AUDIT COMMITTEE	AGENDA ITEM No. 7.2
7 NOVEMBER 2011	**PUBLIC REPORT**

Committee Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources	Tel: 452398
	Steven Pilsworth, Head of Strategic Finance	Tel: 384564

UPDATE TO THE EXTERNAL AUDIT REPORT TO MANAGEMENT - INTERIM AUDIT 2010/11 ACCOUNTS

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director Strategic Resources	**Deadline date : N/A**
The Committee is asked to consider the Management Update to the Report to Management: Interim Audit 2010/11 produced by PricewaterhouseCoopers (PwC)	

1.   **ORIGIN OF REPORT**

1.1   The 'Report to Management - Interim Audit of the 2010/11' was presented to the Audit Committee on 26th September, and at this meeting the Committee requested an update as to the management progress against the PwC recommendations.

2.   **PURPOSE AND REASON FOR REPORT**

2.1   The report forms part of the presentation of various reports through out the year from PricewaterhouseCoopers (PwC), the Council's external auditors.   There reports are presented in accordance with the Committees' Terms of Reference – *2.2.6 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance*.

3. **TIMESCALE**

Is this a Major Policy Item / Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	N/A

4. **KEY ISSUES**

4.1   During the year, PwC have undertaken various reviews on behalf of the authority.   The Interim Audit report contains various control and system issues identified during the course of their work.

4.2   Each recommendation was agreed with senior management and actions against each recommendation noted.   Appendix 1 provides an updated commentary for each recommendation since the report was originally produced in August 2011.

4.3   All recommendations have either now been met, or are in progress with deadlines for completion identified.

5.   CONSULTATION

The Report to Management and action plan has been shared with the Corporate Management Team, and actions agreed by senior management at various times before being finalised.

6   ANTICIPATED OUTCOMES

Acknowledgement of the attached report which updates the progress made in meeting the remaining outstanding recommendations within the Report to Management on the Interim Audit of the 2010/11 accounts.

7   REASONS FOR RECOMMENDATIONS

Audit Committee to note the contents of the report and to comment on issues identified within the various commissioned works.

8   ALTERNATIVE OPTIONS CONSIDERED

None.

9   IMPLICATIONS

Implications have been identified separately in each agreed Action Plan.

10   BACKGROUND DOCUMENTS
Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Report to Management – Interim Audit 2010/11

11   APPENDICES

- Appendix 1 – Management Update to the Report to Management 2010/11

Outstanding Recommendations from Report to Management - Interim Audit for the 2010/11 Accounts

Appendix A: ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1	**Password controls for Oracle are not compliant with best practice and/or Government Code of Conduct**. The minimum length for passwords should be 7 characters in line with best practice and/or the Government Code of Conduct. For Oracle the minimum password length is 6 characters.	Increase the minimum length of password for Oracle from 6 characters to at least 7 characters.	**Low**	Management considers that as this is a low priority, the current passwords are controlled (renewals forced and no repeats, and a mix of numbers and letters required),. The Council will review if a future system upgrade plan provides a suitable opportunity. **Responsible Office**: Gavin Diaper, ORACLE Manager
Update October 2011				
In progress, no further update.				

Appendix B: Update on 2009/10 ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
2	**Financial systems and Academy systems teams can process transactions** Staff performing administrative activities for these systems, such as changing user access permissions in the Oracle Financials ledger system and the Academy revenues and benefits system, also have the ability to process financial transactions. System administrators should not process	The Council should identify and review changes to user accounts, to ensure that the risk of segregation of duties being compromised is mitigated.	**Medium**	**Partially Agreed** **Action**: With the move to the new structure for Shared Transactional Services the segregation of duties relating to Accounts Payable will be in place. For the Academy system (Council Tax / Business Rates / Housing Benefit) it is not possible to fully segregate duties, due to the work requirements of the systems team, this is a known and accepted risk, currently reviewing processes to

No.	Observation and Risk	Recommendation	Priority	Management Response
	financial transactions, as they are in a position to override segregation of duties controls. For example staff could grant themselves access to both process and approve purchase orders, change supplier account details, or create a bogus user account to override existing controls, and reverse the changes afterwards to mask this			ensure risk is minimised. **Owner:** D Moss, Operational Support Manager J Cox, Systems & Support Team Leader **Timescale**: 31 January 11

