



**CARANUA – Residential Institutions Statutory Fund  
Review of Financial Reporting  
Framework and Systems**



**December 2014**

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# 1. EXECUTIVE SUMMARY

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## Overview

This report contains our findings and recommendations on our review of the financial reporting framework and systems at Caranua.

The main findings from our review are:

- Caranua should identify their financial reporting requirements and ensure that all accounting records are maintained in accordance with current accounting standards and professional good practice;
- Caranua should implement month-end closing procedures and establish a month-end closing timetable for cut off, control accounts reconciliations and production of timely management accounts;
- Caranua should have a structured budgeting process in place in order to provide accurate and timely budget information on budget versus spend.

We have set these out in more detail in Section 2 together with our recommendations for addressing same.

This report also outlines the modules and functions that should be considered for use in Caranua's new financial reporting system Exchequer Core Financials & Accounting.

The main modules outlined for this purpose are:

- Financials
- Payables
- Fixed assets
- Bank
- Travel and subsistence

We have set these out in more detail in Section 4 outlining the functions and reporting tools which should be considered for use in the new system.

## 2. DETAILED FINDINGS

No	Findings	Detail	Recommendation	Management comments
1	Financial reporting requirements and accounting record maintenance	<p>Our review indicates that Caranua has yet to formally address its financial reporting requirements for the organisation since its establishment.</p> <p>The current financial reporting process in place is mainly reactive rather than proactive. Information is only gathered when requested. Financial records produced are therefore dated and not timely.</p> <p>The main reason for this is because Caranua currently do not have a management information system. Accounting records are kept on Excel and not on any computerised accounting system.</p> <p>At the time of our review Caranua had addressed this issue and had purchased Exchequer Core Financials &amp; Accounting to maintain books of accounts.</p> <p>Our review further indicates that key control accounts are not reconciled on a periodic basis.</p> <p>Internal financial information requirements are not reviewed regularly or updated in order to ensure that information flows are relevant, current and adequately address the needs of management and staff.</p>	<p><b>We recommend that Caranua identifies and documents its financial reporting requirements.</b></p> <p><b>Management should be given assurance that :-</b></p> <ul style="list-style-type: none"> <li><b>a. Proper books of accounts are maintained</b></li> <li><b>b. All the required external and statutory financial reports / returns are accurately generated and released on time.</b></li> </ul> <p><b>The implementation and proper usage of Exchequer will assist in addressing this issue.</b></p>	

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No	Findings	Detail	Recommendation	Management comments
2	Preparation of management accounts and month end closing procedures	<p>Our review indicates that Caranua does not have month end closing procedures in place and are not currently preparing timely management accounts</p> <p>Decision makers in Caranua are not given timely financial information to aid their decision making process.</p> <p>This is mainly due to the lack of resources made available to the Finance unit. Caranua's Finance unit consist of 1 staff member whose responsibilities extend beyond Finance and into Corporate Services. In our opinion the current arrangement is not sustainable.</p> <p>At the time of our review Caranua had purchased Exchequer Core Financials &amp; Accounting to aid and automate its accounting records.</p>	<p><b>Caranua should implement month-end closing procedures and establish a month-end closing timetable for cut off, control accounts reconciliations and production of timely management accounts. Said procedures should also indicate responsibilities and timetable for outputs.</b></p> <p><b>Management accounts should be presented, reviewed and approved by the accounting officer.</b></p> <p><b>Management accounts should also contain timely information of spending against budget.</b></p> <p><b>Caranua should further review the staffing composition of its Finance unit.</b></p>	
3	Budgeting Process	<p>Our review indicates that there are no clearly defined policies and procedures for reviewing assumptions applied to Caranua budgets for relevance and accuracy.</p> <p>Our review also noted that there is a lack of segregation of duties with the production and maintenance of budgetary controls due resources constraints. General ledgers maintenance, the on-going tracking of spend against budgets and the control of master</p>	<p><b>We recommend that Caranua put in place a detailed and structured budgeting process in line with professional best practice.</b></p> <p><b>When monthly or quarterly budgets are prepared, they should be reviewed and approved by the accounting</b></p>	

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No	Findings	Detail	Recommendation	Management comments
		<p>budget are carried out by the same person.</p> <p>As part of the budgetary control process the Head of Finance comments on all variances above 10%. We are of the opinion that this is sufficient.</p>	<p><b>officer. Action points, if any, should be documented and followed up.</b></p> <p><b>Caranua should also consider segregating duties in the budgeting process to ensure that the same person is not inputting and checking the data for accuracy.</b></p> <p><b>We recommend that management clearly define the level of variances that require follow up action and the nature of the action required. This will ensure that no significant variances are overlooked.</b></p>	

## 3. COMPUTERISED ACCOUNTING SYSTEM

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We set out in detail in Section 4 of our report what Caranua needs to consider when designing and implementing the new Exchequer financial reporting system. If each module is implemented, and Exchequer is used to its full potential it will provide Caranua with an automated management information system capable of producing timely and accurate financial reports. We set out below what a computerised accounting package can do for Caranua.

