



05th December 2021

Ref: ED/V/13

The Principal Secretary
Ministry of Finance
P.O. Box 395
Maseru 100

Dear Madam;

RE: INTERNAL AUDIT FINAL REPORT ON BUDGET SYSTEM - CBMS

Enclosed please find internal audit final report on the above audit, detailing matters that came to the attention of Internal Auditors, and recommendations in which controls could be improved to overcome or minimize identified weaknesses, for the Ministry to achieve its objectives.

For the observations and recommendations made, management responses from the Budget Department are also incorporated in the report.

The report is set as follows:

Section A: Summary of objectives, scope and methodology.

Section B: The detailed findings, recommendations and Management responses.

Section C: Conclusion and acknowledgements.

Basis of opinion

To evaluate efficiency and effectiveness of internal controls, tests of controls and other procedures considered essential for due performance of the audit were conducted .



Internal Audit Opinion

The audit performed and the evidence obtained indicates that controls evaluated are partially adequate, to provide reasonable assurance that risks are being managed to an acceptable level for achievement of objectives.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'M. Masia', written over a horizontal line.

M. Masia (Mrs)
Director - Internal Audit (a.i)

Cc. PS Finance
Auditor General
Accountant General



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SECTION A

1. INTRODUCTION:

An Internal Audit exercise on Central Budget Management system (CBMS) was carried out in accordance with internal audit annual work plan for the financial year 2020/21, as it was considered as one of the high risk areas during Internal Audit risk assessment, our review was conducted at Ministry of Finance which is the primary user and custodian of the system.

2. BACKGROUND:

CBMS system was introduced when the Ministry of Finance (MOF) was in the process of migrating its IFMIS from EPICOR version 7.3.5 to version 10.2. The implementation of version 7.3.5 in 2009 did not have adequate support for the budgeting process as expected, as a result almost complete process of budget planning, preparation and management has remained outside the IFMIS. For the purpose of expenditure control, the approved detailed budget was manually entered in the IFMIS through the Active Planner module of the IFMIS, and when the IFMIS was upgraded,



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Budget Department wanted their requirements, which were not met earlier as well as the requirements which have evolved since 2009 to be incorporated in the new IFMIS.

3. AUDIT SCOPE:

The scope of the audit covered the financial years 2018/19 -19/20 focusing mainly on functionality of the system.

4. LIMITATION OF SCOPE

The assignment took longer than expected as both teams (Internal and Budget) were not available for work for a certain period due to covid 19 lock down and shift work.

Again, due to IFMIS break down Internal auditors were unable to perform some control procedures with the Ministry's Accounts Section which were planned to confirm that the system is operating as intended at Ministries level.



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5. OBJECTIVE OF THE AUDITS:

5.1 The objectives of the engagement are to evaluate the adequacy and effectiveness of IT controls regarding:

- Safeguarding of information, assets and maintaining data integrity and reliability.
- Processing of virements.
- Warrant release
- Checking that the system and IT controls meet the department needs as per proposed functional requirements, and without compromising security,
- Providing recommendations for improvements where internal controls weaknesses were identified.

5.2 Check compliance with relevant legislation and contract between the Ministry and Service provider.

6. METHODOLOGY:

Meetings were held with budget department Management, interviewed officials responsible for system administration, data input, processing and output.



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The following documents were reviewed:

- Functional requirements for the integrated planning and budgeting system.
- CBMS User manual.
- Service level agreement between Ministry and the Service provider.
- Relevant legislations
- Virements and warrant release processes were observed.

7. FRAUD AND INTERNAL CONTROLS:

Internal audit work is planned with reasonable expectation of detecting significant control weaknesses in the areas reviewed. However, Internal Audit procedures alone even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our reviews and investigations as internal auditors should not be relied upon as a sole means of disclosing fraud, defalcation or other irregularities that may exist.



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8. ISSUE RATING:

The significance of each of the issues raised/observations has been rated using the following stratification.

8.1 Risk rating definition

High – A major weakness that requires an immediate attention of management to allocate resources to implement necessary control (s) or action.

Medium – This is an important matter considered necessary to avoid exposure to significant risk.

Low – A minor issue that need to be addressed to enhance control environment or better value for money.



