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# Interim Audit Report 2010/11

Cheltenham Borough Council

June 2011

**The contacts at KPMG in connection with this report are:**

**Ian Pennington**

*Director*

*KPMG LLP (UK)*

Tel: 029 2046 8087

ian.pennington@kpmg.co.uk

**Rachael Tonkin**

*Manager*

*KPMG LLP (UK)*

Tel: 0117 905 4654

rachael.tonkin@kpmg.co.uk

**Megan Lumsdaine**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0117 905 4266

megan.lumsdaine@kpmg.co.uk

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document summarises the key findings arising from our work to date in relation to both the audit of the Council's 2010/11 financial statements and the 2010/11 VFM conclusion.

### Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Cheltenham Borough Council (the Council) in relation to the 2010/11 financial statements; and
- our work to support our 2010/11 value for money (VFM) conclusion up to June 2011.

### Financial statements

Our *Financial Statements Audit Plan 2010/11*, presented to you in January 2011, set out the four stages of our financial statements audit process.



During March 2011 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;
- testing of certain controls over the Council's key financial systems with the help of internal audit;
- assessment of the internal audit function;
- review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- review of the Council's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

### VFM conclusion

Our *VFM Audit Plan 2010/11* issued in February 2011 described the new VFM audit approach introduced this year by the Audit Commission and highlighted the key changes compared to the previous Use of Resources auditor's scored judgements regime.

We have completed some early work to support our 2010/11 VFM conclusion. This included:

- undertaking a preliminary VFM audit risk assessment:

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.
- Section 5 set out the current status on the recommendations from the Public Interest Report.

Our recommendations are included in Appendix A. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix B.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Financial statements	Organisational and IT control environment	Your organisational control environment and IT control environment is effective overall. There are some areas for further improvement within the IT control environment.
	Controls over key financial systems	The controls over the key financial system are generally sound.
	Review of internal audit	Internal audit fully complies with the Code of Practice for Internal Audit in Local Government.
	Accounts production and specific risk areas	The Council's overall process for the preparation of the financial statements is adequate. The Council has implemented a number of the recommendations in our ISA 260 Report 2009/10 relating to the financial statements.
	IFRS restatement	The Council has made good progress restating its 2009/10 financial statements under IFRS. We have reviewed the restatement work and are content that the key changes have been appropriately identified and addressed.
PIR	Follow up of Public Interest Report	The Council has responded positively to the Public Interest Report. It has clearly treated the issues raised in the Report seriously and has, to its credit, used it as a catalyst for change and improvement. We consider the matter now closed for audit purposes.
Value for Money	Financial resilience	Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on its use of resources.
	Securing VFM	We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.

Your organisational control environment is effective overall.

**Work completed**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

**Key findings**

We consider that your organisational controls are effective overall, but noted a number of areas for further improvement.

Aspect	Assessment
Organisational structure	3
Integrity and ethical values	3
Philosophy and operating style	3
Participation of those charged with governance	3
Human resource policies and practices	3
Risk assessment process	3
Information systems relevant to financial reporting	3
Communication	3
Monitoring	3

- Key:
- 1 Significant gaps in the control environment.
  - 2 Minor deficiencies in respect of individual controls.
  - 3 Generally sound control environment.

Your IT control environment is effective overall.

We noted a number of areas for further improvement.

#### Work completed

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

#### Key findings

We found your IT control environment is effective overall. We noted a number of areas for further improvement.

- We identified that a number of individuals within the finance team have 'super-user' access to the Aptos accounting software. Non-system administrators would not usually have this level of access and recommend it is considered and restricted in the future Agresso system build, where the number of organisations involved will increase the overall need for managing information security.
- There is currently no process in place to inform system administrators when an employee has transferred between different council services and may no longer require access rights to certain applications. Again this should be considered in the Agresso design requirements.
- The Council should consider formally defining access to computer systems based on groups of employees with similar roles and formally document/and review these groups/profiles on a periodic basis in order to reflect adequate segregation of duties. This will be increasingly important with the introduction of Agresso and 'Go'.

