
Management Letter to Members

Hertfordshire County Council

Audit 1999/2000



DISTRICT AUDIT

delivering public audit
for the Audit Commission

Final

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- Introduction

Introduction

- 1 This Management Letter summarises for Members the results of our audit for 1999/2000 and comments on the Council's performance, in the context of the Code of Audit Practice, during the year and to date.
- 2 The past year has again been a demanding one for the Council. Alongside the significant challenge of implementing the Government's Best Value requirements, the Council has also faced a number of other major national and local challenges, including:
 - developing new arrangements to meet the Modernising Government agenda
 - continuing to deliver services in a changing environment and against continuing budget pressures.
- 3 The immediate future shows little relief in the pressures of change, one of the most prominent being the thrust toward inter-agency partnerships and 'joined-up' service delivery. The Council is already well advanced with developing these arrangements.
- 4 Our overall conclusion is that the Council has performed well over the past year and appears adequately prepared to cope with the imminent new challenges.
- 5 We have summarised the conclusions of our audit in Exhibit 1 that follows and have extracted from our Management Letter, in Exhibit 2, key issues arising from our audit work that we think need to be addressed in the near future. These, of course, will have to be considered alongside other priorities that the Council is facing.

Exhibit 1 Audit objectives and conclusions

We have found that the Council has appropriate arrangements in the areas covered by our audit

Objective	Conclusion
Management arrangements – Are the Council's arrangements for securing value for money in its use of resources adequate?	Hertfordshire CC has made progress in addressing the demanding agenda for change set by the Government. The Council needs to maintain the current momentum around Best Value, democratic renewal and partnership working.
Is the general financial standing of the Council soundly based?	Revenue reserves are at a very low level and will need to be carefully controlled through an anticipated period of significant change.
Do the statements of accounts present fairly the financial position of the Council and its income and expenditure for the year?	Our work on the 1999/2000 accounts is continuing and an audit opinion will be issued before 31 December 2000. At this time there is no matter to bring to the attention of Members.
Are the Council's significant financial systems adequate for the purpose for which they were designed?	Overall, based on the work carried out, significant financial systems were assessed as adequate for the purposes for which they were designed.
Are the Council's arrangements for preventing and detecting fraud and corruption adequate?	The Council's overall arrangements for preventing and detecting fraud and corruption are sound. We have not identified any significant weaknesses in the tests we conducted.
Are the Council's arrangements for ensuring the legality of transactions that may have a financial consequence adequate?	The Council has appropriate arrangements in place for ensuring the legality of its financial transactions.
Are the Council's arrangements for collecting, recording and publishing its performance indicators adequate?	There are satisfactory arrangements in place to produce and publish the performance indicators.

- 6 The findings from our detailed audit reviews are reported and discussed with your officers at key stages throughout the year. At the conclusion an action plan is agreed for implementing the recommendations arising from each review and is incorporated in the final report. This forms the basis for monitoring progress subsequently.

Exhibit 2 Key issues for Members

There is a range of issues for the Council to address

Key issue	Action required
Best Value The success of implementing Best Value initiatives needs to be built upon to ensure that real benefits are secured for the Council	R1 Members should ensure that they have in place a reliable process to monitor the progress and assess the achievements and benefits resulting from the outcomes of Best Value reviews.
Democratic renewal The Council has recently implemented a revised political structure	R2 The Council should conduct a review of the structure after its first year of working to assess its operational effectiveness.
Community strategies Partnership working will become a key element of future service delivery.	R3 As partnership arrangements are developed involving different departments of the Council and different agencies it is important to try to identify good practices so that they can be spread throughout the Council.
Financial health At the 31 March 2000 revenue reserves were at very low levels.	R4 There is a continued need to have in place comprehensive, accurate budgeting and budgetary control procedures through the forthcoming period of possible reallocation of resources.

- 7 The past year has been intensive for Members and officers alike. We would like to thank both for their time, contributions and assistance to our audit.
- 8 Our aim is to continue to provide you with a high standard of service that is both relevant to your needs and meets the requirements of the new Audit Code of Practice.
- 9 More details of the approach to the audit required by the new Code are explained in the final part of this letter. The Code allows more flexibility in developing an audit programme that is risk based and is therefore more closely tailored to your needs.
- 10 We look forward to continued close working with you during the coming year as we implement the new Code together.

Management arrangements and project work

- Best Value
- School attendances
- Disability equipment
- Grants to voluntary bodies
- Other Education projects
- Year 2K
- Future developments

Management arrangements -
Are the Council's
arrangements for securing
value for money in its use of
resources adequate?

Hertfordshire CC has made progress in addressing the demanding agenda for change set by the Government. The Council needs to maintain the current momentum around Best Value, democratic renewal and partnership working.

Best Value

Key issue

The success of implementing Best Value initiatives needs to be built upon to ensure that real benefits are secured for the Council

Best Value Performance Plan 2000/2001

- 11 The Local Government Act 1999 introduced a duty of best value on local authorities with effect from 1 April 2000. The legislation required authorities to develop and publish a Best Value Performance Plan (BVPP) which incorporates Best Value performance indicators and a programme of Best Value reviews (BVRs). The primary role of the auditor is to give an audit opinion on whether the BVPP complies with legislation and to report on the arrangements that support the production of the BVPP.
- 12 The Council's BVPP was published and made available within the prescribed timeframe. This was a considerable achievement that reflected the efforts made by officers throughout the year and the experiences brought from the Herts Connect project.

