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Interim Audit Report 2013/14

Wiltshire Council

April 2014



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This document summarises the key findings arising from our work to date in relation to the audit of the Authority's 2013/14 financial statements.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Wiltshire Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) conclusion up to March 2014.

This report does not cover the Pension Fund's financial statements.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

During January to March 2014 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems;
- assessment of the internal audit function; and
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission and detailed our initial risk assessment.

We will complete our work in response to the specific risks identified during our final visit in June. The results of this work will be reported in our *ISA 260 Report 2013/14*.

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 2013/14 financial statements.

Our recommendations are included in **Appendix 1**. We have also reviewed your progress in implementing prior recommendations and this is detailed in **Appendix 2**.

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.

Organisational and IT control environment	<p>Your organisational control environment is effective overall.</p> <p>Last year we were unable to fully rely upon the Authority's IT control environment. Good progress has been made during the year in improving the overall IT control environment with eleven of the thirteen recommendations raised last year having either been implemented or superseded.</p> <p>However there remains a significant prior year recommendation relating to the number of external system support officers (employed by CGI Group who recently acquired the previous provider, Logica) who can access the SAP system which has not fully been addressed and implemented by management during 2013/14. As a result, we are again unable to rely fully on your IT control environment.</p> <p>It is also important to note that the issues identified do not mean there have been fundamental failings in the day to day operation of the Authority's IT systems. Rather, the weaknesses mean we cannot rely on the operation of certain key automated controls to gain the assurance we require for our planned audit approach.</p>
Controls over key financial systems	<p>In relation to those controls upon which we will place reliance as part of our audit, the key financial systems are sound.</p>
Review of internal audit	<p>During the year we have met regularly with SWAP in order to develop a closer working relationship and to build on our joint working protocol.</p> <p>In relation to our work on the Authority's financial controls, we were able to place reliance upon the work of Internal Audit in those areas where we are intending to rely upon controls. Working papers produced by Internal Audit were of an appropriate standard, and were supported by the required evidence. However, we did identify one area where further improvement could still be made in relation to the clarity of documentation. Full details are set out page 6.</p>
Accounts production and specific risk areas for the Authority	<p>The Authority's overall process for the preparation of the financial statements is strong.</p> <p>The Authority has taken the key risk areas we identified seriously 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.</p>

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.

We obtain an understanding of the Authority'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.

Our findings in relation to the IT control environment reflects the results of our work undertaken on the general IT controls in operation in relation to each of the Authority's key IT systems.

Whilst we identified that progress had been made in relation to the adequacy of IT controls compared to last year, further improvements are still required. Further details are provided on the following page.

Aspect	Assessment	
	2013/14	2012/13
<i>Organisational controls:</i>		
Management's philosophy and operating style	3	3
Culture of honesty and ethical behaviour	3	3
Oversight by those charged with governance	3	3
Risk assessment process	3	3
Communications	3	3
Monitoring of controls	3	3
IT control environment	2	2

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

Your IT control environment is effective overall and improvements over the IT control environment have been made from last year.

However, there remains a deficiency in one key control in SAP surrounding powerful users access rights which has remained a weakness during the year.

Work completed

The Authority 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.

In completing this work, we have been able to rely on internal audit's reviews of Civica Cash Receipting, SAP system and Corporate ICT Processes. For the Civica Cash receipting system there were some further controls we tested in addition to those tested by internal audit.

In reviewing Internal Audit's work it was identified that a number of control weaknesses had been identified, however, at the time of our audit these issues had not been discussed with Officers and formally reported within an Internal Audit Report. Issues identified by Internal Audit include:

- Completeness of SAP change control documentation.
- Improvements required within the SAP change management process.
- The lack of timeliness and accuracy of information being supplied to the SAP Support Team in relation to the disablement of accounts.
- A lack of a full audit trail to support the approval of user requests for SAP access, or the re-instatement of a SAP user's account.
- SAP default passwords had not been changed for a number of accounts.
- Improvements required around the procedures for the use of SAP Firefighter accounts (user accounts designed to provide urgent access to system functionality in the event that the user accounts normally utilised are unavailable, i.e. due to sickness or accounts being locked).
- Improvements required around the procedures for the approval and re-instatement of Civica accounts.