### 1. Financials modules

- Meeting financial reporting requirements for Management, Internal Audit and the C&AG
- Production of monthly, quarterly and yearly reports direct from accounting system.
- Ensure timely review of monthly/quarterly/year end closing procedures, timetables and deliverables.
- Increased accuracy and quality of accounting records.
- Preparation and review of key control accounts.
- Preparation and review of control accounts reconciliations.
- Assist in an improved and structured budgeting process.

### 2. Payables modules

- Creation of Individual supplier accounts.
- Production of monthly, quarterly and yearly supplier reports direct from accounting system.
- Increased internal controls over supplier authorisation and payments.
- Production of accurate creditors' listing for prompt payments.
- Accounting for taxes to include professional services withholding tax.

### 3. Fixed Asset modules

- Creation of an automated fixed asset register.
- Ongoing maintenance of fixed asset register.
- Production of monthly, quarterly and yearly supplier reports direct from accounting system.

### 4. Bank modules

- Production of monthly, quarterly and yearly bank reports direct from accounting system.
- Preparation of bank control account.
- Preparation and review of bank reconciliations.

### 5. T&S modules

- Increased internal control over T&S authorisation and payments.

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- Increased accuracy and quality of staff and board member T&S records.
- Production of monthly, quarterly and yearly bank reports direct from accounting system.
- Preparation and review T&S control accounts.

### Implementation

We recommend that Caranua make the necessary arrangements to have the new financial reporting system up and running in the financial year 2015.

A cut-off date for all transactions to transition to the new computerised accounting system should be applied. We recommend the cut-off date to be at a month end or quarter end.

## 4. SYSTEM DESIGN

### 4.1 FINANCIALS MODULE

#### System Design

Exchequer Core Financial & Accounts	Current system in use- Excel
Finance staff can print reports to analyse expenditure including the following: <ul style="list-style-type: none"> <li>• Period Trial balance</li> <li>• Transactional Trial Balance</li> <li>• Profit and Loss</li> <li>• Balance Sheet</li> <li>• Nominal Ledger Activity Report</li> <li>• Annual budget Variance Report</li> <li>• Quarterly Budget Variance Report</li> <li>• Monthly/ Quarterly Management Accounts Report</li> <li>• Annual Financial Statements</li> </ul>	The current system used is Microsoft excel which is not an accounting system package. Therefore it does not generate any financial reports required by management in Caranua.
Create and view nominal accounts, cost centers etc.	This is not a function used in Excel currently
Report listing all transactions by nominal code within a specified period.	Excel cannot generate this report
Journal function to post double entry journal adjustments (Function of generating and posting journals is segregated from those responsible for general ledger maintenance)	Journals are not currently being used as no management accounts are being generated.
Journal reversal function (This function should be similar to above)	Journals are not currently being used as no management accounts are being generated.
Report listing all journals posted during a specific period (including prior year if required).	Excel cannot generate this report
Management accounts report for specific periods	Management accounts not currently being generated.
Trial balance report listed by nominal code for a specified period (including prior year if required).	Excel cannot generate this report
Profit and loss report showing prior year comparative month and prior year to date comparatives.	Excel cannot generate this report
Profit and loss report showing prior year comparative month & year to date and current year budget to date.	Excel cannot generate this report
Balance sheet report showing current year and year to date.	Excel cannot generate this report
Budget report showing budget per nominal	Excel cannot generate this report

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and year to date.	
Report showing year to date expenditure per nominal, expenditure for each month, budget for the year and budget remaining.	Excel cannot generate this report
Report showing nominal ledger transactions with invoice postings only split by nominal code.	Excel cannot generate this report
Report showing nominal ledger transactions with invoice and journal postings split by nominal code.	Excel cannot generate this report
Audit trail report for specific periods	Excel cannot generate this report
Run month end - to close of the month	This function is not currently being used
Run year end - to close off the year	This function is not currently being used