Update October 2011

In respect to both the capita (academy) system and the oracle financial system, the Council has reviewed changes to user accounts to ensure that there is segregation of duties. In respect of the former, this is already in place whilst in respect of the latter, this is due to be in place by the end of November 11. For both systems, and the system admin role, the Council has granted permission to those colleagues undertaking this role which means that there is not full segregation of duties. However, this is an accepted risk as the very nature of system admin requires that those undertaking the role have an enhanced level of system access. In addition to this, it is understood by those involved, that there is clear guidance in place that must be adhered to at all times and that if they deviate from it the matter becomes a disciplinary one. Finally whilst all transactions put through on the oracle financial system are preserved and are fully auditable (only Serco have the access to delete them) the position regarding the capita system is different. In respect to this system, there remains the risk, albeit a mitigated one, that the transaction(s) could be removed due to a level of system access in place within the service, however as previously stated this has been fully reviewed and is an accepted risk.

No.	Observation and Risk	Recommendation	Priority	Management Response
5	**Periodic review of user access rights within ResourceLink** A quarterly review of user access rights in ResourceLink was performed until the HR Shared Services Manager left the Council. No such review has been performed since November 2009. This increases the risk that Officers with incompatible duties may exist within ResourceLink, without being detected. Furthermore, inactive and/or terminated staff	Periodic reviews of user access rights should be performed (at least annually). This will help to ensure that user access levels remain commensurate with current job roles. Any access levels that are deemed inappropriate should be immediately	Low	**Agreed** **Action**: Procedure for system access (granting and access level) for all systems used within Shared Transactional Services to be reviewed, with all access requests being retained for future reference. **Owner**: D Moss, Operational Support Manager J Cox, Systems & Support Team Leader **Timescale:** 31 December 10

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No.	Observation and Risk	Recommendation	Priority	Management Response
	could retain access to the application. These risks increase the Council's exposure to inappropriate, unauthorized or fraudulent activity	removed		

Update October 2011

A 'user access rights' review regarding the ResourceLink (payroll) system has been re-instated. It is to be conducted half-yearly; the first of these reviews is to be completed by the end of October 11.

No.	Observation and Risk	Recommendation	Priority	Management Response
6	**Disaster recovery of financial systems** Disaster Recovery testing of the Academy revenues and benefits system has not been performed and no disaster recovery plan was available. There is an increased risk that in the event of a disaster recovery situation being invoked, these systems will not be successfully reinstated promptly.	The disaster recovery plan for the Academy system should be formalised and tested. Formal testing of disaster recovery plans should be performed periodically and after system or infrastructure changes to ensure they are fit for purpose.	**Increased to Medium in this report due to the passing of time**	**Agreed** **Action**: Disaster recovery plan for the new Shared Transactional Service is being formulated. This requirement will be discussed with Serco with a view to formalising the actions required to re-instate the Academy system and ensure adequate testing of the disaster recovery plan is undertaken. **Owner:** D Moss, Operational Support Manager **Timescale:** 31 March 11

Update October 2011

The whole area of disaster recovery has been reviewed in respect of this system and the other systems used in the service, however there is no written disaster recovery plan for the capita system. Certain scenarios have been considered / discussed around the capita system, and these will be fully documented by the end of November 11. This will show the impact and provide an appropriate course of action to be taken. In addition to this, information has been provided to Serco and the resilience team as part of the wider DR work that is being undertaken. In terms of the resilience around

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No.	Observation and Risk	Recommendation	Priority	Management Response
	DR for shared transactional services, there are 30 officers who are able to work from home (permanently and on an ad-hoc basis), in addition to this, thin client is being rolled out across the service, which will enable officers to work from any location and have the same access to the systems (including capita).			

Appendix C: Update on 2008/09 ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
7	**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 personal User_ID should be created on the UNIX Oracle Financial Database server. This account can be given the privileges of the generic ID needed by the Senior Systems Engineer, using a system tool such as Sudo when required.	Medium	**Agreed** **Action**: Unique user id to be created to improve accountability. **Owner:** P Dickman **Timescale**: Oct 2009
	Update October 2011 - Now met This has now been completed and the Council complies with the recommendations that a unique user ID is created to improve accountability.			

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.	**Increased to Medium due to the passing of time**.	**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

Update October 2011

The ICT Client Team are currently reviewing all ICT Policies in line with the new front and back office functions being introduced by the Council and Serco. The Members ICT Policy and the Mobile Phone Policy have recently been amended and are awaiting final approval, and work is underway to complete the review of the remaining policies by year end.

No.	Observation and Risk	Recommendation	Priority	Management Response
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.	**Increased to Medium due to the passing of time**.	**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

Update October 2011 - Now met

The centralised backup regime introduced in 2011 incorporates regular testing of the backups which are also verified at the point of backup. The testing involves a testing a selection of backups to ensure restores can be performed. This is based on the tape drives used to ensure that we don't have a situation with a faulty drive rendering a set of backups unusable..