We have not undertaken any further testing of those areas where weaknesses have been identified and to prevent the duplication of recommendations we are not repeating these issues within this report.

Key findings

Aspect	Assessment	
	2013/14	2012/13
<i>IT controls:</i>		
Access to systems and data	1	1
System changes and maintenance	2	1
Development of new systems and applications	3	2
Computer operations and end-user computing	3	3

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

We again note that further improvements have been made in the current year in respect of the IT control environment .

However, our assessment of 'Access to systems and data' remains as Category 1. This relates to the issue over the control of a large number of CGI staff having access to powerful SAP user accounts. CGI staff still have powerful access rights enabling them to make changes to the system and being able to delete data without any audit trail being produced. We understand from the Head of IT that during 2014/15 financial year the outsourcing of the SAP environment will be brought in house therefore mitigating this issue for next year. We will, however, be required to perform testing in relation to the period prior to this insourcing being completed as part of our 2014/15 audit work.

We consider that your IT controls are effective overall.

Recommendations are included in **Appendix 1**

Following our assessment of Internal Audit, we were able to place reliance on their work on the key financial systems.

Background

From April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The PSIAS replace the *Code of Practice for Internal Audit in Local Government*. Additional guidance for local authorities is included in the *Local Government Application Note* on the PSIAS.

Work completed

The scope of the work of your internal auditors and their findings informs our audit risk assessment.

We work with your internal auditors to assess the control framework for certain 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 Authority'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 Public Sector Internal Audit Standards define the way in which the internal audit service should undertake its functions. Internal audit completed a self-assessment against the standards set out in this document in advance of them becoming applicable and as a result developed an action plan against which they have been working to ensure full compliance.

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

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, we have not identified any significant issues which would indicate internal audit are not compliant with the *Public Sector Internal Audit Standards*.

We did not identify any significant issues with internal audit's work and are pleased to report that we were able to place reliance on internal audit's work on a number of financial systems.

However, there is one improvement that could be made to further enhance the quality of internal audit's work, including:

- **Mitigating Controls:** Internal audit's work programmes set out the expected controls which are to be tested as part of any individual review. Where the expected control was not in place, appropriate work was undertaken in order to identify and test mitigating controls. In such instances, however, greater clarity of documentation was required in relation to how the alternative controls identified provided assurance over the same risk areas.

We are mindful that internal audit try to cover testing that covers the whole of the Authority's financial year and in some instances because of the timing of their work, the close down meetings or draft internal audit reports have not been finalised in time for our interim work.

As a result of this there is a potential, which has materialised in one area to date, that findings will be revised. Where this happens, additional work may be required to meet our own requirements.

These areas have been discussed with SWAP officers and we have included a recommendation in **Appendix 1**.

The controls over all of the key financial systems are sound.

Whilst internal audit have raised a number of recommendations during the year, these have no impact upon our audit.

Work completed

We review the outcome of internal audit’s work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority’s key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we 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 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

Based on our work, and the work of your internal auditors, in relation to those controls upon which we will place reliance as part of our audit, the key financial systems are sound.

Whilst internal audit have identified a number of areas where the control environment could be enhanced, and included recommendations in their reports as appropriate, these did not relate to controls upon which we intend to rely for our audit.

Financial system	Assessment	
	2013/14	2012/13
Property, Plant and Equipment	3	3
Cash and Cash Equivalents	3	3
Pension Costs and Liabilities	3	3

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

The Authority's overall process for the preparation of the financial statements is strong.

Accounts production process

We issued our Accounts Audit Protocol to the Associate Director (Finance) on 19 March 2014. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work.

