

**HERTFORDSHIRE COUNTY COUNCIL**

**INTERNAL AUDIT  
ANNUAL REPORT**

**2001/02**

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Internal Audit  
June 2002*



INVESTOR IN PEOPLE

*Hertfordshire County Council*

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## **INTRODUCTION**

This Annual Report aims to bring together, service by service, the main issues we have raised in the course of our 2000/01 audit work. Wherever possible, it also outlines management's responses and actions taken to address our recommendations.

It is aimed particularly at senior management and at the members of the Audit Committee, as well as at providing District Audit with summaries of the work on which they may wish to place reliance.

All of the audits summarised here have been formally reported to the relevant managers, and I would like to thank all of them for being receptive to our comments and recommendations.

Feedback questionnaires from our auditees and their managers continued to show high levels of satisfaction, but we are always anxious to find further ways in which our work can be of value to those whom we audit.

The following paragraphs set out the key messages emerging from our 2001/02 work.

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## **KEY MESSAGES**

### **Core financial systems**

We undertook our annual audits of each of the core financial systems, and confirm that the fundamental controls in these continued to be fit for their purpose and operating effectively. Work was continuing to further improve the soundness of the systems' administrative controls in those few areas where we raised issues. Some of these issues should be more efficiently addressed by the new financial system, whose development is still in its early stages: we contributed advice and control requirements to this project.

### **Services' financial management**

Our annual audits of each service's overall financial management arrangements found these to be generally sound. The newly created or restructured Departments had each achieved a great deal in their development of sound budgetary and other control processes. In some cases, further work was needed, and was planned, to fully realise the benefits of full integration of the newly combined services. Good progress was being made to address concerns that we have raised previously, including the need in some cases for:

- updated and clarified schemes of delegation
- more effective budget monitoring for demand-led, volatile and capital scheme budgets
- improved authorisation procedures for creditor payments
- more pro-active debt management
- clear accountability for certain balance sheet items.

### **Contracts and project management**

A number of themes emerged from our review of all major capital projects, including the need for:

- improved and more consistent project management
- greater clarity of roles and responsibilities
- training for project sponsors and managers
- better documentation and communication
- improved contract registers and a single corporate database for capital projects.

However, these issues were already being addressed, initially in the context of building projects, but with further work under way to embed the improvements more widely in project management.

There were innovative approaches to service delivery, with the development of new style contracts such as the Recruitment Centre contract, the target pricing style of contracts for Bridgework and Structural Maintenance, and the partnering approach to contracts in several

departments. These new types of contracts were introduced with varying degrees of success, often with a learning period following their introduction during which initial shortcomings were addressed and overcome. Many of the same project management issues applied again here - in addition, the importance of involving the right people at the right level early in the process, and of being realistic and clear as to the capabilities of new technology.

We also provided advice for the developing partnership arrangements with the NHS and other public bodies.

### **Information and Communications Technology (ICT)**

We were involved in three major development projects this year. We reviewed and contributed to progress on the new database system for Adult Care Services and Children, Schools and Families, and provided control advice and information during the early stages of the acquisition of the new Finance and Human Resources systems.

Our projects for the year covered application based audits, including a number of mainframe-based exercises, infrastructure work, and reviews of areas such as e-mail and virus protection. We found security and resilience to be generally sound and well managed. We also reviewed procedures such as the formulation of the Authority's ICT strategies and standards, where good progress was being made following the Best Value review of ICT.

Business Continuity Planning continued to be an important element of all of our application and system audits, and was also the subject of an overall review concentrating on the strong arrangements in place at County Hall.

