

# *Report to Management*

Peterborough City  
Council

Statement of Accounts  
2011/12



**Draft**

John Harrison  
Executive Director of Strategic Resources  
Peterborough City Council  
Town Hall  
Bridge Street  
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January 2013

Dear Sir

**Peterborough City Council: Report to Management 2011/12**

Please find enclosed our Report to Management summarising those issues arising from the interim and final audits in 2011/12.

Yours sincerely

PricewaterhouseCoopers LLP

Enclosures

Copies to:

Steven Pilsworth – Head of Strategic Finance  
Steve Crabtree – Head of Internal Audit  
Kirsty Nutton – Financial Services Manager

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# Contents

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<b><i>Executive Summary</i></b>	<b>2</b>
The purpose of this report	2
Progress against prior year findings	2
Categorisation of findings	2
<b><i>Summary of Controls findings</i></b>	<b>3</b>
<b><i>Appendices</i></b>	<b>4</b>
Appendix A: ITGC Findings	5
Appendix B: Internal Control Findings	6

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# Executive Summary

## *The purpose of this report*

This report details matters identified during the interim and final audits of the 2011/12 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 we have only noted four new control issues for our 2011/12 audit, and all of the recommendations raised during previous years' audits have been addressed.

## *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
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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 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 2011/12.

The findings detailed in the report are summarised as follows:

No.	Summary of Finding	Priority		
		High	Medium	Low
<b>IT Controls</b>				
1	Access to datafiles and super user access to applications		X	
2	Application changes not logged		X	
<b>Other controls</b>				
3	Documentation to validate payroll controls not available		X	
4	Valuation journals		X	

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# *Appendices*

# Appendix A: IT Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1.	<p><b>Access to datafiles and super user access to applications</b></p> <p>Three SERCO employees have access to datafiles and super user access to applications.</p> <p>Unauthorised access to high level functionality within the system.</p> <p>Application controls may be overridden and changes made to tables without autorisation/audit trail.</p>	<p>Access to data files should be restricted to non operational personnel ie segregation of duties should be maintained between data base access and application access.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> The FSS team currently have the ability to carry out system wide set up changes to the look, feel and configuration of the finance system including the tasks listed below: -</p> <ul style="list-style-type: none"> <li>• User access</li> <li>• User access levels and limitations</li> <li>• Approval hierarchies</li> <li>• Transactional processing formats and fields</li> <li>• System security and controls</li> <li>• System tolerances</li> <li>• Configuration changes</li> </ul> <p>This access is restricted to a system administration and super-user level of access so that control can be provided over these changes. Any changes are only made when the required audit trail and necessary approval is received.</p> <p><b>Owner:</b> Laurie Sharpe</p> <p><b>Timescale:</b> N/A</p>
2.	<p><b>Application changes not logged</b></p> <p>A full list of changes for Academy and resourceLink is not available.</p> <p>The risk is that changes are made to reports, configurable controls or tables without appropriate sign off.</p>	<p>Changes to applications should be logged.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The crucial amendments to system parameters that are made each financial year are signed off and records of changes kept. Amendments on a claim/account level are not recorded as this is impractical due to the frequency of amendments.</p> <p><b>Owner:</b> David Moss</p> <p><b>Timescale:</b> N/A</p>

21

# Appendix B: Internal Control Findings

No	Observation and Risk	Recommendation	Priority	Management Response
3.	<p><b>Documentation to validate payroll controls not available</b></p> <p>We noted several instances of missing documentation during our testing of payroll controls.</p> <p>We noted one missing starter form and several cases in relation to authorisation (eleven of payroll starters, five of leaver forms and six of change notification documents). Additionally, there is no evidence of review for the high value exception report or for the costings summary report.</p> <p>There are increased risks that I) new starters and changes could be inappropriately processed without authorisation and II), errors could arise in the payroll run without review of the analysis and exception reports.</p>	<p>The Council should ensure that all documentation is retained in relation to amendments to the payroll system.</p> <p>It should be ensured that evidence of review of the payroll analysis report and exception report are retained.</p> <p>This will demonstrate that the controls are in place and enable us, as auditors, to increase the level of reliance we can place on system controls.</p>	Medium	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Since the audit was undertaken, improvements have been made to processes. The Payroll Manager agreed that the all forms being sent from HR Support inbox was proof that HR have actioned it.</p> <p>Exception reports are checked every month by a Senior Payroll Officer and the report is initialled and dated at the end of the report.</p> <p>The Payroll Summary Analysis is checked against the payslip report and the BACS creation file to ensure these 2 reports show the same number of employees and the correct total amount to be paid and this is part of the authorisation process</p> <p><b>Owner:</b> Angela Clow</p> <p><b>Timescale:</b> Complete</p>



No	Observation and Risk	Recommendation	Priority	Management Response
4.	<p><b>Classification of transactions within capital accounting working papers</b></p> <p>We encountered some challenges in agreeing the capital accounting note to Oracle and the underlying working papers. While we were able to resolve these issues in discussions with management, the process took additional time to that we had planned for.</p>	<p>Management should consider further ways to improve the understandability of the working papers, giving particular regard to the audit trail between Oracle and the accounts.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Since the completion of the audit in September the Capital Accounting &amp; Treasury Team have amended the processes and working papers used in the production of all the capital notes that are contained in the Statement of Accounts. Actions include the preparation of a ‘Core Capital Working paper’, where all notes are linked together, populated from raw data from Oracle, and reconciled in a single working paper.</p> <p>Other developments include:</p> <ul style="list-style-type: none"> <li>○ the implementation of an integrated fixed asset register so that all capital calculations will be automated rather than based on a complex asset register spreadsheet;</li> <li>○ obtaining information from valuers much earlier in the year; and</li> <li>○ development of a valuation checklist so the information from valuers is robustly examined prior to use in the asset register.</li> </ul> <p><b>Owner:</b> Kirsty Nutton</p> <p><b>Timescale:</b> 31 March 2013</p>

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