We continue to meet with the finance team on a quarterly basis to support them during the financial year end closedown and accounts preparation.

Key findings

We consider that the overall process for the preparation of your financial statements is strong. Given that the timetable for the production of the financial statements has been brought forward by one month there are likely to be additional pressures for the finance team.

Our *ISA 260 Report 2012/13* included one recommendation relating to the financial statements process. This recommendation related to the accuracy of records maintained in relation to disposals arising from schools acquiring academy status. The progress made in relation to this recommendation will be assessed during our final visit.

Please note we have not specifically reviewed the accounts production process for the Pension Fund at this point in our work.

Specific audit risk areas

The Authority has a good understanding of the key audit risk areas we identified and is making 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 *External Audit Plan 2013/14*, presented to you in March, we identified the key audit risks affecting the Authority's 2013/14 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 finance officers as part of our quarterly 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 Authority has a clear understanding of the risks and making 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.

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

Key audit risk	Issue	Progress
	<p>Over recent years the Authority has been undertaking a rationalisation of its estate. This has seen significant reductions in the number of properties occupied by the Authority and will continue to do so throughout 2013/14 and into 2014/15. Through discussions with officers we identified that the Authority has encountered delays in relation to the vacation of sale of a number of properties (for example the Shurnhold site). As a result of this, there is an increased likelihood that the Authority will be holding vacant properties as at the year end, some of which will be classified as "held for sale".</p> <p>Where properties have been vacated, there is a risk that the value previously recorded on the Fixed Asset Register is no longer appropriate and that an impairment may have arisen. This risk increases as the duration of vacancy lengthens.</p>	<p>The Authority continues to push forwards with its Estates Strategy, including the relocation of services (such as finance and internal audit) to the New County Hall building.</p> <p>Throughout the year we have met with key officers in order to ensure that we remain fully informed of the progress made and any challenges being encountered.</p> <p>Detailed work in relation to this risk will be undertaken as part of our final visit in June.</p>

The Authority has a good understanding of the key audit risk areas we identified and is making 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>During the year, the Local Government Pension Scheme for Wiltshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013, in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is an audit risk that the data provided to the actuary for this exercise is inaccurate, which could lead to errors in the actuarial figures in the accounts. Most of the data is provided to the actuary by Authority, who both participates in and administers the Pension Fund.</p>	<p>As at the time of our interim visit, the valuation exercise was still ongoing. As a result, this matter will be revisited as part of our final visit in June.</p>

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>1 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.</p>	<p>2 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.</p>	<p>3 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.</p>

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	3	<p>Internal audit review</p> <p>We have identified one improvement point in relation to:</p> <ul style="list-style-type: none"> • Clearer documentation on working papers of the linkage between expected controls found to be absent, and mitigating controls identified. <p>Recommendations</p> <p>SWAP should ensure that the above point is addressed and built into their work for next years audits.</p>	<p>Agreed and in progress</p> <p>Responsible Officer:</p> <p>Michael Hudson (Associate Director, Finance and Pension Fund Treasurer) and David Hill (Director of Planning, SWAP)</p> <p>Due Date:</p> <p>September 2014</p>

Key issues and recommendations (continued)

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	3	<p>Powerful user account - Civica</p> <p>Powerful user access within Webpay is allocated via the provision of the 'Administrators' role. Review of the User List and discussion with the Civica System Administrator identified that, of the four accounts that had the Administrators role, one account entitled Admin was not in use and should have been disabled. The last logon date for this account was 17/12/2013 which related to the annual user review where this account should have been disabled. The account was disabled by the Application Support Manager during the audit.</p> <p>Recommendations</p> <p>Reinforce the process for reviewing powerful user accounts and disabling those no longer required.</p>	<p>The account has now been disabled. No further action required</p> <p>Responsible Officer: N/A – Action completed</p> <p>Due Date: N/A – Action completed</p>

Follow-up of prior year recommendations

The Authority has made good progress in the implementation of the recommendations raised in our *Interim Audit Report 2012/13*.