- 13 We issued our statutory report on the Council's BVPP on 30 June 2000. The opinion was qualified for the fact that the Council had not produced a summary BVPP by the 31 March 2000 nor did it provide copies to households. More detailed findings of our Best Value audit were presented to the Scrutiny and Audit Panel and an action plan agreed to address recommendations we made to improve procedures and presentation.

Developments for 2001

- 14 The audit for 2001 will change as the BVPP is required to incorporate a number of additional elements including:
- Comparative information between authorities
 - Local performance indicators developed following BVRs
 - The results of BVRs
 - Information relating to Best Value inspections as well as the Audit.
- 15 In addition, we will be looking for authorities to demonstrate that they have learnt from the first year and that they are adopting a stringent approach to target setting.
- 16 The other main change next year is the introduction of the Audit Commission's Inspection Service. Auditors and inspectors are finding ways of working together so that authorities gain best value from the Audit Commission Inspectorate and their external auditors.

Recommendation

- R1 Members should ensure that they have in place a reliable process to monitor the progress and assess the achievements and benefits resulting from the outcomes of Best Value reviews.*

School attendances

- 17 Improving levels of school attendance and reducing the number of children excluded from school are national priorities. The Government has set national targets for reductions by 2002 of one third in the rate of unauthorised absence and in the number of permanently excluded pupils. Hertfordshire County Council works with schools by providing guidance on management of attendance, behaviour and exclusion, as well as a range of services for individual pupils.
- 18 The Council has set out details of these services in its Behaviour Support Plan, and set local targets for reductions in truancy and exclusions. Our audit work at the Council is part of a national audit programme following the Audit Commission study of the ways LEAs manage school attendance and exclusion, *Missing Out*.
- 19 The audit is providing an assessment of the LEA's strengths and weaknesses, advising on good practice and providing support to the Council in updating its Behaviour Support Plan by the end of the year.
- 20 Some of our key findings so far are shown in Exhibit 3 below:

Exhibit 3 School attendances – findings from the audit

Key Issues	Preliminary findings
Strategy	
Does the LEA have a credible strategy for meeting the Government's targets for reductions in the levels of unauthorised absence and permanent exclusions and providing full-time education for excluded pupils?	<p>There is a documented strategy in place but schools and other agencies are not fully engaged with all its details.</p> <p>Continuing developments emphasise the need to enhance the dissemination of guidance to relevant agencies.</p> <p>There is good awareness of the cost of the strategy but the balance of resources to achieve key targets merits further examination.</p>
Links with schools	
Does the LEA have ways of identifying the needs of individual schools and provide appropriate support?	<p>There is evidence of good practice in monitoring schools' performance. This underpins service planning to prioritise resources.</p> <p>However, schools feel more support could be given in the development of responses to local problems.</p>

Key Issues	Preliminary findings
Central support services	
Is the ESW service effective and efficient?	The ESW service is very well managed and demonstrates significant good practice such as monitoring improved attendance rates for managed cases.
Does the LEA provide an effective behaviour support service?	This is a developing service and improved guidance is being prepared to help schools and other users access the service.
Improving attendance	
Has the LEA been successful in improving attendance?	Attendance is above that in CIPFA neighbour authorities. The LEA has set demanding attendance targets which are not being met, albeit by small margins. Officers are examining current arrangements to support schools.
Minimising exclusions	
How effectively does the LEA seek to minimise the number of pupils permanently excluded from school?	The number of permanent exclusions has fallen over time, and 1999/2000 exclusion targets have been met. However, there have been sharp increases in fixed term exclusions. Exclusions are monitored well but there is no 'early warning' system to track behaviour in schools.
Provision of alternative education	
Is alternative education provided quickly?	October 1999 data indicated that there is variation in the time taken to provide education post exclusion partially due to the current systems in place. These will not meet the Government targets.
Does alternative education secure suitable outcomes?	The Authority does not maintain information systems to demonstrate this for all pupils.

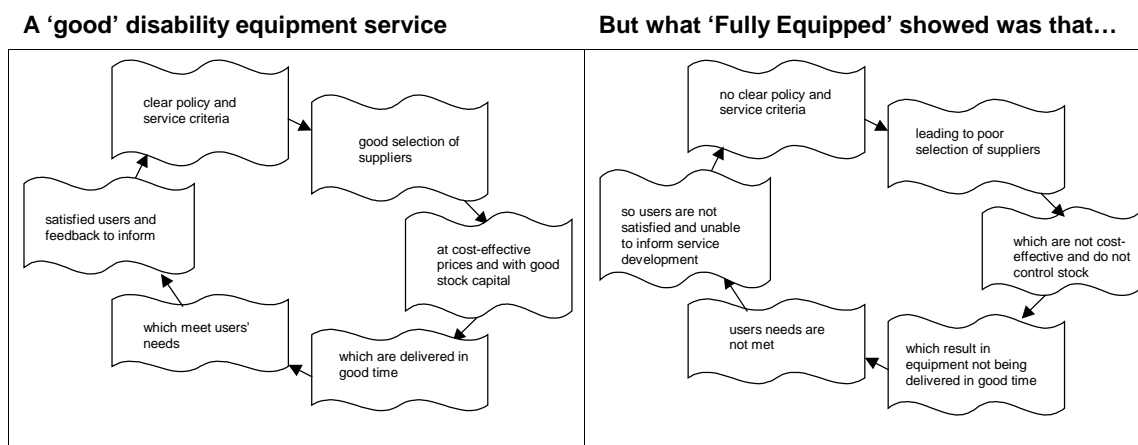
- 21 We are continuing to discuss our findings with officers and agree a way forward. Key issues will be addressed in the revision of the Behaviour Support Plan.