Recommendations are included in Appendix A.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations, incl. processing and backup	2
End-user computing	3

- Key:
- 1 Significant gaps in the control environment.
  - 2 Minor deficiencies in respect of individual controls.
  - 3 Generally sound control environment.

The controls over the key financial system are generally sound.

#### Work completed

We work with your internal auditors to update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

#### Key findings

The controls over the key financial systems are generally sound but we noted some weaknesses in respect of individual financial systems.

- Payroll – As we reported last year, there is no segregation of duties within the payroll system enforced at the level of system access. This has not been resolved in 2010/11 as a result of waiting for the 'Go' system to be introduced.

Internal audit also gave limited assurance for the payroll system in 2009/10 and included recommendations for improving controls. We will perform additional substantive audit procedures over payroll during our final accounting visit.

We have not yet assessed those controls that are performed as part of the closedown process and our testing will therefore be supplemented with further work during our final accounting visit.

System	Assessment
Financial reporting	3
Grant income	3
Housing rents income	3
Council tax income	3
Business rates income	3
Sundry income	3
Payroll expenditure	2
Non-pay expenditure	3
Benefits expenditure	3
Cash	3
Treasury management	●
Capital expenditure	●
Asset disposals	●
Asset valuations	●

- Key:
- 1 Significant gaps in the control environment.
  - 2 Minor deficiencies in respect of individual controls.
  - 3 Generally sound control environment.
  - To be completed at the final audit visit

Internal audit fully complies with the *Code of Practice for Internal Audit in Local Government*.

#### Work completed

We work with your internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

*The Code of Practice for Internal Audit in Local Government* (the Code) defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

#### Key findings

We last completed a full assessment against the Code in June 2010. We have updated our assessment based on that review and our knowledge through our work during 2010/11.

Based on our assessment, internal audit fully complies with the Code.

We did not identify any significant issues with the quality of internal audit's work and are pleased to report that we are again able to place full reliance on several of the internal audit reports of key financial systems.

This year has been a challenging year for Internal audit and as a result some of the internal audit reports we would have reviewed were not ready for our interim audit visit. We will discuss the timing of the both the interim and final 2011/12 audit visits with Finance and internal audit as the Council progresses through a period of significant change.

Aspect	Assessment
Scope of internal audit	3
Independence	3
Ethics for internal auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work	3
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key:

- 1 Non-compliance with the standard.
- 2 Minor deficiencies.
- 3 Full compliance with the standard.



The Council’s overall process for the preparation of the financial statements is adequate.

The Council has implemented a number of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

**Work completed**

We issued our Accounts Audit Protocol to Sarah Didcote on 19<sup>th</sup> April. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide to support our audit work.

As part of our interim work we specifically reviewed the Council’s progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

**Key findings**

We consider that the overall process for the preparation of your financial statements is adequate.

The Council has implemented several of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements in line with the timescales of the action plan. The table below sets out the Council’s progress against high priority recommendations.

Appendix 2 provides a status report of prior year recommendations.

Issue	Progress
<p><b>Issue – Testing of backups</b>            There is no formal testing of back ups.</p>	<p>The council anticipates that the forthcoming server replication implementation will allow periodic formal test restorations .</p>

**The Council has made good progress restating its 2009/10 financial statements under IFRS.**

**We have reviewed the restatement work and are content that the key changes have been appropriately identified and addressed.**

#### **Work completed**

From 2010/11 local authorities are required to prepare their financial statements under the IFRS based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

We have reviewed the work the Council has undertaken to restate its 2009/10 financial statements under IFRS and its preparations for producing 2010/11 balances in its accounts under IFRS.

#### **Key findings**

The Council has made significant progress in restating the 2009/10 financial statements under IFRS.