Government of Lesotho
Ministry of Finance
Internal Audit Division

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9. SUMMARY OF SIGNIFICANT OBSERVATIONS AND FINDINGS:

Ref No.	Description of Internal Audit findings	Risk rating
10.1	Lack of Policies and procedures for address ID and password management.	High
10.2	Use of administration rights by different system operators.	High
10.3	Lack of segregation of duties.	High
10.4	Some modules of the system not yet implemented	High
10.5	System does not generate required reports	High
10.6	Outstanding issues from user requirement	High
10.7	Multiple Logins using different computers.	Medium
10.8	Locking of budget ceilings.	Low
10.9	No amendments can be made on closed budget.	Low



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SECTION B

10. DETAILED OBSERVATIONS/ FINDINGS AND RECOMMENDATIONS:

10.1 Lack of Policies and procedures for address ID and Password management:

Standard

Section 21.3.7 of the contract between the Ministry of Finance and Softech Consultants Limited states “CBMS has application system security with options for user security, menu security, process security and field security, with single sign on an account, log out policy and password policy, the complexity requirements for user account password and actions required when users fail to log into application can be determined including setting period for the password to expire. System audit trail with various logging options are available given flexibility to record the level of information required”.

Condition

Contrary to the above-mentioned agreement clause, there is no documented and approved policy and procedure to guide address ID and



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password management in the system, as a result, there is lack of guidance for system administrators and operators to minimise data entry errors.

Cause

Non - compliance with the terms of the contract by the Service provider.

Effect

- Access to files and other resources by unauthenticated/unauthorised persons may occur.
- Other Authenticated users may intentionally execute functions they are not authorised to perform.
- This may also result into unauthorized modification, loss and disclosure of information due to lack of controls to computer resources.

Risk rating - High

Recommendation

- Management must develop and implement password policy as required by the contract in order to minimize access errors risk and provide users with necessary logical access controls and/or guidance.



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- The system should be configured in such a way that it prompts changes on logical access control to various users after a certain period to avoid unauthorised access.

Management Response

- *The issue has been addressed. The password requires special cases when created and expires after four months.*
- *There is no password policy yet, but we are using the Standard Financial Procedure for password used in any financial system globally. We further think the Ministry should develop password policy.*

10.2 Use of administration rights by different system operators:

Standard

Functional requirements for the integrated planning and budgeting system section 3.1.1.2 requires that the security in the system be managed based on roles or profiles. This multi-tier security should allow for operations of required functions at the appropriate delegated level.



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Condition

All staff from budget department have been allocated admin/super user access rights, this allows any user to perform most if not all the functions within a computer operating system without any restrictions.

Cause

According to the explanation from budget officers the system does not allow them to perform certain functions within their portfolios.

Effect

Access to conflicting menus by users which may lead to misappropriation of funds.

Risk rating - High

Recommendation

The roles and responsibilities of system administrator should be assigned to one or two persons at the most, such that other system operators are restricted from certain functions that are outside their span of authority.

Management Response

Management has solved the problem, only two identified CBMS users from Budget Department have been allocated admin/super rights. Other staff members user rights are restricted to their daily functions.



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10.3 Lack of segregation of duties:

Condition

There are no lines of responsibilities for different system operators such that one can perform a transaction from the beginning to the end. for instance, the budget officer can receive and review request for issue of warrant through the system, release funds, post and approve the request/warrant.

Cause

- There is no formal document outlining lines of responsibilities for different system operators/users.
- The system is not configured to confine individual users to work within their respective portfolios.

Effect

Errors or misappropriation could occur and not be detected in a timely manner as there is lack of checks and balances controls.

Risk rating - High

Recommendation

System operators should be allocated access to menus according to their different responsibilities.



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Management Response

There are groups in the system and each group has its own role and responsibility as recommended.

10.4 Some modules of the system not yet implemented:

Standard

According to Functional Requirements Specifications 3.9.3.1 The process of approval of virements shall be automated in the CBMS so that various manual steps in the existing system could be eliminated as well as level of accuracy is improved.

Condition

Processing of virements and RIE's are still performed manually whereas according to the Functional Requirements Specifications such activities were supposed to be automated in order to improve efficiency, better use of resources and saving of time in the budget cycle.

Cause

The explanation given was that some modules of the system were not yet implemented.



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Effect

- Some line items may appear to have funds though the funds have already been spent.
- Multiple virements may be obtained for the same purpose, using the same documentation.

Risk rating - High

Recommendation

- Management must ensure that outstanding/pending issues are delivered as per service level agreement, and
- Any weaknesses identified during validation workshop must be raised and addressed prior to project completion.

Management Response

- *There is an ongoing exercise regarding these issues.*
- *Noted, however the project has already been completed.*

10.5 System does not generate reports:

Standard

Section 3.1.1.3 of the Functional Requirements Specifications indicates that, the requisite reports at each stage shall be available for



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the users and these reports shall be viewed on the screen, saved in Excel, printable or could be saved in pdf form.