Disability equipment

- 22 There are over four million users of disability equipment services provided by the NHS or local authorities. The quality of the services that they receive can make a difference between an enriched, independent life and an isolated, unproductive existence.
- 23 The Audit Commission's national report, *Fully Equipped* (March 2000) found:
- unacceptable variations in performance and practice
 - patients having to wait for exceptionally long times to receive their equipment
 - inequalities in clinical practice and outcomes.
- 24 This local study has examined whether the Council's community loan service is delivering value for money (Exhibit 4).

Exhibit 4 The focus of our audit

The audit identifies opportunities to improve the service to the benefit of patients



Main conclusions

- 25 A number of areas of good practice were identified at the Council. It has a clear policy and service criteria for the equipment service and commissioners have agreed the policy. There are sound selection procedures for the provision of the service and the equipment. There is management information on the length of time that service clients wait for equipment, which is monitored by management. There is evidence that the Council seeks to achieve the best price for equipment through its membership of the buying consortium. The Council consolidated its service provision through the Social Services Department in partnership with the County Supplies and Contract Services (CSCS) organisation approximately eighteen months ago. The stores holdings, which had previously been in disparate locations around the county, were centralised into the CSCS store.
- 26 In common with the Audit Commission findings elsewhere the service has little evidence of recycling, although it does have a credit system to allow refunds to the purchasing district teams budgets when an item, which has been collected and refurbished, is re-issued. We are recommending improvements to procedures in this area.
- 27 We are also recommending improvements to computer support for the service and to stock control procedures. We have also noted a need for users to be consulted more frequently and have suggested that this be built into more general Council consumer surveys.
- 28 We are discussing our findings with officers of the Council in order to reach agreement of an action plan to address the issues we have identified.

Grants to voluntary bodies

- 29 The best value framework has emphasised the importance of partnership between local authorities and key local players such as voluntary organisations, and the sector has also become increasingly important in the provision of some services, with many authorities moving towards contractual and service agreements. Additionally the context in which local authorities engage with the voluntary sector is changing with the drive to establish local “compacts”.
- 30 Pressure on budgets has for many authorities resulted in an increasing need to focus funding on achieving outcomes related to corporate and service priorities. At the same time best value has highlighted the need to ensure that support of voluntary sector organisations represents value for money, and that services are being delivered to clear standards.
- 31 The following Exhibit 5 summarises our findings which are being discussed with officers.

Exhibit 5 Grants to voluntary bodies - key audit issues and recommendations

Issue	Conclusions	Recommendation
Does the authority have a corporate policy or strategy framework for grant making to voluntary organisations?	The Council does have a strategy for voluntary sector funding in place, however, this is inconsistently applied across the departments and does not meet the good practice requirements we would expect to see. Without a clear corporate view of what the Council is trying to achieve, related to its strategic objectives, it will be difficult to measure performance.	Review the corporate strategy for funding the voluntary sector in line with good practice.
Does the authority know how much it spends in total on work with the voluntary sector?	The Council is able to identify the spend on voluntary sector support. It is important to establish an overview of all support for the voluntary sector in order to assess whether spending is adding value to the services provided by the Council. This should include quantifying any 'in kind' support such as secondments and subsidised accommodation	No recommendation

Issue	Conclusions	Recommendation
Is it possible for two different committees to make grants for the same project?	The grant-aiding process is devolved to department level, without a corporate overview of activity. A co-ordinated approach across services should be established to reduce the potential for duplication and fraud. A "joined up" approach also facilitates cross-service working and makes it easier for applications to reach the right officers.	Develop a mechanism to ensure the Council is maximising its grant-aiding facility.
Does the authority have standardised application procedures and documents across all committees?	The Council does not use standardised applications across the Council but each department does link funding to supporting departmental objectives. Without an approach to ensure equity of access and consistent decision making, there is a risk that grants may not be given in line with the Council's own objectives and policies on issues such as equal opportunities. There are reputational risks in not having a process which is transparent and seen to be fair.	
Are there written funding agreements or contracts with organisations receiving grants or other support?	All respondents to our questionnaire had some sort of funding agreement in place. The voluntary sector funding strategy includes guidelines of what should be included in funding agreement, though the interpretation of this varies across departments. Funding agreements establish expectations on both sides and give an authority a basis against which to measure performance.	Establish a formal framework for the development of written funding agreements, aimed at establishing expectations on both sides and giving the Council a basis for measuring performance.

