



**Royal Mail Holdings plc**

Audit Results Report for the year ended  
28 March 2010

Royal Mail reference: ARC (10)21

13 May 2010

 **ERNST & YOUNG**



## CONTROL THEMES AND OBSERVATIONS

## IT

**Audit process and approach**

During 2010, Royal Mail Group Information Technology continued its transformation in the areas of project management, systems implementation (SAP-HR) and IT security, through the placement of a Chief Information Security Office. Following the significant improvements noted in our reports in 2008 and 2009, the Royal Mail Group ('RMG') IT audit continues to be an efficient and effective process. Key individuals within the Group IT function are responsible for managing third party suppliers, particularly the outsourced service provided, CSC, and delivery of our audit information requests. Whilst some improvements were noted in the POL IT audit process, we continue to face difficulties in obtaining accurate information from Fujitsu, one of the outsourced providers of POL IT systems. This is discussed in more detail below.

In order to make our audit approach as efficient as possible, we seek to rely on SAS 70 audits. These audits are independent audit reports over the control environments of the Group's IT suppliers. Whilst we were able to place reliance on this third party testing for one of the Group's suppliers, CSC, we were unable to place reliance on Fujitsu, due to a SAS 70 audit report not being available. The Fujitsu control environment is bespoke to POL and therefore the cost of a SAS70 is borne entirely by POL, whereas for CSC the control environment is similar for a number of companies and therefore the cost is shared. The cost of Fujitsu obtaining a SAS 70 audit was prohibitive; therefore we have performed our own independent audit procedures to obtain assurance over the Fujitsu IT general control environment.

**Control observations**

POL has made significant changes to its IT environment in 2010, resulting in the inclusion in scope of the Credence application for the first time, replacing POL-MI and the Reference Data System. During 2010, POL also worked with Fujitsu to deliver a new version of the Horizon application used at, and in support of, Post Office branches. This new version of Horizon was also included in scope.

Following difficulties in performing the IT general control procedures with Fujitsu in 2009 a new key contact was identified to assist in the management of the IT general controls procedures with Fujitsu. However, challenges were again experienced in obtaining audit evidence in a complete and timely manner from Fujitsu, resulting in significant delays in completion of the IT general control procedures. We were not able to identify an individual within POL who owns the relationships with outsourced providers to reinforce our requests and we required intervention from senior POL finance staff and senior Fujitsu UK executives. An alternate contact from Fujitsu has been proposed and we will develop this relationship into 2010-11, aiming for a more efficient process.

While the controls operated by Fujitsu on behalf of Post Office were appropriately designed an exception was noted in the revocation of user access. Access was immediately revoked by Fujitsu when this was identified.

Our procedures relating to Credence found that a lack of segregation of duties in the development and production environment. We also found that complete records were not available such that we could test that developers were not moving their own changes into production. Further, we found that password controls on Credence were aligned with the password configuration standards required by Post Office. As a result of the findings on Credence, additional audit procedures were performed to address risks associated with reports and information used from Credence in the operation of controls and audit evidence, with no issues noted.



## CONTROL THEMES AND OBSERVATIONS

**Status on 2008-09 management letter points**

In 2008 and 2009 we noted third party users with SAP\_ALL access (unlimited access to the SAP systems). In 2010 we found that only select individuals and user-ids had this access and controls had been established to monitor actions of users with SAP\_ALL access and to periodically review the requirement of SAP\_ALL access. Our testing of these compensating controls concluded that the controls were operating effectively.

**2010-11 challenges**

The challenges the Group faces in 2010-11 will be the continued transformation of IT and the delineation of IT services provided by CSC and Fujitsu. We understand that some of this separation is already underway as certain SAP environments move to Fujitsu and other service providers away from CSC, the primary provider for Royal Mail Group.

The implementation of the SAP - HR system to replace the existing Infinium payroll application will present potential significant risk to Royal Mail, as it implements a major application supporting the payroll of tens of thousands of employees. The implementation team, in conjunction with Internal Audit, have sought our input in the planning phase of the project and we are currently working to review the proposed control framework and highlight potential gaps and share best practice. We are also reviewing the proposed system security and the plan for data migration from the existing system to provide our experiences from similar exercises at other clients.

**Royal Mail Group****Customer services****Mail delivery and collection**

Our work on the delivery and collection of mail was completed by the end of the year. It visits all delivery points and collection points to ensure that the service is provided to the required standard. It visits all delivery points and collection points to ensure that the service is provided to the required standard.

**Revenue process**

Our work on the revenue process was completed by the end of the year. It focuses on the revenue process, which is the process of generating revenue from the sale of mail. It focuses on the revenue process, which is the process of generating revenue from the sale of mail. It focuses on the revenue process, which is the process of generating revenue from the sale of mail.

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**Payroll process**

Our work on the payroll process was completed by the end of the year. It focuses on the payroll process, which is the process of paying employees. It focuses on the payroll process, which is the process of paying employees. It focuses on the payroll process, which is the process of paying employees.