Peterborough City Council Statement of Accounts 2008/09

Interim Audit Report to Management

PRICEWATERHOUSECOOPERS 🅿

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Peterborough City Council
Town Hall
Bridge Street
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October 2009

Dear John

Peterborough City Council: Interim Audit Report to Management 2008/09

Please find enclose our Report to Management, summarising those issues arising from the interim accounts audit in 2008/09.

Yours faithfully

PricewaterhouseCoopers LLP

Enclosures

Copies to:

Helen Edwards
Steven Pilsworth
Steve Crabtree
Kirsty Nutton
Jo Hall
Andy Cox
Peter Dickman

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

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies' which applies to the 2008/09 audit. 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.

Executive Summary

The purpose of this report

This report outlines the matters we consider should be brought to the attention of management. This includes those findings identified during our review of the underlying Information Technology General Controls ("ITGCs"), which took place in May and June 2009, to support the statutory audit process. In addition, we have included in the report those issues identified during our interim audit work at the Council. We did not issue a report to management last year following the interim audit, as issues were reported in the Business Process Mapping report issued to management in April 2008. We will discuss with management in due course the procedure for following up this report.

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 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.

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 should 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.

This is a draft report (that has been prepared for discussion purposes). This report does not constitute our final views, which will only be expressed in our final written report. As a result, any views in this report may be subject to change or amendment (following discussion with you).

Summary of Information Technology General Controls (ITGCs) findings

This section summarises the recommendations we have made as a result of our audit work in relation to ITGCs.

The findings detailed in the report are summarised as follows:

No.	High Level Finding	Priority		
		High	**Medium**	**Low**
1	Lack of periodic review of user access rights within Oracle Financials	✔		
2	Lack of evidence over new user authorisation to Oracle Financials		✔	
3	Use of generic, privileged user ID's		✔	
4	Lack of evidence that leavers are removed from Oracle Financials		✔	
5	Lack of change management systems testing documentation		✔	
6	Lack of handover of technical documentation		✔	
7	Lack of testing of Oracle Financial patches		✔	
8	Lack of review and documentation of ICT policies			✔
9	Lack of periodic testing of backup media			✔
10	Lack of Disaster Recovery testing over Oracle Financials			✔

Detailed ITGC Findings:

No.	Observation and Risk	Recommendation	Priority	Management Response
1.	**Periodic Review of user access rights within Oracle Financials** There is currently no formalised process in place over the periodic review of user access rights for the Oracle Financials application. Staff with incompatible duties may exist within Oracle Financials without being detected, thereby increasing exposure to inappropriate, unauthorised or fraudulent activity. Inactive and/or terminated staff could retain access to the critical Oracle Financials application, thereby increasing exposure to inappropriate, unauthorized, or fraudulent activity.	Periodic reviews, at least annually, should be performed in conjunction with the business over the Oracle Financials application. This will help to ensure that user access levels remain commensurate with current job roles. Upon review any access levels that are deemed inappropriate should be immediately removed.	**High**	**Agreed** **Action**: Introduce procedure to ensure user access rights are reviewed at least annually. **Owner**: J Hall **Timescale**: Jan 2010

No.	Observation and Risk	Recommendation	Priority	Management Response
2.	**New User Authorisation to Oracle Financials** From a sample of 15 new users added to Oracle Financials within the audit period, 11 did not have the appropriate approval e-mail attached to the new user form. As such appropriate evidence of authorisation does not exist for these 11 samples. It was explained by the Oracle Systems Team that users are never granted access to Oracle Financials without appropriate e-mail authorisation, however, due to the sometimes complex nature of Oracle Financials new user set ups e-mail approvals are often difficult to locate once the new user set up is complete. This may lead to an increased risk of unauthorised access by business users or IT users to data that causes data destruction or improper amendment of records.	Management should improve the process over new user and change requests to Oracle Financials. The e-mail authorisation for new user and changes to access must be attached to the new user request form in all cases.	**Medium**	**Agreed** **Action**: Staff involved with process are to be made aware of the required procedure and random checks performed to ensure compliance. **Owner**: J Hall **Timescale**: Oct 2009
3.	**Use of generic and privileged user ID** The ICT Senior Systems engineer does not have a unique ID on the UNIX Oracle Financial Database server, instead this user logs onto this server using the privileged generic ORAMAST User_ID. This may lead to the inability to trace transactions or changes made to critical financial data, applications, and systems to an individual user for accountability and resolution.	Inability to trace transactions or changes made to critical financial data, applications, and systems to an individual user for accountability and resolution. A unique User_ID should be created on the UNIX Oracle Financial Database server. This user ID can then be used to 'SUDO' to the privileged generic ORAMAST User_ID when required.	**Medium**	**Agreed** **Action**: Unique user id to be created to improve accountability. **Owner**: P Dickman **Timescale**: Oct 2009