Issue	Conclusions	Recommendation
Does the authority: monitor the way money is spent and assess what has been achieved?	There is little evidence to suggest monitoring and evaluation of grant aid is rigorously undertaken. Performance review is key to achieving best value continuous service improvement, and is an important element of the planning cycle to ensure that decisions at corporate level are translated into effective action. As well as monitoring individual grants, it is important to develop a picture of the overall impact of funding programmes in meeting service and corporate objectives.	Develop a performance monitoring framework aimed at delivering continuous service improvement in the achievements of the grant-aiding programme.

Other Education projects

- 32 During the year we carried out work in two areas to assist the Council with its own work programme. These were in the areas of forecasting pupil numbers and education traded services.

Forecasting pupil numbers

- 33 In our earlier work, in 1996/97 and 1999, on planning school places we noted that forecasting of pupil numbers for primary schools was outside the parameters of accuracy recognised by the Audit Commission as being good practice. There have been further major changes to the legal framework in which local education authorities plan and allocate places making accurate forecasting even more important.
- 34 Our work this year was aimed at:
- exploring in more detail the methodology for forecasting used in Hertfordshire
 - drawing on examples of best practice in other authorities and
 - making recommendations in the light of the above.
- 35 Through our District Audit network we identified two authorities with good practice procedures and performance which were thought to have sufficiently similar characteristics to Hertfordshire to provide valid comparisons. We then established how their procedures varied from that of Hertfordshire.

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- 36 We found a common factor in the checking of raw data on pre school numbers at the two good practice authorities that was not done in Hertfordshire. As a consequence we have made recommendations on how Hertfordshire could adapt its own procedures to try to secure greater accuracy.

Education traded services

- 37 A pilot Best Value review in the Education Department covered a group of five traded support services to schools:
- schools IT systems support
 - Herts Media and Workshops
 - financial services to schools
 - Herts Outdoors
 - School Library Service.
- 38 We assisted the Council in a role as ‘critical friend’ by providing input from an auditor with knowledge of good practices elsewhere and of the Best Value processes to provide comment on the methodology of external challenge being adopted in the review.

Year 2K

- 39 In previous Management Letters we have commented on the preparations being made in readiness for potential failures of equipment caused by the year 2000 date change. We monitored the preparations over the past three years.
- 40 We are pleased to report that the arrangements made by the Council appear to have been successful and in terms of problems caused by equipment the turn of the century proved to be uneventful.

Future developments

- 41 The following paragraphs describe significant changes that will influence the Council's management arrangements in the near future and are areas that we will be keeping under review.

Democratic renewal

Key issue

The Council has recently implemented a revised political structure

- 42 The Local Government Act 2000, which received Royal Assent in July, includes the requirement for all authorities to revise their political structures. Essentially, authorities are required to adopt one of three models for decision making:
- elected mayor and cabinet
 - elected mayor and council manager
 - cabinet and leader
- 43 Many authorities, including Hertfordshire County Council have introduced revised arrangements in advance of the requirements of legislation.
- 44 You implemented a new structure from 1 August 2000 comprising a single party cabinet, select committees and panels. To overcome the current restrictions on decision making by a single party body an Executive Committee has been retained to consider and confirm decisions of the Cabinet.
- 45 The new structure will be a challenge to members and officers alike. As it develops there will be a need to ensure that that the structure permits all members sufficient access to the decision making process. It is also likely that more dedicated officer time will be needed by the new arrangements particularly in supporting the scrutiny function. There will be a need to assess the effectiveness of the new arrangements probably mid way through the next year. We will monitor your progress and would be happy to share with you emerging good practice that we may become aware of.

Recommendation

- R2 The Council should conduct a review of the structure after its first year of working to assess its operational effectiveness.*

Community strategies

Key issue

Partnership working will become a key element of future service delivery.

- 46 The Local Government Act 2000 also introduced the duty from July 2001 for local authorities to prepare community strategies which promote economic, social and environmental wellbeing of their areas. This will entail:
- working in partnership with other local bodies
 - engaging and involving local communities and
 - basing strategies on assessment of needs and resources.
- 47 It will be fundamental that the community strategy acts as an 'umbrella' for other key planning processes, in particular the strategy will need to be reflected progressively in the BVPP and BV reviews. In turn this will require close liaison and co-operation between officers and other bodies to meet target deadlines. We will monitor progress and assist where we are able.
- 48 This is just one of a growing number of requirements for partnership working with other agencies some of which will entail receipt of government grant support as projects develop eg the 'Support People' programme for providing housing support to vulnerable people. One consequence of these developments is that the Council will need to have in place robust arrangements to ensure that it claims and receives grants as soon as entitled for such schemes.

Recommendation

R3 As partnership arrangements are developed involving different departments of the Council and different agencies it is important to try to identify good practices so that they can be spread throughout the Council.

Corporate governance

- 49 A draft framework for a Code of Corporate Governance for local authorities is currently out for consultation from CIPFA and SOLACE. The draft Code brings together current best practice in relation to:
- community focus
 - service delivery
 - structures and processes
 - risk management and internal control
 - standards of conduct.
- 50 It is anticipated that the Code will come into effect from December 2001, bringing local government into line with practice in the private sector and the health service.
- 51 Much of the Code will be familiar and is effectively being implemented through the Best Value, Democratic Renewal and Standards of Conduct initiatives which authorities are currently working with. However, the element of risk management and its application to internal control will be new to many authorities.
- 52 The risk management approach ties in closely with the new Code of Audit Practice. We will be looking to see that authorities have considered their business risks and have taken appropriate measures to ensure that high risk areas are addressed and that internal control is appropriately focused in the light of this.
- 53 Councils should be taking the first steps in this process now, so that they are able to implement the Code in full from the anticipated start date of December 2001.