Appendix D: Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1	**Random data quality checks for council tax and NNDR are not being completed**. Random data quality checks have not been completed since 1/11/2010 for Council Tax or NNDR due to the demands being placed on resource after the restructure. Prior to that data quality checks were being completed with no exceptions noted.	Resume the random data quality checks for council tax and NNDR as soon as possible.	Medium	**Agreed** **Owner:** D Moss, Operational Support Manager

Update October 2011

Weekly council tax checks re-commenced in February 11 upon the completion of comprehensive legislative training that was delivered to all processing and technical staff in the income team. These checks now also focus on other arrears of risk, which have been identified, i.e. class F and class L exemptions. Between February 11 and March 11, a total of 193 accounts were checked, whilst between April 11 and September 11 a total of 806 accounts were checked. In addition to this, further checks have been completed in respect of colleagues working in customer services, for NNDR work. The majority of the work, since 1 November 10, has been done by an experienced officer who is on a temporary contract (appointed by the head of service) thereby minimising the risk of work being undertaken by inexperienced officers. The same officer has started to deliver legislative training to all the processing and technical staff within the income team, with the plan to commence NNDR checks by January 12, once a new procedure manual has been finalised, agreed, and the training completed.

No.	Observation and Risk	Recommendation	Priority	Management Response
2	**VOA reconciliations to Academy (NNDR) do not reconcile to the number of heriditaments.** The total rateable value from the Valuation Office report agrees to the Academy figure (including reconciling items). This is the key value that requires to be agreed, however in completing the reconciliation the number of properties should also be agreed.	Reconcile the number of heriditaments on Academy to the number on the Valuation Office report on a weekly basis.	**Low**	**Agreed** **Owner**: D Moss, Operational Support Manager
Update October 2011 - Now met				
All NNDR schedules received from the VOA are fully checked and reconciled on a weekly basis; this is in respect to both the total rateable value (RV), and the total number of heriditaments.				
3	**Reconciliations completed within Council Tax, NNDR and Housing Benefit are not being reviewed**. There are a number of reconciliations completed within CT, NNDR and HB. These are completed in a timely manner and monitored by the member of staff completing them, however there is no review of the reconciliations by senior member of staff. Within CT the following reconciliations should be reviewed and evidenced as reviewed; raising of demands reconciliation, daily payments reconciliations and the Oracle to Academy reconciliation. Within NNDR the following reconciliations	All reconciliations completed by staff should be reviewed and evidenced as reviewed by a more senior member of staff.	**Low**	**Agreed** **Owner**: D Moss, Operational Support Manager

No.	Observation and Risk	Recommendation	Priority	Management Response
	should be reviewed and evidenced as reviewed; raising of demands reconciliation, daily payments reconciliations and the Oracle to Academy reconciliation. Within Housing Benefit the following reconciliations should be reviewed and evidenced as reviewed; the payment run reconciliation and the Academy to General Ledger reconciliation.			

Update October 2011 - Now met

The three different areas of reconciliation detailed continue to be undertaken in a timely manner. Since November 10 reconciliations are checked by a senior officer, either by a senior systems and support officer if the reconciliation was completed by a systems and support officer, or by the systems and support team leader if the reconciliation was completed by the senior systems and support officer.

Appendix E: Update on 2009/10 Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
4	**Payroll** We noted several instances of missing documentation during our testing of payroll controls. We noted two instances in relation to authorisation of payroll starters, two of missing change documentation and two missing mileage claim forms. Additionally, there is no evidence of review for two of three payroll analysis reports selected for testing, which detail all payments to be	The Council should ensure that all documentation is retained in relation to amendments to the payroll system. It should be ensured that evidence of review of the payroll analysis report and exception report are retained. This will demonstrate that	Medium	**Agreed** **Action:** Process to be put in place to ensure that payroll analysis reports and exception reports are signed off by a Payment Team Leader and held within the I@W Document Management System. The use of the document management system for Payroll is being reviewed and will be expanded to ensure all documents are captured and retained within the system. **Owner:** C Hipkin, Interim Payments Manager

No.	Observation and Risk	Recommendation	Priority	Management Response
	made each month. Two of three exception reports have also not been evidenced as reviewed. There are increased risks that I) new starters and changes could be fraudulently processed without appropriate authorisation and II), errors could arise in the payroll run without review of the analysis and exception reports.	the controls are in place and enable us, as auditors, to increase the level of reliance we can place on system controls and reduce the amount of audit work we need to carry out on the system.		A Clow, Payments Technical Team Leader **Timescale:** February 2011

Update October 2011

The use of the EDRM system within payroll for the processing of daily work is now embedded and from October 11 will be extended to include the retention of payroll reports, held as separate document types. The reports are signed off by two technical officers and the technical team leader.

