

## **HERTFORDSHIRE COUNTY COUNCIL**

### **AUDIT PANEL**

**THURSDAY, 16 DECEMBER 2004 AT 10.00AM**

### **AUDIT COMMISSION ANNUAL AUDIT LETTER 2003/04**

#### Report of Finance Director

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This is the formal response to the attached Audit Commission Audit Letter for the financial year 2003/04 which covers:

- Council performance
- Accounts and governance
- Performance management

#### **1. Summary**

The letter summarises the conclusions and issues arising from the audit and inspection. The letter suggests certain actions needed by the council these are:

- Ensure that identified improvement priorities are integrated and delivered through the corporate agenda.
- Monitor the process for the compilation of the 2004/05 accounts within the tighter deadlines set.
- Continue to monitor the financial position of the council.
- Continue to build on actions identified to improve systems of internal control.

The key issues addressed in the report relate to (Audit Commission comments in italics)

**(a) Performance**

- **Council performance**

*The council's direction of travel since last year is positive overall. Services have been maintained at a high level and the council is well placed to further improve the way it works and the services it provides to local people.*

Work has commenced to address longer term planning issues, the development of an effective corporate plan and budget planning on a three-year basis. At this stage we are envisaging full implementation from 2006 - 2007, but will produce a new style corporate plan to replace the present Best Value Performance Plan (BVPP) in June 2005.

- **Other**

*Our fire service verification report assessed the council's fire authority to have made 'some progress' in implementing the national changes set out in the pay agreement and the subsequent white paper.*

The Fire Services response to the action plan included in the verification report is as follows for implementation in 2005.

To undertake a risk assessment for the implementation of the Integrated Risk Management action plans. Determine impact of resource and capacity constraints on the delivery the plan and its ability to meet national and local timescales. Develop contingency plans to assure that key priorities are resourced and met.

Develop medium and long term plans which reflect the authority's strategy and how it will manage competing demands or impact on service users.

Ensure that the fire authority strategy and vision are reviewed on the basis of full consultation with staff, stakeholders and partners.

Ensure that staff and stakeholders are fully consulted on planned revisions to overtime and associated HR policy development and that their views are taken into account.

Fully embed Project management system methodology and quality assurance systems across the whole of the Integrated Risk Management plan process. This will make integration of budgeting with

project planning and the use of the balanced score card system more effective.

*The performance for libraries and leisure services is also mixed with three indicators in the top quartile and three in the third quartile. A total of 50% of indicators improved although only one indicator in the third quartile improved.*

The indicators that have not improved are listed below

BVPI1 Corporate Health – The Library service plan to implement a community strategy by 1 May 2005,

BVP117 Number of visits

BVP118 Library user satisfaction

These will be addressed however it must be recognised that significant business is now being conducted by telephone and web site visits.

Although the percentage of users who were satisfied with the library were lower than the top quartile the results still reflect a good overall figure albeit 91.8%. Satisfaction will continue to be monitored.

- **Audit of 2003/04 accounts**

*We gave an unqualified opinion on the council's financial statements and pension fund accounts on 30 November 2004. We will continue to work with officers to help to bring forward the accounts preparation and audit processes next year.*

**(b) Financial standing**

*The council's arrangements for ensuring its financial health are generally sound. There continue, however, to be overspends in some areas and the implementation of the new SAP system may temporarily reduce the amount of the details, timely information available to management.*

**(c) Systems of internal financial control**

*We have not identified any significant weaknesses in the overall internal control framework and we support the actions already taken by the council and its plans for further development in 2005.*

**(d) Standards of financial conduct and prevention and detection of fraud and corruption**

*We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.*

**(e) Legality of transactions**

*We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.*

**(f) Accounts**

*An unqualified audit opinion on the Council's financial statements is given*

**(g) Best value performance plan**

*The Best Value Performance plan complied in all significant respects with statutory requirements*

**3. Analysis**

In general the issues identified in the Auditor's letter have been taken on board by County Council officers. With regard to the actions identified these are set out below together with a suggested response.

- *Ensure that identified improvement priorities are integrated and delivered through the corporate agenda.*

It is accepted that a corporate plan is required and we are working to put this in place by June 2005.

- *Monitor the process for the compilation of the 2004/05 accounts within the tighter deadline set.*

All officers are very aware of the tighter deadline set for the closing of the 2004/05 accounts. The programme is regularly monitored by the Finance Director, departmental Resource Directors and the Finance Board.

- *Continue to monitor the financial position of the council.*

This will be continued in accordance with the requirements for regular monthly and quarterly reporting.

- *Continue to build on actions identified to improve systems of internal control.*

The benefits that can be achieved from the new major systems SAP and IRIS are well understood and documented by our organisation and there are plans for future project phases following initial implementation. Services level agreements, training and capacity are all issues that are recognised and are being resourced.

The following recommendations made are being addressed as noted below

*To ensure that the service delivery departments and the wider organisation are in a position to implement the working of the new SAP system, in order to realise the full potential savings and improvements offered.*

- The SHARP (Simplifying Hertfordshire's Accounting and Resource Processes) team remains in place post the implementation of SAP
- A range of user groups are being used to ensure that SAP is being used to advantage across HCC.

The groups are:

- Finance Managers which meets every 2 weeks and SAP is a standing item
- Specific user groups have also been set up for each of Accounts payable, Accounts receivable and financial reporting. These meet on a 6-8 weeks basis.
- Personnel Managers Group meets every month and SAP is a standing item
- The HR SAP user group has been set up and meets every 2 weeks and a variety of other HR groups look at SAP as standing items
- A SAP purchasing user group has been set up and meets every quarter
- An On-line Buyer user group has been set up and meets every 6 weeks
- Schools Payroll focus group monthly.

These groups give feedback on SAP in use and share user experiences.

In addition, there are weekly email bulletins discussing current topics or reinforcing a piece of training. These are being sent to all users. The bulletins have finance, HR and Procurement sections.

A set of "how to guides" have also been published and are available on HCC's intranet.

*Develop the service level agreement between HCC and ITNet to ensure that service limits and expectations are agreed and monitored.*

- Work has commenced on this and is targeted to finish by March 2005.

- External consultants have been brought in to advise us on how to update existing SLA's
- Contract management and Internal Audit are updating the key control areas for the ITNET managed service contract, using the current CIPFA Key controls as the baseline

*Ensure that the service user training is co-ordinated to maximise impact and training.*

- The SHARP team employs two full time trainers and together with resource from the Purchasing Gateway has a training programme to induct new users and to update existing users. Feedback from attendees on courses and from the user groups is incorporated into the training materials to ensure it fully reflects current processes and addresses key learning issues.

*Ensure that adequate capacity is maintained to resolve issues arising from the testing process and regime*

- In September, the SHARP Competency centre was set up. Its remit is to support all SAP systems.
- The SHARP plan is to do two major "patch" upgrades per year to deal with technical changes and enhancements. The first was successfully completed on time in November 2004. This demonstrates that there are sufficient resources. The next application is scheduled to commence in February 2005.

#### **4. Publication**

The Council is required as soon as reasonably practical following its receipt to publish the Letter and keep copies of it available for any person (on payment of a reasonable sum).

To fulfil this requirement the Letter will be placed on the Council's web-site ([www.hertsdirect.org](http://www.hertsdirect.org)): and there will be a reference to it in HERTSDIRECT, the Council's newspaper.

#### **5. Conclusion**

The specific issues identified by the auditors are summarised and responded to in this report and it is suggested that the Panel agree that

a copy of the report be sent to the Audit Commission as the Council's final response.