improve both the efficiency and effectiveness of the manual journal entry process. This aligns with work begun by Finance as part of a continuous improvement initiative to standardize the journal entry process.
- Why does it matter? Implementing continuous auditing is an efficient and cost-effective approach to monitoring the risks associated with journal entry process in a timely manner.

### **RISK**

The data analysis outlined in this report supports Administration in their on-going mitigation activities related to the risks of inaccurate financial reporting, fraud, and inefficiency.

### **DISCUSSION**

Journals record financial entries in the general ledger, which is the master set of accounts that summarize all transactions occurring within The City. Journals record financial transactions, reclassifications, adjustments and corrections. They may be system generated or manually created. The scope of our review is manually generated entries posted up to September 15, 2023, in fiscal years 2021 - 2023. Effective journal entry controls help mitigate the risks of inaccurate financial reporting, fraud, and inefficiency.

We developed a PowerBI report to provide an ongoing analysis of controls in journal entries using the following criteria:

1. System access to post journal entries is restricted to employees within Finance who post journals frequently.

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2. Journals are more typically utilized for higher dollar value transactions and corrections i.e. only where necessary.
3. Journal entries have meaningful descriptions and references to allow inaccurate or inappropriate entries to be identified during reviews of account activity.

The key results from our analysis for each criterion are shown in the scorecard attachment to this report, along with an assessment of the residual risk and associated significance of opportunity for improvement.

Based on the data reviewed, controls related to journal access represent the most significant opportunity to improve control effectiveness. 59% or 183 users with access to post journals either never posted or posted in the last year. We provided Finance with information to further reduce access by identifying an additional 27 users with low posting activity. Reducing the number of users that can post journals helps minimize potential segregation of duties conflicts.

Reducing volumes of entries by setting materiality thresholds represents a moderate improvement opportunity to improve control efficiency since amounts between \$0 and \$5,000 accounted for 31% of all postings. The word cloud in the attachment shows "correction" was the most common word in the description for these lower dollar amount entries.

Journal descriptions were generally effective as only 0.2% entries did not appear to include an adequate description. We shared with Finance an opportunity to include the username of the individual that prepared spreadsheet upload journal entries in the journal description, since these entries are associated with a generic account.

The City Auditor's Office will refresh the PowerBI report during Q2 2024 to monitor progress of addressing the opportunities highlighted and overall risk exposure. This aligns with an expected milestone in Finance's continuous improvement project to standardize the journal entry process.

### ATTACHMENT

1. Manual Journal Entries Continuous Auditing Project Scorecard Summary AC2023-1146

### DEPARTMENT CIRCULATION

Name	Title, Department or Business Unit	Approve/Consult/Inform
Liz Ormsby	City Auditor	Approve
David Duckworth	Chief Administrative Officer	Inform
Carla Male	Chief Financial Officer	Inform
Les Tochor	Director, Finance/City Treasurer	Inform
Michael Perkins	Manager, Financial Operations	Inform

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