Government and Public Sector

December 2010

# Peterborough City Council Statement of Accounts 2009/10

# Report to Management

## Final

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December 2010

Dear John

**Peterborough City Council: Report to Management 2009/10**

Please find enclose our Report to Management, summarising those issues arising from the audit in 2009/10.

Yours faithfully

Julian Rickett

For and on behalf of PricewaterhouseCoopers LLP

Copies to:

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

# Contents

# 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, which took place in June and July 2010, to support the statutory audit process. In addition, we have included in the report those issues identified during our interim and final audit work at the Council. 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 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 Information Technology Controls ("IT Control") findings in 2010**

This section summarises the recommendations we have made as a result of our audit work in 2010 in relation to IT Controls.

The findings detailed in the report are summarised as follows:

| No. | Summary of Finding | Priority | | |
|-----|--------------------|------|--------|-----|
| | | **High** | **Medium** | **Low** |
| 1 | Financial systems an Academy systems teams can process transactions | | ✔ | |
| 2 | User Change documentation – Academy | | ✔ | |
| 3 | New User Authorisation to ResourceLink | | ✔ | |
| 4 | Periodic Review of user access rights within ResourceLink | | | ✔ |
| 5 | Disaster recovery of financial systems | | | ✔ |

Progress against findings from the 2008/09 report are summarised below:

| No. | High Level Finding | Addressed | Partially addressed | Not addressed |
|-----|--------------------|-----------|---------------------|---------------|
| 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 | | ✔ | |

### Summary of other 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 and final audit work at the Council in 2010.

The findings detailed in the report are summarised as follows:

| No. | High Level Finding | Priority | | |
|---|---|---|---|---|
| | | 1 | 2 | 3 |
| 1 | Documentation to validate payroll controls not available | | ✓ | |
| 2 | Unallocated receipts | | ✓ | |
| 3 | Property database does not accurately reflect rental amounts agreed with tenants | | ✓ | |
| 4 | Cross Keys Homes cash included in Council accounts | | ✓ | |
| 5 | Outstanding cheques not reviewed | | ✓ | |
| 6 | Fixed asset useful economic lives not updated | | | ✓ |
| 7 | Creditor and debtor reconciliations not reviewed | | | ✓ |
| 8 | Imprest account reconciliations performed at the incorrect date | | | ✓ |

Progress against findings from the 2008/09 report are summarised below:

| No. | High Level Finding | Addressed | Partially addressed | Not addressed |
|---|---|---|---|---|
| 1 | Contract register not kept up to date | | ✓ | |
| 2 | Lack of evidence for checks regarding new suppliers | ✓ | | |
| 3 | Issues with payroll reconciliation | ✓ | | |

# Appendix A: ITGC Findings

| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| 1. | **Financial systems and Academy systems teams can process transactions**<br><br>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.<br><br>System administrators should not process 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. | 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**<br><br>**Action**:<br><br>With the move to the new structure for Shared Transactional Services the segregation of duties relating to Accounts Payable will be in place.<br><br>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 ensure risk is minimised.<br><br>**Owner**: D Moss, Operational Support Manager<br><br>J Cox, Systems & Support Team Leader<br><br>**Timescale**: 31 January 11 |

| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| 2. | **User change documentation - Academy**<br><br>Changes to user accounts, such as creating a new account or modifying the access rights of an existing account, must be authorised by a change request form from a known approver.  We sampled 25 changes to Academy user accounts made during 2009/10.  For 15 changes, the Council could not provide appropriate evidence of authorisation to support the change.<br><br>Management explained that users are never granted access to Academy without appropriate authorisation. In practice, the request can take the form of an email. However, in the 15 cases noted above, evidence was not located and we were unable to evidence the operation of the control.<br><br>Weak controls around changes to user access increase the risk of unauthorised access to data, with a commensurate risk of fraud and/ or error. | Change request forms authorising all new or changes to user access control rights should be retained in a manner that retains a clear audit trail. Email requests could be saved in an electronic format, such as a PDF file and stored in a shared area, to provide audit evidence.<br><br>This will demonstrate that the control is 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. | **Medium** | **Agreed**<br><br>**Action**:<br><br>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.<br><br>**Owner**: D Moss, Operational Support Manager<br><br>J Cox, Systems & Support Team Leader<br><br>**Timescale**: 31 December 10 |