Financial health

- 1999/2000 performance
- Future developments

Is the general financial standing of the Council soundly based?

Revenue reserves are at a very low level and will need to be carefully controlled through an anticipated period of significant change.

1999/2000 performance

- 54 We have commented in our previous Management Letters about the progressive decline in general revenue reserves and this trend continued in 1999/2000. At the 31 March 2000 the General Fund reserve stood at £2.9m compared with £9.4m one year before. At the time of fixing the 1999/2000 budget it was anticipated that there would be a carry forward balance of £10m at 31 March 2000.
- 55 The underlying reason for the reduction of the General Fund balance appears to be the result of pre-funding capital expenditure from revenue because of delays in receiving income from capital sales. In theory this should rectify itself as sales mature.
- 56 Capital reserves have been held steady at £11m and specific reserves show an increase to £47.8m although much of this is due to the inclusion in the balance sheet of balances held by former grant maintained schools (now foundation schools). A significant increase in the year is also the reserve held in respect of self-insurance, which has been increased, from £3m to £7.3m. Exhibit 6 below shows the trend in balances.

Exhibit 6 Levels of balances 1996/7 to 1999/2000

There has been further decline in general reserves in 1999/2000

Reserve	31.3.97	31.3.98	31.3.99	31.3.00
	(£m)	(£m)	(£m)	(£m)
General Fund	24.8	8.9	9.4	2.9
Capital Reserves	14.3	13.4	11.0	11.0
Specific Reserves (Total)	32.0	30.5	37.0	47.8
<i>of which schools</i>	<i>15.4</i>	<i>14.4</i>	<i>15.7</i>	<i>22.9</i>

Future developments

Key issue

At the 31 March 2000 revenue reserves were at very low levels.

- 57 When setting the 2000/2001 budget it was anticipated that the level of general reserves brought forward at 1 April 2000 would be £12m, very close to actual out-turn. The latest estimate for the levels of general reserves at 31 March 2001 is £17.7m. If this is achieved it will restore a certain amount of flexibility into the situation.
- 58 The Council is actively combining the processes of budget determinations and medium term financial forecasting with Best Value planning. Whereas medium term forecasting appears to consider carefully all the known variables, annual budgeting for demand led services has continued to result in budget provisions which are under pressure. For example, in 1999/2000 there were significant overspends in areas such as childrens residential placements, fostering and homecare although these were compensated by underspends elsewhere.

- 59 With comparatively low levels of working balances there is constant pressure to ensure that budgeting and budgetary control is very accurate. Past performance particularly in the demand led services noted above indicate that there is still scope for improvement. There are likely to be further complexities which will require even more diligence in trying to construct accurate budgets in the future. These include:
- the continuing alignment of Best Value 'promises' with resource allocation
 - growth in partnership working with other agencies and possible transfers of service delivery responsibilities
 - restructuring of Council departments.

Recommendation

R4 There is a continued need to have in place comprehensive, accurate budgeting and budgetary control procedures through the forthcoming period of possible reallocation of resources.

Statement of accounts

- 1999/2000 Audit opinion
- Best value accounting

Do the statements of account present fairly the financial position of the Council and its income and expenditure for the year?

Our work on the 1999/2000 accounts is continuing and an audit opinion will be issued before 31 December 2000. At this time there is no matter to bring to the attention of Members

1999/2000 Audit opinion

- 60 The 1999/2000 statement of accounts was produced in good time and was considered and approved by the Cabinet and Executive committee on 18 September 2000. We received a copy of the statements at the same time. Our work to date indicates that the statements are materially correct. We will give an opinion before 31 December 2000.
- 61 Our audit work on the 1998/99 statement of accounts was concluded after presentation of our 1998/99 Management Letter. We issued an unqualified audit opinion with the completion certificate for the audit and no matters of significance arose which needs the attention of Members.
- 62 We are continuing to develop our working relationships with your officers to provide appropriate and timely working papers to support our audit opinion work. This has improved significantly over the past two years and this is mainly due to the work of a few key staff within the corporate finance section. We have some concerns that these responsibilities rest with too few staff.

Best value accounting

- 63 CIPFA has published the Best Value Accounting Code of Practice, which establishes 'proper practice' with regard to consistent financial reporting below the statement of accounts level. The Local Government Act 1999 requires all local authorities to adopt the Code for accounting periods beginning on or after 1 April 2000.
- 64 This means the requirements will apply to the 2000/2001 statements of accounts and the March 2001 Best Value Performance Plans. This will probably mean some realignments of coding structures and reporting frameworks.
- 65 We recognise that officers are already taking into account the changes that are required even though much of the guidance has yet to be fully tested in practice and some is in need of clarification. The introduction of these changes has not come at the best time for the Council in light of the strong possibility of the need to change the main accounting system within the next two years. We have had informal discussions about the implications (as far as we understand them) with officers and will work together to find reasonable, possibly interim, solutions to meet the requirements.

Financial systems review

- Introduction
- Control environment
- Internal audit
- Adequacy of systems

Are the Council's significant financial systems adequate for the purpose for which they were designed?