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 Audit Report 2011/12 and re-iterates any recommendations still outstanding.

Number of recommendations that were:		
	Non-IT	IT
Included in original report	1	13
Implemented in year or superseded	1	11
Remain outstanding (re-iterated below)	-	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2014
1	1	<p>Access and Monitoring of high privilege SAP Access</p> <p><i>A number of recommendations have been raised over previous years in relation to SAP access which have now been combined.</i></p> <p>CGI provide support to the SAP environment through an agreed contract and consequently have access to the 'Access to all' system privileges for example the SAP_ALL profile. As a result of CGI working practices a large number (approximately 230) of CGI staff could access these key accounts which we consider to be excessive when limited monitoring controls are in place.</p> <p>Direct changes to data via the SAP Graphical User Interface (GUI) is restricted by technical controls to lock the live production environment and enforce changes to be actioned through non-production environments. Monitoring is carried out to ensure that these controls are operating effectively and it was identified that this had identified an occurrence where a change had been inappropriately processed by CGI.</p> <p>There is a risk that unauthorised changes are made to the data in the live system which remain undetected.</p>	<p>This matter was fully discussed with KPMG at the last audit. Wiltshire's approach to this control is in line with industry standards and other local authorities in respect of their ERP systems. Reports and other compensating controls are in place to minimise the risk.</p>	<p>Remains outstanding</p> <p>CGI continue to hold high volume of user accounts at the SAP database level, principally due to the contract support model in place. It is understood from officers that the support of the SAP system will be brought in-house which will negate this recommendation.</p> <p>Management response update</p> <p>As in previous years, this is being continually reviewed</p>

Follow-up of prior year recommendations (*continued*)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2014
1	<p>1</p>	<p>Access and Monitoring of high privilege SAP Access (<i>continued</i>)</p> <p>Recommendation</p> <p>Restrict access to the underlying database to a minimal number of users, particularly where write/amend/delete access is granted. Such access should be appropriately logged and monitored.</p> <p>The Authority should also consider enabling the tracking of changes to the data held within SAP database tables (table logging). Where possible, periodic review of table logs should be implemented to reduce the risk of unauthorised changes.</p>		

Follow-up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2014
2	3	<p>Removal of user access - Civica</p> <p>Leavers cannot be clearly identified on the Civica WebPay system as a result of limited information within the system and the fact that the Syntax for the userID does not allow for the full user name.</p> <p>The Civica Workstation system does not permit the disablement or deletion of user accounts. Passwords are reset when the system administrator is notified that a user has left, however, there is no mechanism whereby this can be verified.</p> <p>The system administrator also confirmed that regular reviews of users are not carried out to ascertain if all system users are current and the level of access appropriate for their role.</p> <p>By not removing user accounts for users who have left, there is a risk that access to Authority data could be gained by unauthorised persons.</p> <p>Recommendation</p> <p>Due to the system limitation it is more vital that regular reviews of users are carried out to identify where users have left or have changed roles and no longer require their current level of access.</p>	<p>Procedures have now been put in place whereby the Civica System Administrators receive monthly updates on starters, leavers and movers from the HR system. This list is used to revoke / update access to the system. A full review post audit has now been carried out and open accounts where staff known to have left have been disabled.</p> <p>Responsible officer: Neil Salisbury</p> <p>Date: 1 December 2012</p>	<p>Remains outstanding</p> <p>SWAP sample testing identified 22 accounts that had been disabled between 24 and 222 days after the users leaving date. 3 other accounts were still open for use that related to employees that had recently left employment. It was confirmed that none of these had been accessed during the period when they should have been disabled.</p> <p>Management response update</p> <p>A new process for leavers has been implemented since the last audit. Leaver lists are now supplied on a weekly basis by the SAP support team using data from the Payroll system. These are reviewed and actioned. No further action required.</p>



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