Condition

In an interview with some members of the staff the IA team discovered that the system does not meet some of the required specifications which includes among others generating and transferring reports electronically, instead system operators are obliged to compile them manually.

Cause

some modules are not yet updated/implemented.

Effect

- Reports are not available instantly as they are compiled item by item which is time consuming and exposed to errors.
- Information may be incorrectly captured resulting into uninformed decision made by management.



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Risk rating - High

Recommendation

Management must ensure that all functions of the system are covered at the testing stage, so that when it goes live everything functions as intended.

Management Response

Noted.

10.6 Outstanding issues:

Condition

Some of the required or planned activities have not been addressed by the system even after the upgrade as evidenced by a list of CBMS issues obtained from budget department during the audit. Refer to **annexure 1**.

Cause

Non-involvement of all stakeholders during system development process.



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Effect

- This may result into loss of financial resources to the Ministry resulting from payment for partially delivered services.
- Intentional and unintentional errors may occur which will lead to failure to achieve the objectives of the department.

Risk rating – High

Recommendation

- The Supplier should attend to outstanding issues urgently as they are long overdue.
- End user participation during system development is crucial as they understand the processes better, associated challenges and know the system weaknesses.

Management response

- *Ongoing, currently the supplier is working on the payroll budgeting and the cash planning modules.*
- *End users are currently being engaged in the development of the payroll budgeting and the cash planning modules.*



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10.7 Multiple Logins using different computers:

Standard

Section 21.3.7 of the contract between the Ministry of Finance and SoftTech consultants Limited states “CBMS has application system security with options for user security, menu security, process security and field security, with single sign on an account, log out policy and password policy, the complexity requirements for user account password and actions required when users fail to log into application can be determined including setting period for the password to expire. System audit trail with various logging options is available given flexibility to record the level of information required”.

Condition

The system allows multiple logins at same time, such that one operator could log in into the system for another who might misuse that by performing sensitive activities such as posting and approving where s/he is not supposed to, while s/he performs tasks on the other computer.



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Cause

System has not been developed in such a way that it will log itself off when you log in on another computer.

Effect

- Erroneous data entry may be captured by personnel who does not have right credentials, and
- Processing and approval of transactions by unauthorized persons.

Risk rating - Medium

Recommendations

- Develop a policy which does not allow sharing of credentials as to minimise multiple login.
- System should be designed in such a way that it automatically logs itself off when you log in on another computer.

Management Response

- ***The issue of multi-logging has been addressed and works perfectly. User cannot access more than one computer.***



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- *This has been addressed. The system logs itself off automatically when not being used and when logging in another machine.*

10.8 Locking of budget ceilings:

Standard

According to the contract between MoF and Service provider section 21.3.3 the system enables to capture the expenditure ceiling at Head, subhead and account type, it can also be configured to capture the project ceiling, this will determine the funding that is available for each vote and will be the basis from which the expenditure ceilings will be determined. The Resource Envelope cannot exceed the limits set by the macro fiscal framework.

Condition

A control mechanism has been adopted with the new system (Central budgeting management system), which allows locking of ceilings for Ministries after budget has been allocated to curb unauthorized excess spending.

Effect

With this new development the risk has been minimised to an acceptable level as overspending of budget is no longer experienced, while in the past Ministries could easily exceed their approved budget ceilings without any hindrance and ultimately distort the entire government financial plans.



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Risk rating - low

Comment

Improved control over budget ceilings is realized, the department should maintain the standard and continue to improve the budget process.

Management Response

Noted.

10.9 No amendments can be made on closed budget.

Condition

The system is designed in such a way that no amendments can be made once the budget is closed, only view option becomes available.

Effect:

No unauthorised changes can be made once the budget is closed, changes can only be affected during budget process.

Risk rating – low

Comment:

Changes that were usually effected after budget is closed are addressed by this control measure.



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Management Response

Noted.

SECTION C

11. Conclusion:

- The Internal Audit team advice management to address pending issues with the supplier urgently in order to minimise risk to the acceptable level.
- The Internal Auditors will perform a follow-up and further application test of controls as a separate exercise.

12. Acknowledgement:

Internal Audit staff would like to thank budget staff for their cooperation in availing the necessary information and themselves throughout the exercise, and most importantly enthusiasm shown by budget Management for implementing recommendations without which this exercise would not be a success.

Prepared by: Lit'sepiso Khoabane

Rethabile Nkhabu

Supervised by: Matebello Lebesa