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| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| 3. | **New user authorisation to ResourceLink**<br><br>From a sample of five new system users added to the ResourceLink payroll system within the year, there was no evidence that one had been authorised appropriately.<br><br>Weak controls around changes to user access increase the risk of unauthorised access to data, with a commensurate risk of fraud and/ or error. | The authorisation form for new users should be retained in a manner that ensures a clear audit trail is available for all account changes.<br><br>This will demonstrate that the control is 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. | **Medium** | **Agreed**<br><br>**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.<br><br>**Owner**: D Moss, Operational Support Manager and J Cox, Systems & Support Team Leader<br><br>**Timescale**: 31 December 10 |

| 4. | **Periodic review of user access rights within ResourceLink**<br><br>A quarterly review of user access rights in Resource Link was performed until the HR Shared Services Manager left the Council. No such review has been performed since November 2009.<br><br>This increases the risk that Officers with incompatible duties may exist within Resource Link, without being detected. Furthermore, inactive and/or terminated staff could retain access to the application. These risks increase the Council's exposure to inappropriate, unauthorized or fraudulent activity. | 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 removed. | Low | **Agreed**<br><br>**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.<br><br>**Owner**: D Moss, Operational Support Manager<br><br>J Cox, Systems & Support Team Leader<br><br>**Timescale**: 31 December 10 |

| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| 5. | **Disaster recovery of financial systems**<br><br>Disaster Recovery testing of the Academy revenues and benefits system has not been performed and no disaster recovery plan was available.<br><br>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.<br><br>Formal testing of disaster recovery plans should be performed periodically and after system or infrastructure changes to ensure they are fit for purpose. | Low | **Agreed**<br><br>**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.<br><br>**Owner**: D Moss, Operational Support Manager<br><br>**Timescale**: 31 March 2011 |

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# Appendix B: Update on 2008/09 ITGC Findings

| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|-----|----------------------|----------------|----------|---------------------|----------------|
| 1. | **Periodic review of user access rights within Oracle Financials**<br><br>There is currently no formalised process in place over the periodic review of user access rights for the Oracle Financials application.<br><br>Staff with incompatible duties may exist within Oracle Financials without being detected, thereby increasing exposure to inappropriate, unauthorised or fraudulent activity.<br><br>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**<br><br>**Action**: Introduce procedure to ensure user access rights are reviewed at least annually.<br><br>**Owner**: J Hall<br><br>**Timescale**: Jan 2010 | Reviews have been performed including reviews of inactive accounts and access rights to ensure permissions are appropriate to role, including access to amend critical devices, access the infrastructure remotely and access confidential data.<br><br>**This issue has been addressed.** |

| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 2. | **New user authorisation to Oracle Financials**<br><br>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.<br><br>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.<br><br>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**<br><br>**Action**: Staff involved with process are to be made aware of the required procedure and random checks performed to ensure compliance.<br><br>**Owner**: J Hall<br><br>**Timescale**: Oct 2009 | In our testing of changes made to Oracle users all changes were supported by the appropriate form and authorised in line with policy.<br><br>**This issue has been addressed.** |

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| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 3. | **Use of generic and privileged user ID**<br><br>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.<br><br>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.<br><br>A unique personal User_ID should be created on the UNIX Oracle Financial Database serverThis 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**<br><br>**Action**: Unique user id to be created to improve accountability.<br><br>**Owner**: P Dickman<br><br>**Timescale**: Oct 2009 | **This issue has not been addressed.**<br><br>**Updated management response:**<br><br>**Agreed**<br><br>**Action**:<br>Unique user id to be created to improve accountability. This is now being pursued aggressively with Serco for completion ASAP.<br><br>**Owner**:<br>R Mardell<br><br>**Timescale:**<br>December 2010 |

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| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 4. | **Leavers from Oracle Financials**<br><br>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.<br><br>Moreover the Oracle systems team are aware of users who have left and were not included within the HR monthly leavers list.<br><br>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**<br><br>**Action**: Staff involved with process are to be made aware of the required procedure and random checks performed to ensure compliance.<br><br>**Owner**: J Hall<br><br>**Timescale**: Oct 2009 | No exceptions were noted during testing of leavers from the Oracle users - all changes were supported by the appropriate form and authorised in line with policy.<br><br>**This issue has been addressed.** |

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| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 5. | **Change management systems testing documentation**<br><br>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.<br><br>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**<br><br>**Action**: No changes made will be implemented without documentation being available and checked for completeness. Documentation will be filed in a designated network folder.<br><br>**Owner**: P Dickman / J Hall<br><br>**Timescale**: Oct 2009 | No exceptions were noted from testing – documentation was available in a network folder as per our recommendation.<br><br>**This issue has been addressed.** |

| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 6. | **Handover of technical documentation**<br><br>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.<br><br>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.<br><br>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**<br><br>**Action:** No changes made will be implemented without documentation being available and checked for completeness. Documentation will be filed in a designated network folder.<br><br>**Owner:** J Hall / P Dickman<br><br>**Timescale:** Oct 2009 | No exceptions were noted from testing – documentation was available in a network folder as per our recommendation.<br><br>**This issue has been addressed.** |