As at March 2011, the approach to component accounting still needed to be finalised as well as disclosures on areas such as provisions and leases.

Further commentary is included below on the specific risk areas we identified in our *Financial Statements Audit Plan 2010/11* regarding the implementation of IFRS.

## Specific risk areas

The Council has taken seriously the key risk areas we identified and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

### Work completed


In our *Financial Statements Audit Plan 2010/11*, presented to you in January, we identified the key risks affecting the Council's 2010/11 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Paul Jones as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

### Key findings

The table below provides a summary of the work the Council has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p><b>Valuation of Investments</b></p> <ul style="list-style-type: none"> <li>• We will review the CBC valuation to ensure that it is consistent with LAAP 82 'Guidance on the Impairment of Icelandic Banks'.</li> <li>• We will assess valuation assumptions for appropriateness.</li> <li>• We will assess whether the Council has appropriately applied the Capitalisation Directive per the regulations released by the Department for Communities and Local Government in 2009.</li> </ul>	<p>We will review the valuation assumptions during our final accounting visit.</p>

## Specific risk areas

The Council has taken seriously the key risk areas we identified and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Key audit risk	Issue	Progress
	<p><b>Implementation of IFRS</b></p> <ul style="list-style-type: none"> <li>We will review the Council’s progress on implementing IFRS against its detailed convergence plan. In particular we will consider the steps taken to restate opening balances.</li> <li>We will hold regular discussions with officers to identify areas of pressure where difficulties are being experienced. We will offer support and guidance during the convergence process.</li> </ul>	<p>We have undertaken a review of the Council’s progress on implementing IFRS and noted findings on page 9.</p>
	<p><b>Valuation of Council Assets</b></p> <ul style="list-style-type: none"> <li>We will review the Council’s accounting policies for fixed assets to ensure that they are appropriately valued.</li> <li>We will assess valuation assumptions for appropriateness.</li> <li>We will review the Council’s processes for identifying fixed asset and investments which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements.</li> </ul>	<p>We noted as part of our IFRS review that the component accounting policy for fixed assets is currently being finalised by the Council’s finance team.</p> <p>Valuation assumptions will be reviewed during the final audit visit.</p>
	<p><b>Local taxes / rent arrears</b></p> <ul style="list-style-type: none"> <li>During the interim phase of our audit we will review the Council’s processes for collecting and recovering outstanding balances in relation to council tax, national non-domestic rates (NNDR) and rent arrears.</li> <li>We will critically review the level of bad debt write offs and bad debt provisioning at the year end. We will perform a trend analysis of the level of balances over the last financial year and compare the Council’s performance to similar organisations.</li> </ul>	<p>We noted no control exceptions during our interim audit work.</p> <p>We will review the level of bad debt write offs and bad debt provision during our final audit visit.</p>

We follow a new VFM audit approach this year.

Our VFM conclusion will consider how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our VFM Audit Plan 2010/11 describes in more detail how the new VFM audit approach operates.

#### Background

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

There are no scored judgements under the new approach and the VFM conclusion is the only output. This remains a 'pass / fail' style assessment.

We follow a risk based approach to target audit effort on the areas of

greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

#### Overview of the new VFM audit approach

The key elements of the VFM audit approach are summarised below.



**The Council has responded positively to the Public Interest Report. It has clearly treated the issues raised in the Report seriously and has, to its credit, used it as a catalyst for change and improvement.**

**We consider the matter now closed for audit purposes.**

### **Background**

In March 2010 we issued a Public Interest Report on the decision making process that led to the High Court action taken against the Council's former Managing Director, Mrs Christine Laird, in 2009. The Council's claim against Mrs Laird failed.

This outcome attracted much attention and interest from the public and media. The costs associated with the legal action and the long-term dispute with Mrs Laird were significant. As a result, we undertook a detailed review to identify the key factors and learning points associated with this outcome.