Overall, based on the work carried out, significant financial systems were assessed as adequate for the purposes for which they were designed.

Introduction

66 The Code requires us to review significant financial systems and associated controls to:

- support our opinion on your annual accounts by assessing the accuracy of the output from these systems
- assess the adequacy of such significant systems and associated internal controls.

67 In meeting these objectives we:

- assess the adequacy of your overall control environment
- place reliance upon the work of Internal Audit, wherever possible.
- review the design, and where appropriate, test individual systems

Control environment

68 We are required to annually assess the control environment in which financial systems operate. Our assessment relies heavily on past experience of the Council and considers any changes in the year of audit affecting, for instance, the currency and comprehensiveness of standing orders and financial regulations and the IT environment. Our conclusion is that the control environment within Hertfordshire County Council continues to be sound.

Internal Audit

- 69 Internal Audit is itself part of the control environment. We co-ordinate our work with Internal Audit by way of joint working arrangements to try to make best use of the total audit resource and we discuss variations to coverage to meet changing priorities and circumstances throughout the year.
- 70 We use the work of Internal Audit whenever possible to support our own regularity audit work and in 1999/2000 have been able to rely on it significantly.

Adequacy of systems

- 71 To support our audit objectives related to the audit opinion and adequacy of system design we conduct annual evaluations of selected systems and, if necessary, test controls and procedures. Our own work is complemented by that of Internal Audit.
- 72 Our work this year has been concluded and for those systems reviewed we are satisfied that at the time of our work they were adequately designed and operating effectively to prevent any material misstatement in the accounts or irregularity.
- 73 We have commented in the past about the accuracy of procedures for checking signatories within the payroll and creditors systems. We have noted that the situation has continued to be improved through 1999/2000 as departmental lists of signatories are brought up to date.
- 74 No other issues have arisen this year from our work that we need to bring to your attention. As is usual we have identified some areas where improvements to procedures can be made and are discussing the potential for making changes with your officers.

Grant claims

- 75 Our past letters have also commented about the delays we had noted in completion and submission of some government grant subsidy claims and the need to improve performance. Nearly £60m per year is received from the government by way of specific grants.
- 76 Although the situation has improved generally, we still find instances where claims have not been prepared before submission deadline dates.
- 77 It is likely that a new range of specific grants will be available in future to support government initiatives in areas such as education and inter agency working. At the same time government departments do not now always depend on external auditors to certify the correctness of claims so the auditor will not necessarily be a 'long stop' to detect non-submission. In these circumstances it is important that departments have procedures that monitor claim submission carefully.

Prevention of fraud and corruption

- Introduction
- Overall arrangements
- Audit Commission fraud warnings
- Specific work

Are the Council's arrangements for preventing and detecting fraud and corruption adequate

The Council's overall arrangements for preventing and detecting fraud and corruption are sound. We have not identified any significant weaknesses in the tests we conducted.

Introduction

- 78 The standard of probity in the public sector remains prominent with the expectation that there are sound arrangements to prevent and detect potential fraud or corruption.
- 79 The Council is responsible for putting in place these arrangements and testing the effectiveness of controls. We are required to review the adequacy of these arrangements and in the past year we have done this by:
- updating our assessment of the overall arrangements
 - reviewing how the Council has responded to Audit Commission fraud warnings
 - reviewing specific risk areas.

Overall arrangements

- 80 Our work has shown that over the past year the Council has continued to strengthen overall arrangements by:
- revising the scheme of delegations to members and officers
 - updating standing orders and financial regulations
 - updating the Code of Conduct for employees and incorporating the 'whistleblowing' procedure.
- 81 These are strong indications that the Council takes the role of stewardship of public funds seriously. The incidence of detected fraud in the Council remains low.
- 82 From our work we are satisfied that the overall arrangements for preventing and detecting fraud and corruption are sound.

Audit Commission fraud warnings

- 83 We continue to receive from the Audit Commission details of fraud and attempted fraud detected throughout the public sector. Internal Audit assist us by carrying out detailed work in response to these fraud warnings with an aim of preventing any local occurrences.
- 84 Over the past year this has brought to light instances where the Council has had single transactions with two companies involved in 'pressure selling'. The amounts involved in these transactions were small and the intervention by Internal Audit as a result of the fraud warnings was timely and, although it could not prevent the initial payments, it stopped any further dealings with the companies.

Specific work

- 85 Each year we carry-out a risk assessment to plan specific anti-fraud related work taking into account the coverage of Internal Audit, any directions from the Audit Commission and previous audit work. The areas reviewed this year are shown in Exhibit 7 below. Generally the arrangements were found to be sound although we have agreed some recommendations to strengthen controls.

Exhibit 7 Summary of specific reviews in 1999/2000

The results of our testing were generally satisfactory

Review	Findings
Cash Collection – School meals income	We found that procedures at schools could be strengthened by reconciliations of till readings, greater separation of duties and improvements to the control checks on numbers and values produced by kitchen and school staff.
Loans and investments	We found the system to be operating satisfactorily
Cheque payments	Generally the system is operating satisfactorily but despite an improving situation we again found evidence that signatures of certifying officers could not always be checked to lists of approved signatories because these had not been kept up to date.
Social Service – Expense claims	Although procedures were generally sound we found instances where apparent excessive mileage had not been challenged for an explanation and where receipts had not been provided to support amounts claimed.

