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Peterborough City Council

Report to Management

2012/13

21

Government and
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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Introduction

The purpose of this report

We reported the significant matters arising from our audit in our “*Report to the Audit Committee of the Authority on the audit for the year ended 31 March 2013 (ISA (UK&I) 260)*”, which we presented to the Audit Committee on 23 September 2013. In that report, we noted that there were no significant deficiencies in internal control to bring to your attention and that we would report minor internal control issues separately to management and then present these to the Audit Committee. This report details these matters which we have identified during the interim and final audits of the 2012/13 accounts.

The matters included in this report are those that came to our attention as a result of our normal audit procedures. Consequently our comments should not be expected to include all possible internal control weaknesses that a more extensive and specific investigation might identify. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any other third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to take this opportunity to thank your staff for their assistance and the co-operation extended to us during the course of this review.

Progress against prior year findings

It is positive that all of the recommendations raised during previous years’ audits have been addressed and hence have not been repeated in this report. However, we have noted 10 new control issues from our 2012/13 audit.

Categorisation of findings

Each recommendation has been allocated a priority rating to reflect the degree of importance in the context of Peterborough City Council’s internal controls. The definition of ratings is as follows:

Priority	Definition
High	Significant weaknesses that could undermine the effectiveness of the system of internal controls or have a significant impact on business operations and must therefore be addressed immediately.
Medium	Weaknesses that could reduce the effectiveness of the system of internal controls or could disrupt business operations, but which are not fundamental. They should be addressed as soon as possible.
Low	Improvements that represent best practice or opportunities to enhance efficiency or control. The finding will not necessarily imply inadequate control.

Summary of Controls Findings

This section summarises the recommendations we have made as a result of our audit work in relation to information technology controls (“IT controls”) and internal controls identified during our interim and final audit work at the Council in 2012/13.

The findings detailed in the report are summarised as follows:

No.	Summary of Finding	Priority		
		High	Medium	Low
IT controls				
1	Monitoring of super-user transactions		x	
2	Technology Forge leavers report is not accurate			x
Other controls				
3	Monitoring of grant income		x	
4	Year end cut off procedures		x	
5	Process maps		x	
6	Serco – reconciliations			x
7	Authorisation of write-offs			x
8	System errors logged as write offs have not been appropriately investigated and authorised			x

No.	Summary of Finding	Priority		
		High	Medium	Low
9	Expense claim authorisation list is out of date			x
10	Invoice request forms are not consistent			x

Appendices

Appendix A: IT Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1	<p>Monitoring of super-user transactions</p> <p>There is no control in place to monitor the activities of super-users for the Academy or Technology Forge systems.</p> <p>There is a risk of unauthorised access to high level functionality within the system.</p> <p>However, we did not identify any exceptions from our testing of access to these systems.</p>	<p>A control should be in place to monitor the activities of super-users for the Academy and Technology Forge systems to mitigate the risk of unauthorised access.</p>	Medium	<p>Agreed</p> <p>Action: There will always be a risk around super user access to the Capita (Academy) system. The following measures are in place to mitigate the identified risk and reduce it to low. The access is tightly restricted to the systems administration role within Shared Transactional Services (five in total). This is via a secure admin password and user name and associated software that are only installed on user's specific PCs.</p> <p>PCC are working with Serco to implement suitable controls.</p> <p>Owner: Shared Transactional Services</p> <p>Timescale: Three Months</p>
2	<p>Technology Forge leavers report is not accurate</p> <p>The system generated report of leavers from the Technology Forge fixed asset system showed that no user access rights had been revoked in the year, however we are aware that some users have left and their accounts were terminated.</p> <p>Alternative procedures were performed and a list of all leavers obtained from HR and cross referenced to the system, however the control to ensure leavers are removed from the system would not operate effectively if the system generated report were used.</p>	<p>The issue with the system generated report should be resolved with the system administrator.</p>	Low	<p>Agreed</p> <p>Action: Report to be run each quarter however the report does not pick up the changes; the problem has been reported to the supplier Technology Forge who will resolve the problem.</p> <p>Owner: Richard Porter</p> <p>Timescale: Three Months</p>