The Public Interest Report set out our conclusions and included 26 recommendations covering areas where the Council's processes needed to improve, or where established arrangements were not followed fully. The Report was considered and accepted at a special meeting of full Council on 22 March 2010.

The Council subsequently developed a detailed action plan to respond to our recommendations, and also those from its own Member Working Group, which considered the implications from the dispute with Mrs Laird relating to employment matters and dispute resolution.

### **Work completed**

Our 2010/11 audit plan included provision for a follow up audit to consider the progress the Council has made against the issues and recommendations outlined in the Public Interest Report.

Our approach took account of the Council's own monitoring arrangements, notably the quarterly reports presented to the Audit Committee since the Report was published and the report issued by Internal Audit in December 2010 following their follow up review on a sample of our recommendations. We also supplemented this with discussions with key Council staff.

### **Key findings**

The Council has responded positively to the Public Interest Report, which has received a high profile with officers and Members. It has clearly treated the issues raised in the Report seriously and has, to its credit, used it as a catalyst for change and improvement.

The Council's action plan in response to the Report was comprehensive, took account of a wide range of contributions and views and was well co-ordinated to link the actions in response to the Report with those arising from the Member Working Group review. Monitoring of progress against the action plan has been regular, detailed, comprehensive and publically available through the Audit Committee papers.

As well as instigating robust monitoring arrangements, the Council also commissioned its internal auditors to review its response into the Report. This provided useful and timely assurance that the planned responses would address the issues behind our recommendations and that the progress reports were accurate.

The action plan has been substantially delivered with only a minority of recommendations where there has only been partial implementation of the intended actions. In these cases the Council is still considering how and when to deliver the actions that remain outstanding.

These arrangements have predominantly focused on the delivery of actions, however. It would also be useful for the Council to consider whether intended outcomes and improvements have been achieved. For example a peer review of a sample of reports to Members could consider whether they have improved following the development of the new report template and guidance.

We consider the matter now closed for audit purposes.

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

### Priority rating for recommendations

● **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

● **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

● **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	2	<p><b>Issue - no process for transfers</b></p> <p>Employees who have transferred between services may as a result no longer require all of their existing access rights to certain applications. There is currently no process in place to inform systems administrators of any transfers, or for line managers of transferred staff to inform HR/IT that their access rights to applications are no longer required.</p> <p>NB if staff require additional access rights, the line manager will request it from IT.</p> <p><b>Recommendation</b></p> <p>The Council should consider implementing a process to help ensure that systems administrators are informed of transfers and can therefore remove/restrict the employees access to IT systems based on their new role.</p>	<p>The council will review HR and ICT processes which are currently used for new starters and for staff transferring between services to ensure system administrators are notified of changes required to systems access.</p> <p><b>Responsible officers:</b> Julie McCarthy / Rachel McKinnon</p> <p><b>Due Date:</b> September 2011</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	2	<p><b>Issue - Aptos super users</b></p> <p>IT application systems generally allow the creation of accounts with “super user” access which have unrestricted access in order to perform system administration tasks. It is best practice to restrict the number of these accounts.</p> <p>The Head of Resources, Group Accountant and Head of Financial Services all have super user access to Aptos as a result of their roles in initially setting up the system.</p> <p>Allowing super user access to senior finance staff is not good practice due to the increased risks and potential for management override resulting from this unmonitored level of access.</p> <p><b>Recommendation</b></p> <p>The Council should consider if these non-system administrator users require this powerful level of access on an ongoing basis and restrict access accordingly.</p>	<p>Aptos ‘super user’ access will be removed from Director Resources and Head of Financial Services with immediate effect.</p> <p>The implementation of a new ERP system will factor in relevant personnel to ‘super user’ access when the new system goes ‘live’ in April 2012.</p> <p><b>Responsible Officer:</b> Martyn Scull</p> <p><b>Due dates:</b> Immediate affect and April 2012</p>
3	3	<p><b>Issue – no documentation of configuration changes</b></p> <p>IT application systems include a number of set parameters within which they operate. The Council’s application systems do not have written procedures describing how parameter changes should be approved, implemented and checked, although we note that discussions with devolved system administrators confirmed that they are aware of their responsibilities regarding following appropriate testing for these changes.</p> <p><b>Recommendation</b></p> <p>The Council should document a process for configuration changes made within an application so that relevant system owners are aware of their responsibilities regarding approval and appropriate testing of these changes.</p>	<p>A process will be adapted from our internal ICT change management process. This can be distributed to system owners to maintain and record any changes they make to their configuration and record results of any testing carried out.</p> <p><b>Responsible Officer:</b> Paul Woolcock</p> <p><b>Due date:</b> A process will be drafted by September 2011.</p>