Legality

- Overall arrangements

Are the Council's arrangements for ensuring the legality of transactions that may have a financial consequence adequate?

The Council has appropriate arrangements in place for ensuring the legality of its financial transactions

Overall arrangements

- 86 We are required by the Code of Audit Practice to assess the adequacy of your arrangements for ensuring the legality of transactions that might have a financial consequence. We have done this by:
- considering the overall control arrangements
 - reviewing reports to committees
 - considering the Council's position on current legal issues highlighted by the Audit Commission's technical releases and
 - responding to questions from officers, members and the public.
- 87 Throughout the year we have frequent meetings with various officers to discuss emerging issues and we try to maintain awareness of legality issues across all our audit work.
- 88 We have received very few complaints or questions directly from members of the public over the past year and none have required formal action to be taken by the District auditor. Consequently, at the time of writing there are no matters of significance that I need bring to your notice.
- 89 From our review of all the matters above we have formed the conclusion that the Council has appropriate arrangements in place for ensuring the legality of its financial transactions.

Performance indicators

- General arrangements

Are the Council's arrangements for collecting, recording and publishing its performance indicators adequate?

There are satisfactory arrangements in place to produce and publish the performance indicators.

General arrangements

- 90 Despite the introduction of Best Value the Council is still required to separately publish annual citizens charter performance indicators and as auditors we are required to express an opinion as to the adequacy of the Council's arrangements for collecting, recording and publishing these indicators. The 1999/2000 indicators had to be published by 31 October, earlier than previous years.
- 91 The Council appeared to find the new deadline tight and arrangements were made to publish the indicators before our audit work could be completed. Co-incidentally we completed our audit work shortly before the publishing deadline. On the basis of our work, we concluded that the arrangements for collecting, recording and publishing performance indicators were robust, and there are no points to raise with Members.

Previous years work

- Previous project work
- 1998/99 Management Letter

Previous project work

- 92 Each year we review progress on addressing the recommendation made in previous project work. This year that has been focussed on our 1997 work on the library service and last years work on community safety.

Library service

- 93 The key objective of the original audit was to help Hertfordshire's public library service focus its efforts to meet current challenges through:
- the establishment of plans which take account of the corporate and service priorities
 - cost and activity comparisons with other authorities and internally to inform efficiency reviews and decisions on service planning.
- 94 As a result of the audit a number of recommendations were made relating to strategy and planning and cost and activity in the Library Service. The key conclusion in terms of strategy and planning focused on the need to consider corporate priorities when putting together service-level plans and policies in order to add value to the service. The review of cost and activity identified the scope for reducing the net cost of the Library service whilst maintaining the existing levels of effectiveness.
- 95 In this years follow up we have looked at progress against our original action plan. The fieldwork has drawn largely on evidence found in the key strategic document for the Hertfordshire Library Service, the DCMS Library Plan.
- 96 Hertfordshire Library Service has undergone considerable change since our original audit and a number of the recommendations have been superseded by new arrangements for service delivery. The advent of Herts Connect, for example, has meant a new role for the Library Service in terms of putting together the InfoBase, and has future implications in maintaining the database and assisting in training. The Library Service has also replaced its "group" structure with a "district" approach, with the 10 districts of libraries co-terminus with district council boundaries. Staffing arrangements for these districts are currently being finalised.

- 97 Our key conclusions from the follow up work indicate that Hertfordshire has made significant progress in linking corporate and service agendas. The Library Service has also improved the quality and quantity of cost and activity information upon which decisions are based. Exhibit 8 outlines some key findings from the follow up, as well as identifying potential areas for further action.

Exhibit 8 Libraries follow up – Main findings

Hertfordshire's DCMS plan outlines progress made by the Council against our action plan

Key Issue	Findings	Future issues
<p>Strategy & Planning</p> <ul style="list-style-type: none"> • Links with corporate initiatives • ICT Strategy • Performance appraisal 	<p>The DCMS Plan has been adopted as the strategic planning document for the Council. It contains reference to key corporate initiatives including Herts Connect and "Our Promises to Hertfordshire". The Plan also refers to other key policies including "Achievement for All: Hertfordshire's Education Development Plan" and the Early Years Development and Childcare Plan.</p> <p>The DCMS Plan includes sections relating to individual services provided by the Library Service. These services, and their users, are outlined in the scope of the service and the purpose, principles, position and current issues are covered for each of the services. Resource issues are also covered.</p> <p>As well as the DCMS Plan, the Library Service has adopted the Department ICT Strategy. The most recent version of the Strategy, dated September 2000, includes a vision for the service and recognises current national and local influences. The DCMS Plan contains references to the ICT Strategy and identifies its implications for the service, e.g. upgrading of cabling and networking structure and the update of ALSi.</p> <p>The Library Service has adopted Performance and Development Agreements (PDAs) for all staff. These are reviewed annually and monitored at regular intervals.</p>	<p>Hertfordshire has made progress in all areas identified by our original study. The themes remain important as the move from a group to a district basis is implemented. It will be important to "translate" the issues in the DCMS Plan into a district context.</p> <p>Each district will have individual characteristics and the Library Service will need to ensure that the themes running through the DCMS Plan are clearly communicated at district level. The district initiative will have implications for ICT and staff training.</p>