### **Anti-fraud and corruption work**

As in previous years, we undertook a wide range of work designed to detect or minimise the risk of fraud or corruption. In many cases, this work was integrated into our systems audits, and involved a range of computer-aided audit techniques. Such work included:

- following up our National Fraud Initiative investigations (the data matching exercise hosted by the Audit Commission, which is now run every two years and next takes place in 2002/03), including testing for possible pension fraud
- investigations into a number of suspected creditor cheque frauds, ensuring that none of them resulted in loss to the Council
- analytical review of the payroll and creditors systems to test for irregular payments
- audit of controls over staff hours worked (including agency staff)
- substantive testing of expenses claims
- testing of debt write-offs and other adjustments
- examination of grants for asylum seekers
- checks at establishments on the handling of clients' cash and property
- analytical review and investigation of apparent school meals income shortfalls

- a more intensive programme of audits of schools that we assessed as of higher than average risk.

In the large majority of cases, we did not find actual evidence of fraud. The few cases where attempted fraud was confirmed comprised:

- 13 fraudulently amended cheques (none believed to have been perpetrated by Council employees), preventing a potential loss to the Council of £253,000
- a school meals irregularity at a secondary school involving a loss of £600, the responsibility of the Shire catering manager, who was subsequently dismissed.

In all cases, investigations were properly concluded and the police informed.

### **The broader Internal Audit role**

We participated in the corporate management of the Council in a number of ways, including:

- further development of the Council's risk management arrangements
- work to implement CIPFA/SOLACE's Code of Corporate Governance
- preparation for the Government's new Comprehensive Performance Assessment
- co-ordination and validation of performance indicators
- input to Best Value reviews and processes
- regular liaison with the District Auditor
- chairing the Finance Board
- supporting the Audit Committee.

We delivered audits for a number of external clients, notably the Police Authority.

## **GLOSSARY**

The following definitions cover some of the audit terms and abbreviations used most frequently in this Annual Report.

<b><i>Access control</i></b>	<i>A procedure designed to prevent or detect unauthorised access, or amendments, to computer-held data and/or programs</i>
<b><i>Best Value</i></b>	<i>A framework required by legislation, designed to secure continuous improvement through an annual BV Performance Plan, and a review programme focussing on national and local priorities</i>
<b><i>BVR</i></b>	<i>Best Value review</i>
<b><i>BVPI</i></b>	<i>Best Value performance indicator</i>
<b><i>CPA</i></b>	<i>Comprehensive Performance Assessment</i>
<b><i>Compliance test</i></b>	<i>An audit check of a small number of transactions or records, to test whether controls are operating as intended by management</i>
<b><i>Computer-aided audit techniques</i></b>	<i>A variety of computer programs and other techniques designed to extract, analyse or test data held on computer files, or to test the working of computer processes and controls</i>
<b><i>Contract audit</i></b>	<i>An audit methodology for the examination of all types of contract, covering the whole process from initial planning to post-completion assessment</i>
<b><i>Core financial system</i></b>	<i>A computerised or other process fundamental to the operation of the authority's financial affairs</i>
<b><i>Corruption</i></b>	<i>The offering, giving, soliciting or acceptance of an inducement or reward which may influence the actions of the Council, its Members or its officers</i>
<b><i>Data matching</i></b>	<i>Comparison using computer techniques of different sets of information, from within the Council or from other bodies, designed to detect possible fraud</i>
<b><i>Fraud</i></b>	<i>The intentional distortion of financial records, carried out to conceal the misappropriation of assets or otherwise for gain</i>

<b>General auditor</b>	<i>A term used to distinguish other auditors from specialists such as computer or contract auditors</i>
<b>ICT</b>	<i>Information and Communications Technology</i>
<b>Internal control</b>	<i>A procedure which ensures that management objectives are properly and efficiently carried out</i>
<b>Irregularity</b>	<i>An improper or erroneous use of the Council's resources</i>
<b>Key controls</b>	<i>Those processes most likely to prevent or detect material errors or other irregularities</i>
<b>Pre-implementation review</b>	<i>An audit of a computerised or other system shortly before its live operation</i>
<b>Regularity audit</b>	<i>The cyclical review and testing of a system or establishment, aimed at providing an opinion of the reliability and propriety of the financial arrangements</i>
<b>Risk assessment</b>	<i>A systematic process, preceding or following detailed audit, to assess the probability of material error, loss or irregularity in an activity</i>
<b>Substantive test</b>	<i>An audit check of sufficient numbers of transactions or records to give a good level of confidence in their completeness, accuracy and validity</i>
<b>Systems audit</b>	<i>An audit approach involving the documentation, evaluation and testing of controls within a financial process</i>