We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
4	2	<p><b>Issue – documentation of access rules</b></p> <p>User groups provide an effective way of managing access rights to systems; a group can be set up with appropriate access rights and restrictions for a specific job role and users assigned to this group, rather than every individual having unique access rights.</p> <p>Although user groups to restrict access to specific functions/cost centres are being used in the majority of systems in scope for financial audit support testing (with the exception of payroll), there is no formal documentation available that reflects what access is given via assignment of these groups and how a new individual's group should be allocated. This has led to the development of many user groups based on individual users (usually one user per group) in Aptos, rather than groups based on job role. These individual user access rights may not have appropriate segregation of duties controls.</p> <p><b>Recommendation</b></p> <p>The Council should consider formally defining and documenting groups/profiles for each financial reporting system based on users job roles, with relevant segregation of duties rules also taken into account.</p>	<p>This will be picked up as part of the new ERP implementation which is due to go 'live' in Cheltenham in April 2012.</p> <p><b>Responsible Officer:</b> Martyn Scull</p> <p><b>Due date:</b> April 2012</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	2	<p><b>Assessing outcomes from Public Interest Report action plan</b></p> <p>The Council implemented robust arrangements to monitor progress against the action plan prepared in response to our Public Interest Report. These monitoring arrangements have predominantly focused on the delivery of actions, however.</p> <p>It would also be useful for the Council to consider whether intended outcomes and improvements have been achieved. For example a peer review of a sample of reports to Members could consider whether they have improved following the development of the new report template and guidance.</p> <p><b>Recommendation</b></p> <p>Consider implementing appropriate measures to assess the impact and outcomes achieved from the delivery of the Public Interest Report action plan.</p>	<p>The council has introduced the new report template (including a risk assessment template) and improved its risk management process which now ensures that the corporate risk register is considered at the Senior Leadership Team meetings on a monthly basis.</p> <p>The council will consider a process for reviewing whether outcomes were achieved including the possibility of a peer review.</p> <p><b>Responsible Officer:</b> Sara Freckleton</p> <p><b>Due date:</b> April 2012</p>

## Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our Interim Audit Report and ISA 260 report 2009/10.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our Interim and ISA 260 Audit Reports 2009/10 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	13
Implemented in year or superseded	4
Remain outstanding (re-iterated below)	9

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
1	2	<p><b>Issue – Password control</b></p> <p>It is important to have strong password controls to limit the potential of access to IT systems from unauthorised external parties.</p> <p>During our interim work we identified that all application systems have weak password control in terms of password length and complexity. This increases the risk of unauthorised access.</p> <p>The Active Directory / Network password is strong but this only secures against external access. Some applications require additional controls such as the user being a member of an active directory group or having client software installed on their PC. These factors mitigate some of the risk in practice, but unauthorised access remains a real possibility.</p> <p><b>Recommendation</b></p> <p>Review access controls to applications and institute all practical mitigating measures to overcome limitations in password identification.</p>	<p>Access to the CHRIS21 system does require the client software being installed on the employees PC.</p> <p>However, this year’s audit of the system has already identified the current password controls as being weak.</p> <p>New password controls (i.e. conforming to ICT guidance for password length and complexity, and forcing users to change their password after a defined period of time) are due to be implemented for all CHRIS21 users.</p>	<p><b>Issue still stands</b></p> <p>CHRIS21 password controls have not changed since the previous audit; however management expect the implementation of the new Go system (replacing CHRIS21 in 2012) will clear this issue.</p> <p>In addition, Open Revenues taxation and benefits system password controls are weak as the ability to implement stronger complexity rules has only been added in a recent upgrade of the system; the council plans to improve this control in 2011/12.</p>