## 4.2 PAYABLES MODULE

### System Design

Exchequer Core Financial & Accounts	Current system in use- Excel
Create supplier accounts	This is not a function used in Excel currently
View supplier account details & activity	This is not a function used in Excel currently
Allocation function to allocate payments to purchase invoices	There is currently no allocation of payments being made. Records are kept in Excel including the date the payments are posted to banking online, the date the payment is authorised and the date in which it goes through the bank.
Create purchase requisitions and generate purchase orders	Currently there is no PO system in place in Caranua. Random PO numbers are given to any supplier that asks for one.
Post purchase invoices to purchase ledger and supplier accounts	Currently being recorded on Excel
Report showing all purchase orders created for each supplier and within specified dates	Excel cannot generate this report
PSWT can be added to invoices posted to the system and is automatically posted to the PSWT nominal account	PSWT is not currently being paid to Revenue. It was mentioned however that Caranua will have to register for this and post correctly going forward.
PSWT report printing- prints details electronically to F45 slips	This is not a function used in Excel currently
Posting foreign currency invoices to the system- automatically translates to euro at a set exchange rate. Therefore when printing daybook reports all transactions appear in the base currency	Euro translation is currently being recorded when the transaction appears on the bank statement.
Daybook Reports <ul style="list-style-type: none"> <li>• Purchase invoices (Summary and detailed)</li> <li>• Purchase credits (Summary and detailed)</li> </ul>	Currently being recorded in Microsoft Excel which does not generate any reports.
Aged creditor analysis reports (Summary and detailed)	Excel cannot generate this report
Payment run reports compatible with IBB/SEPA that can be uploaded directly to the online banking system	Currently using Microsoft Excel for payment reports. This is not linked to the online banking system
Report showing total payments to each supplier for the year split on a monthly basis	Excel cannot generate this report
Prompt payment report- report showing total number of days it takes to pay each invoice - this will aid in prompt payment returns	Excel cannot generate this report
Report showing all invoices that have been on the system for a certain number of days (specified by the user)	Excel cannot generate this report

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<p>Information for tax clearance certificates uploaded to the system for each trade creditor and the system does not allow payments to be made if no valid tax clearance certificate on the system at the time the payment is being made.</p>	<p>This function is not currently being used</p>
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### 4.3 FIXED ASSETS MODULE

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#### System Design

Exchequer Core Financial & Accounts	Current system in use- Excel
Fixed asset register function	Caranua have a fixed asset register in place. This would be better viewed on the financial reporting system.
Additions, disposals, revaluation etc.	Being done manually on fixed asset register
Depreciation tool that is linked to additions and disposals	This is not a function used in Excel currently
Fixed asset category listing report	Excel cannot generate this report
Fixed asset valuation listing that shows each assets NBV	Excel cannot generate this report

## 4.4 BANK MODULE

### System Design

Exchequer Core Financial & Accounts	Current system in use- Excel
Create new bank accounts using separate nominal accounts	This is not a function used in Excel currently
View bank accounts activity	This is not a function used in Excel currently
Post bank transactions to the systems to include: <ul style="list-style-type: none"> <li>• Bank payments (payments against nominal accounts)</li> <li>• Supplier payments (payments against supplier accounts)</li> <li>• Bank receipts (receipts against nominal accounts)</li> <li>• Bank transfers (posting transfers between bank accounts)</li> </ul>	Bank transactions are currently being recorded on Excel
Payments and receipts can be posted gross of VAT	This is not a function used in Excel currently
Remittances automatically send to suppliers – link between system and emails needed for this	There are currently no remittance advice notes being sent to suppliers.
Bank reconciliation functions for each bank account for monthly bank reconciliation – can be performed at any date specified by the user	There are no bank reconciliations currently being completed in Caranua.
Report showing all bank payments between specified dates	Excel cannot generate this report
Report showing all bank receipts between specified dates	Excel cannot generate this report
Report showing all supplier payments between specified dates	Excel cannot generate this report
Report showing all unreconciled transactions between specified dates	Excel cannot generate this report

## 4.5 TRAVEL AND SUBSISTENCE MODULE

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### System Design

Exchequer Core Financial & Accounts	Current system in use- Excel
Staff members submit their claim on the system	Staff members are currently submitting manual hard copies of travel and subsistence.
Each staff member's profile is linked to their line manager who receives notification that a claim is awaiting their approval	Manual authorisation is currently being performed.
Reminders and a system to escalate the request to the next manager in line could be features of the system	This feature is not currently in operation in Caranua
The finance unit maintains the authorisation hierarchy and updates the rates on the system when necessary	This feature is not currently in operation in Caranua
Remittance is sent automatically to the claimant informing them their claim has been paid	There are currently no remittance advice notes being sent to claimants.