Appendix B: Internal Control Findings

No	Observation and Risk	Recommendation	Priority	Management Response
3	<p>Monitoring of grant income</p> <p>A control was in place to centrally monitor grant income at the Council; all grants were tracked and receipts to the bank logged.</p> <p>This central control is no longer in operation such that individual departments are now responsible for monitoring expected grant income and receipts.</p> <p>From our testing we noted that departmental controls are not operating effectively as this is not being monitored in all cases.</p> <p>There is a risk that all grant income due to the Council may not be received and if remittances are not received that grant income receipts may be misallocated.</p>	<p>The central control previously in place was designed and operating effectively therefore it is recommended that this control is reintroduced, or appropriate controls are in place and operational at a departmental level.</p>	Medium	<p>Agreed</p> <p>Action: Departmental controls have been re-enforced. Updates at Operational Finance Meeting. Heads of Finance are aware of their responsibilities.</p> <p>Owner: Steven Pilsworth</p> <p>Timescale: Implemented</p>
4	<p>Year end cut off procedures</p> <p>It was identified that the Council's year end cut off procedures were not adhered to by the legal department. From our testing, it was noted that £138,000 was not appropriately accrued for, even though an invoice was raised for this income in April which related to March and therefore should have been included in the 2012/13 accounts.</p> <p>There is therefore a risk that transactions are accounted for in the incorrect period.</p>	<p>It is recommended that a review of the cut off procedures is performed to ensure appropriate accruals have been made. An additional control would also be to perform a review of post year end invoices raised to ensure that appropriate accruals have been made in the accounts.</p>	Medium	<p>Agreed</p> <p>Action: Introduced new report to identify payments/ invoices that have been raised/ receipted during March, April and May for review by departmental accountants to ensure transactions are accounted for in the correct year.</p> <p>Owner: Steven Pilsworth</p> <p>Timescale: Implemented</p>
5	<p>Process maps</p> <p>From our review of processes and procedures at Serco it was identified that no process maps are maintained.</p> <p>There is a risk that appropriate controls and processes are not in place if these have not been fully documented. We have also identified control weaknesses from our testing at Serco (as detailed in this report); fully documented controls and processes would clarify to individuals the appropriate procedures that need to be performed.</p>	<p>It is recommended that each key process is documented with the key controls identified and associated procedures documented.</p>	Medium	<p>Agreed</p> <p>Action: There are procedure notes in place, covering the key areas of work that the team undertake. As a result the risk is very low that the team will not follow the agreed processes in carrying out their work. There is also a plan within the service to review these procedure notes within the next six months to ensure they are accurate and fully reflect the way in which Serco works in partnership with PCC. Part of this review will be to map the key processes via a process mapping tool identifying both the different key tasks and activity</p> <p>Process Maps for the Payroll Team began to be</p>

			implemented in January 2013. These have now been fully implemented and will be reviewed annually.
			Owner: Shared Transactional Services
			Timescale: Six Months
6	<p>Sercos – reconciliations</p> <p>There are a number of reconciliations completed within council tax (CT), National Non-Domestic Rates (NNDR) and housing benefit (HB). In some instances, there is a lack of evidence of when these were completed, who completed the reconciliation and who performed a review of the reconciliation. Additionally some reconciliations were not sufficiently detailed to enable reperformance and therefore review by a more senior officer. There is therefore a risk that reconciliations are not being performed on a timely basis and may not be performed accurately.</p> <p>We noted:</p> <ul style="list-style-type: none"> a) No evidence of who performed or reviewed the raising of demands reconciliation for CT and NNDR (note this is performed annually); b) The daily reconciliation for CT and NNDR between the cash management system, Academy and Oracle is not sufficiently detailed to allow reperformance and therefore review, and the date was not recorded on which the monthly reconciliation has been performed for the three months tested; c) Before 23 October 2012, there is no evidence of review of the daily cash reconciliation for CT and NNDR. No exceptions were noted from our sample after this date; d) Before July 2012, there is no evidence of who completed the reconciliation between Academy and Oracle for refunds. No exceptions were noted from our sample after this date; e) From a sample of five reconciliations, there was lack of evidence of who performed one of the reconciliations of total properties per the VOA listing and the Academy system; f) For the reconciliations performed 	All reconciliations completed by staff should be dated and signed by the individual performing the reconciliation, and should also be reviewed and evidenced as reviewed by a more senior member of staff.	<p>Low</p> <p>Agreed</p> <p>Action: a) This will be done ongoing from this year end onwards;</p> <p>b) The system totals are cumulative so any error would be carried over every day until corrected. Any failure to do this would be detected on the monthly reconciliation which is done by a different officer, and this check is then verified by a third officer. Capita batch programs relating to this reconciliation are removed after 3 months as part of housekeeping. The monthly reconciliation is verified by a second officer. Emails confirming reconciliation has been done and has been checked are stored, so the date of the checking can be confirmed by the email;</p> <p>c) This was introduced as an outcome of the previous audit review, ongoing since October 2012;</p> <p>d) This was introduced as an outcome of the previous audit review, ongoing since July 2012;</p> <p>e) The schedule in question was actioned correctly and did balance. The schedule itself was countersigned by a member of staff, it was the screen shot that was not. A reminder will be sent round to staff to remind them to countersign both the schedule and the screen shot;</p> <p>f) This has been fully remedied (note: previous audit recommendation was also fully remedied in August 2012, and this has been the maintained position since this date); and</p> <p>g) This reconciliation is completed by PCC and the procedure will be adjusted to incorporate the changes required within 3 months.</p>
			The Council will seek assurances that these controls are maintained moving forward.
			Owner: Shared Transactional Services/Strategic Finance
			Timescale: Implemented/Three Months