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
2	2	<p><b>Issue – Payroll segregation of duties</b></p> <p>Segregation of duties within the payroll function ensures that staff members carry out their duties as per their job function and reduces the risk of employee overlap and fraud. Segregation of duties at the job function level should be replicated within the IT systems to minimise the risk of unauthorised access to systems outside the staff members remit.</p> <p>During our interim audit we noted that there is no segregation of duties in the payroll department, enforced at the level of system access. This implies that all payroll staff will be able to perform all functions on the system.</p> <p><b>Recommendation</b></p> <p>Formally document the level of access and functionality that each member of payroll staff needs for their job. Demonstrate how, in the absence of system controls, segregation of duties is achieved.</p>	<p>This is a consequence of having a small payroll team and access levels are set this way to ensure continuity of the service.</p> <p>Segregation of duties exists between those staff responsible for posts and those responsible for employees.</p> <p>Where possible, all data entry is independently checked and signed off.</p>	<p><b>Issue still stands</b></p> <p>There continues to be no system enforced segregation of duties within the payroll system, but the management response still applies in this situation.</p> <p>Implementation of the new ERP system in April 2012 will replace the Chris 21 payroll system and allow this control to be re-examined.</p>
3	3	<p><b>Issue – Leavers process</b></p> <p>Only current staff members should be able to access IT systems. Former staff members should have their access rights removed on leaving their job to ensure only appropriate persons have access.</p> <p>We identified during the interim audit that the leavers process had not been formally documented for any of the IT systems we reviewed. The Civica cash receipting system has not had any effective removal of leavers during the 2009/10 audit year.</p> <p><b>Recommendation</b></p> <p>Access to all key data should be strictly controlled through a formalised process, with appropriate authorisation retained for access. An effective and timely procedure to process leavers for all applications is essential to ensure that access is appropriate and to reduce the potential risk of fraud.</p>	<p>This is a consequence of having a small payroll team and access levels are set this way to ensure continuity of the service.</p> <p>Segregation of duties exists between those staff responsible for posts and those responsible for employees.</p> <p>Where possible, all data entry is independently checked and signed off.</p>	<p><b>In progress</b></p> <p>The leavers process has now been formally documented, however; our testing identified a small number of staff who had left the Council in the year under audit but not had their network access disabled.</p>