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| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|-----|---------------------|----------------|----------|---------------------|----------------|
| 7. | **Testing of Oracle Financial patches.**<br><br>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.<br><br>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**<br><br>**Action**: No Oracle patches will be implemented without adequate evidence of testing will be filed in a designated network folder.<br><br>**Owner**: J Hall / P Dickman<br><br>**Timescale**: Oct 2009 | No exceptions were noted from testing – documentation was available in a network folder as per our recommendation.<br><br>**This issue has been addressed.** |

| 8. | **Review and documentation of ICT policies.**<br><br>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.<br><br>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**<br><br>**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.<br><br>**Owner**: M Gregson<br><br>**Timescale**: Sept 2009 – Dec 2009 | **This issue has been partially addressed.**<br><br>We noted that some documents, such as the Oracle disaster recovery plan have been updated.<br><br>**Updated management response:**<br><br>**Agreed**<br>**Action**: Some policies have been reviewed and updated as part of the compliance with Government Connect. A gradual process of re-writing outdated policy documents is currently underway.<br><br>**Owner**:<br>R Mardell / Serco<br><br>**Timescale**:<br><br>Completion by June 2011 |

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| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 9. | **Periodic testing of backup media containing financially significant data.**<br><br>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.<br><br>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.<br><br>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**<br><br>**Action**: Operational procedures will be reviewed and updated as part of the ICT Managed Service project<br><br>**Owner**: M Gregson<br><br>**Timescale**: Dec 2009 | **This issue has not been addressed.**<br><br>Formal testing of restores from all backup media are not performed. However, it is now the responsibility of Serco to ensure that data can be recovered.<br><br>**Updated management response:**<br><br>**Action**: The responsibility for this activity now lies with Serco, as such they need to endure that PCC data can be recovered. Between now and October 2011 a re-working of the backup strategy and process will make this more transparent and simpler to test.<br><br>**Owner**:<br>R Mardell / Serco<br><br>**Timescale**:<br><br>October 2011 |

| 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 | **This issue has been partially addressed.** Disaster Recovery testing has been performed both the Oracle and ResourceLink (payroll) systems. No similar testing has been performed for the Academy (revenue and benefits) system. |
|-----|---|---|---|---|---|

# Appendix C: Internal Control Findings

| No. | Observation and Risk | Recommendation | Priority | Management Response |
|-----|---------------------|----------------|----------|---------------------|
| 1. | **Payroll**<br><br>We noted several instances of missing documentation during our testing of payroll controls.<br><br>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 made each month. Two of three exception reports have also not been evidenced as reviewed.<br><br>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 Council should ensure that all documentation is retained in relation to amendments to the payroll system.<br><br>It should be ensured that evidence of review of the payroll analysis report and exception report are retained.<br><br>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 and reduce the amount of audit work we need to carry out on the system. | Medium | **Agreed**<br><br>**Action:**<br><br>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.<br><br>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.<br><br>**Owner:** C Hipkin, Interim Payments Manager<br>A Clow, Payments Technical Team Leader<br><br>**Timescale:** February 2011 |
| 2. | **Unallocated receipts**<br><br>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 | Unallocated receipts should be reviewed and allocated promptly. | Medium | **Agreed**<br><br>**Action:**<br><br>Shared Transactional Services have from 1 November taken over the allocation of unidentified income from the cash office. The |

| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| | 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. | | | 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 |
| 3. | **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 |

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| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| 4. | **Cash balance**<br><br>The income bank reconciliation includes a balance which relates to Cross Keys Homes of £204k. Rental income is receipted for the Council and Cross Keys Homes through the Spectrum system. The cash is receipted directly into the respective bank accounts and therefore the Council should not account for the full amount which has been receipted through Spectrum as this cash does not belong to the Council. We noted that an opposing debit entry is made so the balance sheet is not overstated. | A formal mechanism should be put in place to ensure that Cross Key Homes balances are not included within Council balances. | Medium | **Agreed**<br><br>**Action:**<br>The bank reconciliation process has been amended to better reflect this process.<br>As from 1 August 2010 the Council no longer collects cash from Cross Key Homes to which means that this transaction is no longer generated, and procedures have been implemented to ensure that the balance transferring via our system is not taken into the year end balances<br>**Owner:** K Nutton, Corporate Accounting Manager<br>**Timescale:** 30.06.11 |
| 5. | **Outstanding cheques**<br><br>No review of old outstanding cheques is performed.<br><br>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**<br><br>**Action:**<br>The Accounts Payable (AP) process is being reviewed and a schedule put in place following the implementation of the new Shared Transactional Services.<br><br>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.<br><br>**Owner:** S Pleszkan, Head of Shared Transactional Services<br>C Hipkin, Interim Payments Manager<br>**Timescale:** March 2011 |

| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| 6. | **Fixed assets**<br><br>During our audit of Fixed Asset revaluations undertaken in 2009/10, we noted that in five out of 27 instances the Fixed Asset Register ("FAR") had not been correctly updated to show the revised useful economic life of assets following the valuation undertaken.<br><br>For the assets selected, we noted this did not impact on the depreciation charge as they were for assets not depreciated, for example, land and some investment assets.<br><br>There is a risk that in future the useful economic life for assets which are depreciated is not updated correctly resulting in an incorrect depreciation charge in the Income & Expenditure account. | After the outputs from a valuation exercise are obtained, the Capital Accountant should ensure the relevant asset information is updated for all correct useful economic lives, even for non-depreciating assets. | Low | **Agreed**<br><br>**Action:**<br><br>An extra step has now been introduced to the Asset Register review procedures which include the sample testing of the valuation update entries to cross check back to the valuers original valuation report.<br><br>The Council will also investigate the control procedure in place for use in the new asset management database currently being implemented by Strategic Property.<br><br>**Owner:** K Nutton, Corporate Accounting Manager<br><br>**Timescale:** by 30.06.11 |
| 7. | **Creditor and debtor reconciliations**<br><br>The monthly creditor and debtor control account reconciliations have been performed promptly.  We also noted in our audit that there were performed correctly. However, they have not been reviewed.<br><br>Notwithstanding the fact that the reconciliations were correctly performed, failure to review the control account reconciliations in a timely manner may delay the identification of errors in the | The monthly creditor and debtor control account reconciliations should be reviewed on a timely manner. | Low | **Agreed**<br><br>**Action:**<br><br>The Oracle Programme Manager now has formal responsibility to complete the reviews, which are completed on monthly basis.<br><br>**Owner:** J Hall, Oracle Programme Manager<br><br>**Timescale:** Monthly from 01.04.10 |

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| No. | Observation and Risk | Recommendation | Priority | Management Response |
|---|---|---|---|---|
| | reconciliation and make resolving errors more difficult. | | | |
| 8. | **Imprest (petty cash) accounts**<br><br>We identified that reconciliations for Children's Services Imprest accounts have been performed at mid-April rather than 31st March. Furthermore, two Imprest accounts which Children's Services believed had been closed prior to year end, were in fact confirmed by the bank as still open with positive cash balances. One imprest account reconciliation could not be located.<br><br>Petty cash is, by its nature, subject to a risk of misappropriation. | The Council should ensure that all accounts are reconciled to the bank statements at the year-end date, and that evidence of these reconciliations are retained. | Low | **Agreed**<br><br>**Action:**<br><br>The Council now has the facility in house to generate the bank statements and will ensure all relevant parties are informed of this. Children's Services Finance team will also update procedure notes and training information to emphasize that reconciliations are to be completed as at 31st March.<br><br>Throughout 2010/11 the Children's Service finance team, working with the corporate finance team, have been thoroughly reviewing and reconciling petty cash and imprest accounts to ensure a smother process at financial year end.<br><br>**Owner:** F Chapman, Children's Service Finance Manager<br><br>**Timescale:** 31.03.11 |

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# Appendix D: Update on 2008/09 Internal Control Findings

| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 1. | **Contract Register**<br><br>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.<br><br>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.<br><br>There is a risk that all contracts may not be identified and included on the register.<br><br>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**<br><br>**Action:**<br><br>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.<br><br>**Owner:** Corporate Procurement Unit (Andy Cox)<br><br>**Timescale:** From 1 Oct to 31 Mar 2010 | **This issue has been partially addressed.**<br><br>We understand from the Procurement team that work is still ongoing to ensure that the contracts register is complete. |

| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|---|---|---|---|---|---|
| 2. | **New Suppliers**<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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**<br><br>**Action:** The system (Supplierforce) will have the functionality to record when these checks have taken place and against which vendors.<br><br>**Owner:** Procurement team.<br><br>**Timescale:** From Sep 2009 | During our audit we noted that these checks are now evidenced on Supplierforce.<br><br>**This issue has been addressed.** |

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| No. | Observation and Risk | Recommendation | Priority | Management Response | 2009/10 Update |
|-----|---------------------|----------------|----------|---------------------|----------------|
| 3. | **Payroll Reconciliations**<br><br>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.<br><br>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**<br><br>**Action:**<br><br>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.<br><br>**Owner:** Corporate Accounting Manager<br><br>**Timescale:** Oct 2009 | Our audit of payroll reconciliations in 09/10 did not identify any issues.<br><br>**This issue has been addressed.** |

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