Exhibit 8 Libraries follow up – Main findings (contd)

Key Issue	Findings	Future issues
Costs & Activity <ul style="list-style-type: none">• Management information• Staff, buildings and material costs	<p>Hertfordshire has improved the quality and quantity of management information produced to assist in decision making in the Library Service. The DCMS Plan outlines the function of the Public Libraries Monitoring Programme in terms of testing service provision against agreed standards. The DCMS Plan also contains comprehensive information on its Performance Appraisal Section. This includes a series of 5-year indicators covering the deployment of the service, use of the service, responsiveness and resources employed.</p> <p>The information on resources employed indicates that Hertfordshire has improved its understanding of the costs of staff, materials and buildings. Phase 2.2 of the staffing review will look to reduce further staff costs, while targets in the DCMS Plan include reducing building related costs and the need to benchmark these costs.</p>	<p>The improvement in management information, and particularly the use of the 5-year indicators, identifies further investigations into costs and activity. For example, the comparison on opening hours indicates that Hertfordshire has 15 libraries open 45 hours or more, compared to a comparator group average of 5.</p>

Source DA review of DCMS Plan

- 98 The findings from our follow up will be discussed with the Assistant Director of Community Information over the next month and a final summary of progress presented to the Council.

Community safety

- 99 At the time of writing our re-visit to work on community safety is in progress. Our review covers the progress made across Hertfordshire and embraces the work done by the County Council, district councils and police and probation services. It is expected that a report of our findings will be produced early in the new year.

1998/99 Management Letter

- 100 The key issues raised in last years Management Letter were in respect of Best Value, Year 2000, financial health and performance indicators and have been commented on elsewhere in this Management Letter.

Future audit work

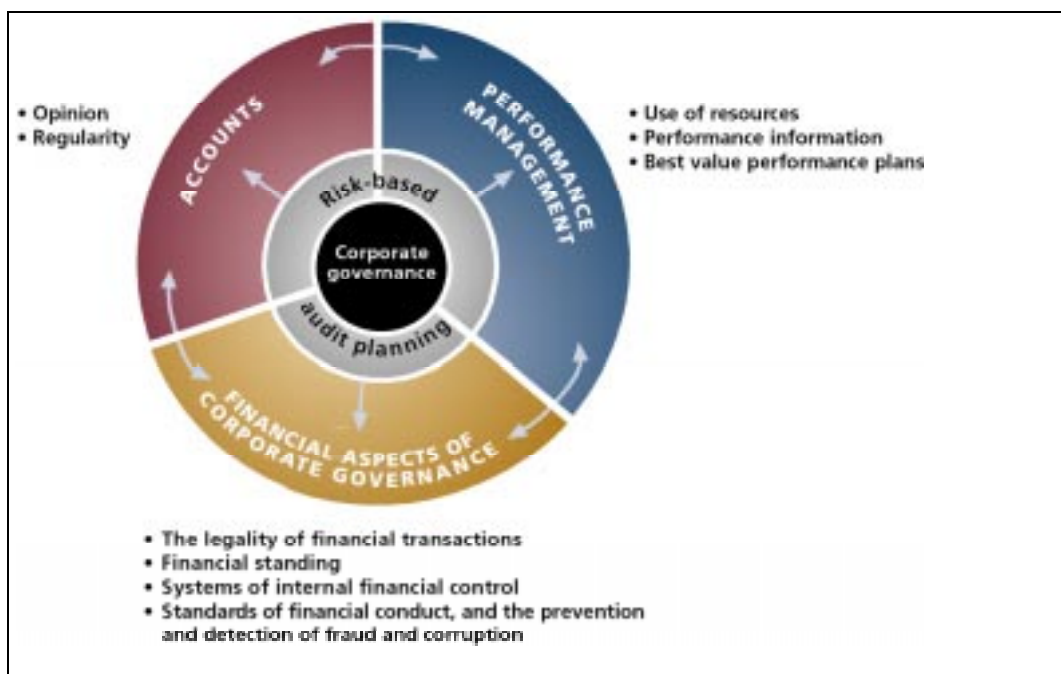
- New Code of Audit Practice

New Code of Audit Practice

- 101 Next year's audit will be undertaken in line with the Audit Commission's new Code of Audit Practice, published in March 2000. The new Code focuses audit work according to three main objectives:
- accounts
 - financial aspect of corporate governance
 - performance management.
- 102 It consolidates our Best Value responsibilities and places a new emphasis on risk in planning the audit. Exhibit 9 below illustrates the Commission's model of public audit.

Exhibit 9 The Audit Commission's model of public audit

The new code consolidates our Best Value responsibilities and places a new emphasis on risk in planning the audit.



Source Audit Commission – Code of Audit Practice, March 2000

- 103 In responding to the new Code of Audit Practice, we will be building on our risk based audit approach. From 2000/2001, we will focus on how you as an authority are identifying your financial and operational risks and what arrangements you have in place to manage them. Our assessment of these will result in a more tailored audit plan.
- 104 We will continue to work closely with your officers to ensure the accuracy and quality of the statement of accounts, PIs, and the Best Value Performance Plan. We will also take assurance from the work of Internal Audit and continue to develop the managed audit approach.