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No.	Observation and Risk	Recommendation	Priority	Management Response
4.	**Leavers from Oracle Financials** Evidence could not be provided to confirm that all leavers within the audit period have been 'End Dated' within the Oracle Financials application. Although the Oracle Systems Team receive a monthly report of leavers from HR, from which appropriate Oracle users are 'End Dated' within the application, these reports were only available for review for 3 out of the 12 months during the financial audit period. Moreoverthe Oracle systems team are aware of users who have left and were not included within the HR monthly leavers list. Inactive and/or terminated staff could retain access to critical financial systems and applications, thereby increasing exposure to inappropriate, unauthorized, or fraudulent activity. Additionally, there is an increased risk of inappropriate or unauthorized transactions or changes to data.	Management must ensure that the monthly reports received from HR are annotated with the actions performed and retained indefinitely. Moreover, the process should be strengthened to ensure that all leavers are included within the monthly HR leavers list.	**Medium**	**Agreed** **Action**: Staff involved with process are to be made aware of the required procedure and random checks performed to ensure compliance. **Owner**: J Hall **Timescale**: Oct 2009

No.	Observation and Risk	Recommendation	Priority	Management Response
5.	**Change Management systems testing documentation** For the AP phase 2 change selected for testing, system testing documentation is not available due to sudden departure of the third party contractor performing the changes. Lack of system testing documentation increases the risk that adequate testing is not performed for changes affecting mission critical applications or systems. Lack of testing increases the risk that system stability, processing, and data quality are not in line with management expectations.	Management should ensure that all documentation relating to system changes performed by contract staff are stored on the PCC network, and thereby available to PCC at all times. Management should perform periodic review of change documentation to ensure it is in line with management expectations.	**Medium**	**Agreed** **Action**: No changes made will be implemented without documentation being available and checked for completeness. Documentation will be filed in a designated network folder. **Owner**: P Dickman / J Hall **Timescale**: Oct 2009

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No.	Observation and Risk	Recommendation	Priority	Management Response
6.	**Handover of technical documentation** There are known weaknesses over the quality and management of technical documentation for changes made to Oracle Financials, as documentation is not always provided to ICT by contractor staff making changes. As technical documentation is not always created the required handover to PCC ICT staff is often not performed. As such, ICT personnel do not always have a clear technical understanding of changes that are made to IT systems, making the ongoing support of the application after such changes more difficult. Lack of technical documentation after system changes increases the risk over the inability to access data as required, arising from excessive systems downtime (resulting in inability to recover the situation and accurately record the backlog of transactions).	When system changes are performed by contractor staff, management must ensure that adequate technical documentation is always produced. This documentation must then be given to the appropriate ICT support staff via a robust handover process, including technical training where deemed necessary.	**Medium**	**Agreed** **Action:** No changes made will be implemented without documentation being available and checked for completeness. Documentation will be filed in a designated network folder. **Owner:** J Hall / P Dickman **Timescale:** Oct 2009
7.	**Testing of Oracle Financial patches.** For 1 of the 2 Oracle Financials system patches sampled for testing, management were unable to provide evidence that the patch was tested prior to implementation to the production environment. This may lead to the increased risk of potential loss of data or inability to access data as required, arising from excessive systems downtime if system patches are not tested prior to implementation to the production environment.	Management must ensure that adequate testing is performed over all Oracle Financials systems patches prior to implementation to the production environment.	**Medium**	**Agreed** **Action**: No Oracle patches will be implemented without adequate. Evidence of testing will be filed in a designated network folder. **Owner**: J Hall / P Dickman **Timescale**: Oct 2009

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No.	Observation and Risk	Recommendation	Priority	Management Response
8.	**Review and documentation of ICT policies.** Some policy documents, such as the ICT security policy have not been updated for several years. In addition, some documents do not detail when the policy was last updated and who the document owner is. An out of date ICT security policy increases the likelihood that relevant information integrity risks may not be adequately addressed.	As a matter of best practice, key policy documents should be reviewed on an annual basis and documentation should clearly identify when the last update was made and who the document owner is.	**Low**	**Agreed** **Action**: Some policies have been reviewed and updated as part of the compliance with Government Connect. Other policies will be reviewed as part of the ICT Managed Service project. **Owner**: M Gregson **Timescale**: Sept 2009 – Dec 2009
9.	**Periodic testing of backup media containing financially significant data.** No formal proactive testing of UNIX backup media is performed; as such there is an increased risk that financial data may be irrecoverable in the event of system failure. However, the risk of any loss of financial data is significantly reduced as all financial data is replicated in real time to an off site third party location. There is an increased risk over the potential loss of data or inability to access data as required.	Formal periodic testing should be performed on all backup media containing financial data to ensure that financial data can be recovered if required.	**Low**	**Agreed** **Action**: Operational procedures will be reviewed and updated as part of the ICT Managed Service project **Owner**: M Gregson **Timescale**: Dec 2009

No.	Observation and Risk	Recommendation	Priority	Management Response
10.	**Disaster Recovery over Oracle Financials.** A full DR test over Oracle Financials has yet to be performed. However, as all Oracle DR documentation is near completion, discussions with the user community over a full DR test for the Oracle e-suite of applications have commenced with full DR testing to be performed by October 2009. There is the risk that in the event of a disaster recovery situation being invoked, IT systems will not be successfully reinstated on a timely basis.	Management should ensure that the plan to perform a full Oracle Financials Disaster recovery test by October 2009 is continued through to completion	**Low**	**Agreed** **Action**: Some testing of the disaster recovery has taken place in Aug and Sept. Testing to be completed in October. **Owner**: P Dickman / J Hall **Timescale**: Oct 2009

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Summary of Internal Control findings

This section summarises the recommendations we have made as a result of our audit work in relation to internal controls identified during our interim audit work at the Council.