between Rent allowances per the creditor system and the HB system, for the five reconciliations selected there was no evidence maintained on file of who prepared it or on which date. For the reconciliations between the CT benefit per the creditor system and the HB system, there was no evidence maintained of who prepared this prior to August 2012. For both reconciliations, there was no evidence maintained of second officer review; and

- g) For the reconciliation of rent allowances, rent rebates and CT benefits between Academy and Oracle, for the three months selected no evidence was maintained on file of who prepared them, on which date, and whether they were reviewed by a second officer.

7	<p>Authorisation of write-offs</p> <p>It was noted that the authorisation of write-offs was not in-line with the agreed arrangements between Serco and the Council.</p> <p>The notice of change issued to Serco by the Council 17 April 2012, states that "Any write offs for sundry debts (whatever the amount of the debt) will continue to be referred by the Partner to the Authority's Representative for determination". However Serco has been applying the previous policy that Heads of Service can authorise write offs under £5,000. There is a risk that unauthorised write offs may be made.</p>	<p>The policy should be confirmed with Serco and adherence should be monitored by the Council.</p>	Low	<p>Agreed</p> <p>Action: Serco have had the position clarified they will ensure that all write-offs are put through the 'authority's representative for determination'.</p> <p>Owner: Shared Transactional Services</p> <p>Timescale: Implemented</p>
8	<p>System errors logged as write offs have not been appropriately investigated and authorised</p> <p>During testing of a sample of 25 NNDR write offs, two were noted to be due to system errors, rather than genuine write-offs. These did not follow the standard authorisation process and the system team could not find evidence of these errors being logged and investigated.</p> <p>There is a risk that write-offs are processed manually without being authorised, and described as system errors.</p>	<p>All write-offs should be authorised and where system errors occur these should be fully investigated and authorised.</p>	Low	<p>Agreed</p> <p>Action: Serco will ensure that for any cases where the 'write-off' code is used, the case has been thoroughly investigated, the code applied correctly and approved by the relevant authorised officer'.</p> <p>Owner: Shared Transactional Services</p> <p>Timescale: Implemented</p>

<p>9 Expense claim authorisation list is out of date</p> <p>Serco holds a list of authorised signatories for all expense claims to be processed, however this has not been recently reviewed and is out of date.</p> <p>There is a risk that unauthorised expense claims may be processed.</p>	<p>It is recommended that the signatory list is regularly reviewed and updated.</p>	<p>Low</p>	<p>Agreed</p> <p>Action: This has been raised with internal audit prior to this report. A review is to be undertaken with input from internal audit with a view to review the authorised signatories and review the process.</p> <p>Owner: Payroll</p> <p>Timescale: TBC (pending inclusion in internal audit plan)</p>
<p>10 Invoice request forms are not consistent</p> <p>Invoice request forms sent by the Council to Serco are not consistent.</p> <p>This is a best practice point which would aid efficiency.</p>	<p>For consistency and efficiency, it is recommended that a template form is created and circulated for use for all invoice requests.</p>	<p>Low</p>	<p>Agreed</p> <p>Action: There are standard forms contained on 'Insite' that should be used for Invoice Requests. Serco reject any Invoice Requests that are not on the templates.</p> <p>Owner: PCC</p> <p>Timescale: Implemented</p>



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