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No.	Risk	Issue and recommendation	Management response	Status as at March 2011
4	1	<p><b>Issue – Testing of backups</b></p> <p>There is no formal testing of back ups. Whilst restoration of end user files is performed when requested, formal restores of financial application data has not been performed during the year. Without periodic testing of the backups in relation to financial application data, it is not possible to ensure integrity of the backup media.</p> <p><b>Recommendation</b></p> <p>The Council should consider: ensuring tapes contain data; restoring test files to a test environment; conducting a programme of full test restores as part of Disaster Recovery testing; and documenting the approach to recording and testing any restores to the live environment that may become necessary.</p>	<p>Regular restores from daily backups are performed.</p> <p>Restores / testing to be reviewed after site to site replication has been installed.</p>	<p><b>Issue still stands</b></p> <p>Although we note that restorations of specific files are performed as a result of end user requests, there are no formal test restorations of whole back-ups performed.</p> <p>However, the Council anticipates that the forthcoming server replication implementation will allow periodic formal test restorations .</p>
5	2	<p><b>Issue – Location of backup tapes</b></p> <p>In the event of a disaster it is essential that data can be retrieved quickly to ensure minimum disruption to council services. This can be achieved by taking regular back ups of IT systems and ensuring that back up tapes are kept securely.</p> <p>We noted that the most recent backup tapes are located in the ICT office. In the event of disaster to the main council site these might be lost, along with the ability to restore data up to one week previous.</p> <p><b>Recommendation</b></p> <p>The most recent backup tapes should be stored in such a way that in the event of disaster at the main council site, the tapes could be retrieved and used at the disaster recovery site.</p>	<p>The daily tapes are currently stored in a strong room at the Municipal offices. Investigations are underway to find an external location to store daily tapes.</p> <p>The council is looking to invest in site to site SAN data replication solution later on this year. The secondary site will be located at the Depot site.</p>	<p><b>In progress</b></p> <p>Backups are currently stored offsite at a site 4 miles away which restricts the ability to take offsite on a daily basis; however there is currently a plan to change this to a gallery nearby which could facilitate daily back-ups being taken offsite.</p> <p>In addition, there are data replication procedures being implemented which will allow replication of servers at the DR site 4 miles away; this is in the process of being implemented in the 2011/12 financial year.</p>

## Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
6	2	<p><b>Issue – Lack of evidence of review of bank reconciliation</b></p> <p>The monthly bank reconciliation review is currently not evidenced by a signature and date and therefore no audit trail exists of the management review which is an important part of the control processes.</p> <p><b>Recommendation</b></p> <p>The bank reconciliations are signed and dated as evidence of the monthly review process.</p>	<p>Although regularly reviewed, the authority recognises that no formal signatory was evident for a number of reconciliations and has put in practice the requirement to ensure all future bank reconciliations are signed and dated.</p>	<b>To be reviewed at final audit visit</b>
7	2	<p><b>Issue – Lack of high level monthly payroll review</b></p> <p>We noted that currently there is no high level review of the payroll before authorisation and payment each month. A central high level review could check any significant month on month variances before payment of the payroll. There is limited payroll exception reporting with the current payroll system and this high level overview would provided added assurance until a new payroll system is introduced.</p> <p><b>Recommendation</b></p> <p>A monthly high level review examining any significant monthly variances would give additional assurances of the completeness and accuracy of the payroll payment which is one of the most significant costs of the council.</p>	<p>As agreed following the recommendations of the recent internal audit review, with effect from September 2010 the payroll BACS authorisation form and supporting papers will be reviewed and signed off by a manager independent of the payroll input team.</p>	<b>To be reviewed at final audit visit</b>

## Follow-up of prior year recommendations

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No.	Risk	Issue and recommendation	Management response	Status as at March 2011
8	2	<p><b>Issue – Lack of evidence of review of income reconciliations</b> We noted that currently there is a lack of evidence of the review of the income reconciliation of the debtors system to the cash receipting system using the daily ASH reports, as the reconciliation is not signed or dated.</p> <p><b>Recommendation</b> The reconciliations are signed and dated as evidence of review which leaves a clear audit trail of the completion of the control.</p>	<p>The Senior Revenues Control Officer will in future initial and date the file as evidence of a weekly review. In addition the Revenues Manager will also initial and date the file when reviewing the reconciliation on a monthly basis.</p>	<b>To be reviewed at final audit visit</b>
9	2	<p><b>Issue – lack of documentation of the NNDR reconciliation</b> We noted that there is a lack of evidence of the review of the reconciliation between the NNDR and the IBS reports.</p> <p><b>Recommendation</b> The reconciliations are signed and dated to evidence that the control is operating effectively.</p>	<p>A spreadsheet is completed documenting the reconciliation. As with issue 3 above, the file will be initialled and dated by the Senior Revenues Control Officer on a weekly basis and by the Revenues Manager monthly.</p>	<b>To be reviewed at final audit visit</b>



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