The findings detailed in the report are summarised as follows:

No.	High Level Finding	Priority		
		1	2	3
11	Contract Register		✔	
12	New Suppliers		✔	
13	Payroll Reconciliations			✔

Detailed Internal Control Findings:

No.	Observation and Risk	Recommendation	Priority	Management Response
11.	**Contract Register** The Council maintains a contract register listing details for significant contracts in excess of £50,000. The Legal Department should be advised of any new contracts, and rely on officers making them aware of any new contracts. However, there is no formal mechanism in place to ensure that all contracts are reported to the Legal Department, and no other proactive completeness checks are carried out to ensure the register is kept up to date. There is a risk that all contracts may not be identified and included on the register. This is particularly an issue given the requirements surrounding financial instruments, whereby the Council will need a full and complete list of contracts to assist in identifying any financial instruments. We understand that the Contract Management Module is now implemented and the Council is in the process of uploading data into the system, targeting major projects in the first instance. I personally will be switching to a project based role for the foreseeable future and one of my main tasks is to embed the Contract Management tool across the authority. Transport and Engineering Services and Children Services have expressed an interest in being the pilot areas of the authority for implementation. Training for these areas is taking place on the 2 November 2009.	The Council should use the new contract management tool to ensure that all contracts are recorded on a central database, and that this is maintained and updated appropriately.	**Medium**	**Agreed** **Action:** The contract register will be automated from 1 November 2009. All procurement activity of £5K and over (this may be adjusted to £10K and over) is intended to be captured on the new system. The Corporate Procurement Unit has identified Procurement Champions within each directorate (the respective Heads of Business Support) who will be responsible for maintaining the Contract Register on behalf of their department. In addition, to support the Procurement Champions, Procurement Agents have been identified and are to be trained (training taking place on November 2nd) to collate and upload data relating to contracts onto the system. Training and guidance will be extended to procuring officers across the Council through a communications programme. As part of the implementation of Phase 2 of the Contract Register, the system used by Legal Services for collation of contract information (currently manual) will be added to the Contract Register. This will provide a central database of all detail relating to any particular contract. This, together with the actions highlighted above, will ensure details are kept up to date. **Owner:** Corporate Procurement Unit (Andy Cox) **Timescale:** From 1 Oct to 31 Mar 2010

No.	Observation and Risk	Recommendation	Priority	Management Response
12.	**New Suppliers** Currently, per the Council procedure notes, procurement staff are required to check company validity on the Companies House website and on Google prior to setting up a new supplier. However, on reviewing Supplierforce (procurement system) for confirmation that these checks had been carried out, it became apparent that there is no function on the system to confirm the checks have taken place. In addition, no manual evidence is retained. Discussion with staff identified that checks have only been made on a sample basis, rather than for each new supplier. Consequently, the Council is at risk from illegitimate suppliers being set up on the Supplierforce system. It is understood that there are other checks performed as part of the new supplier process that mitigate the extent of the risk of illegitimate companies being set up, including completion of the Supplier Data Health Check.	Staff should be reminded of the procedural guidance in place at the Council around the set up of new suppliers. All new suppliers should be checked for validity, and evidence of this check should be retained to ensure an appropriate audit trail is retained.	Medium	**Agreed** **Action:** The system (Supplierforce) will have the functionality to record when these checks have taken place and against which vendors. **Owner:** Procurement team. **Timescale:** From Sep 2009

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No.	Observation and Risk	Recommendation	Priority	Management Response
13.	**Payroll Reconciliations** Review of the payroll reconciliations identified a number of reconciling items which were several months/years old. As at the year end, a balance of £37k (gross figure) consisted of items over four months old. Although the value of these reconciling items is immaterial in relation to the statement of accounts as a whole, best practice suggests these should be cleared in a prompt/timely manner. We are aware the Council has a process in place to attempt to clear these items, including reviewing the payroll interface with Oracle to prevent errors occurring in the first instance.	The Council should endeavour clear reconciling items in a timely manner.	Low	**Agreed** **Action:** The Financial Accounting Team are devising a set of corporate accounting performance indicators, which include the main bank account reconciliations. The indicators will cover items such as the number of reconciling items, age of items, value of items, etc, and be reported to the Corporate Accounting Manager on a quarterly basis. The financial accounting team are working more closely together with the Payroll team, with both teams clearing reconciling items a within the following month. A view to the more historic items will be taken by the beginning of October, as some have been cleared since this audit report was written. **Owner:** Corporate Accounting Manager **Timescale:** Oct 2009

In the event that, pursuant to a request which Peterborough City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Peterborough City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Peterborough City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Peterborough City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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