No.	Observation and Risk	Recommendation	Priority	Management Response
5	**Unallocated receipts** Unallocated receipts on the debtors" ledger are not reviewed regularly. When auditing the Aged Debtors Listing, we noted that there was a credit balance of £358,000 relating to unallocated receipts. £173,000 of this balance is over one year old. If receipts are not allocated promptly, there is a possibility that debts may not be appropriately chased.	Unallocated receipts should be reviewed and allocated promptly.	Medium	**Agreed** **Action**: Shared Transactional Services have from 1 November taken over the allocation of unidentified income from the cash office. The current processes and procedures are being reviewed and revised and are looking to ensure that all unidentified receipts are resolved on a regular basis – daily wherever possible. A further exercise will be undertaken by the income team to review the unallocated receipts currently shown in the system. **Owner**: S Pleszkan, Head of Shared Transactional Services C Crockett, Income Technical Team Leader D Moss, Operational Support Manager **Timescale:** February 2011

No.	Observation and Risk	Recommendation	Priority	Management Response
Update October 2011				
No further action has been taken in respect of this point since the last update that was given in June 11. However, this has been identified as a priority and an action plan is to be drawn up and agreed by the end of October 11 with a view to addressing the unallocated credits in the month of November 11. A further update will be given at this time.				
6	**Property database** The property database does not accurately reflect rental amounts agreed with tenants. In all four cases tested, the data held in the property database did not agree to the supporting lease agreement. In the current year, this only affected the disclosure of rentals received which was amended in the final draft of the accounts. We understand that the Council in looking to integrate the property database into Oracle. Errors such as those noted above would then impact upon the amounts invoiced to tenants.	Changes to the property database and also the submission of the work request forms should be reviewed regularly.	Medium	**Agreed** **Action**: The Council are in the process of implementing a new asset management database (from 'The Technology Forge') which integrates all of the Council's property information into a single data source. The Council's Financial Accounting Team are currently reviewing all property leases with regards to the work required for implementation of IFRS for the 2010/11 Statement of Accounts. Therefore all property lease data will have been reviewed, and a better understanding of the data contained in the database will be available. **Owner**: J Robinson-Judd, Head of Asset Management **Timescale**: 31.01.11
Update October 2011				
The property asset, estates, condition and energy data have been loaded into the new system, tested and is now in use. The remaining areas to be completed; the capital accounting data, Key Performance Indicator reporting and accounting interfaces are in progress and are planned to be completed before the end of the year.				

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No.	Observation and Risk	Recommendation	Priority	Management Response
8	**Outstanding cheques** No review of old outstanding cheques is performed. Cheques could be raised in error twice if a review of old cheques is not performed.	A review of outstanding cheques should be performed regularly, with cheques reissued or cancelled as appropriate.	**Medium**	**Agreed -** **Action**: The Accounts Payable (AP) process is being reviewed and a schedule put in place following the implementation of the new Shared Transactional Services. A process is already in place for out of dates cheques for payment of Housing Benefit, and for refunds of Council Tax or Business Rates. **Owner:** S Pleszkan, Head of Shared Transactional Services C Hipkin, Interim Payments Manager **Timescale**: March 2011

Update October 2011

The process currently in place for Housing Benefit payments and refunds for both Council Tax and Business Rates is being implemented for AP cheques. From October 11 a monthly report is being produced listing all cheques that have not been cashed and are out of date (6 months old). The outstanding cheques are either reissued or cancelled. Responsibility for this task currently sits with payment technical officers, but will be reviewed to see whether this should in future sit within the systems and support team.

Appendix F: Update on 2008/09 Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
12	**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.	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 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

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Update October 2011

The exercise of identifying the 80% of the Council's spend by supplier has been completed and where contracts were identified as not being on the Contracts Register, these have now been uploaded. Work continues to be undertaken with each directorate with training having been given to a number of officers on how to enter details in the Contract Register. In addition, guidance has been produced so that officers can train themselves. The Operation Directorate has acted as a pilot in entering all their contracts on the register, with the Children's Services Directorate being the next department in adopting the register in the roll out. Meetings have also been held with Legal Services to look at the feasibility of having a single register and are ongoing.

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