## **WORK DONE IN DEPARTMENTS**

### **ADULT CARE SERVICES**

Our review of **financial management** within the Department confirmed that the main financial controls were operating well and that most of the previous report recommendations had been implemented or were being addressed. Mid way through the year we carried out an additional detailed review of **Budget Monitoring** and endorsed management's expectation that a number of deliberate actions such as the implementation of a home care action plan and additional focus on key budgets would result in more effective budget monitoring. Subsequent budget monitors have continued to confirm that expectation. As in previous years, a comprehensive budget pack was distributed to all budget managers, providing a framework for budget management and information to support budget monitoring.

We carried out a final annual review of the independence of the **Inspection Unit** (covered under the Chief Executive).

### **Central systems**

Our review of the arrangements for **Asylum seeker payments** identified a number of issues, mainly relating to the evidence supporting claims, the adequacy of comprehensive countywide procedures and the control of voucher stocks. We received a full response to our report and are closely monitoring the implementation of our recommendations.

We reviewed the systems in place for managing **Resettlement / Joint Funding** and found them to be satisfactory. We made recommendations regarding cover arrangements for a key member of staff, which have been implemented.

Our review of **Home Care/Day Care Debtors** noted that a significant numbers of clients had not been financially assessed and we had some concern over debt recovery procedures. Many of the concerns detected during our review were to be wholly or partly addressed by plans in the pipeline. A permanent debt recovery officer has since been appointed whose priority is to investigate debts and ensure effective recovery action. We are continuing to closely monitor the situation.

Following revised arrangements under the Manpower contract we undertook a review of **Agency Staff Pay**. Our recommendations were accepted and have been implemented.

### In-house units and area teams

The following table summarises our visits to in-house provider units and area teams in 2001/02.

<u>Type of unit or area</u>	<u>Number of units visited</u>	<u>Audit Days</u>
Day Centres Elderly	1	2
Day Centres (Physically Disabled) Adults	1	2
Hostels (Physically Disabled) Adults	1	4
Hostels (Learning Disability) Adults	10	38
Staffed Group Homes and Housing Support Teams (Learning Disability) Adults	1	2
Day Centres (Learning Disability) Adults	4	10
Hostels (Mental Health) Adults	1	3
Community Support Teams (Mental Health) Adults	2	6
Multi-Purpose Day Centres Adults	2	5
Area Teams	7	47
	30	119

As in previous years our audit coverage focused on the in-house residential units and the Area Teams.

Our reviews of the **in-house units** continued to focus on the high risk issue of the handling and general security of cash and the recording of staff hours, including those for agency staff. All managers provided a full response to the concerns that we raised.

We audited the restructured **EPD (Elderly and Physically Disabled) Areas** and received positive responses to our detailed recommendations. We continue to discuss the common issues with the appropriate staff.

### Commissioning

Our review of the latest **Contract Regulations** found that they had been successfully implemented. In particular, we commended the arrangements for staff training.

In our review of **Quantum Care**, we found that essential exception reports, distributed to the Areas for checking, did not appear to be treated as priority in all cases. In the case of **Runwood Homes**, because of system incompatibilities, exception reports were not being produced, but a new report piloted in a couple of Areas was planned for countywide use. The importance of checking the exception reports has been highlighted during visits to the Areas by the senior finance staff.

We followed up on an earlier audit of **Residential and Nursing Contracts** where there was still a shortage of places despite a sound client monitoring system. Last years audit confirmed that there were good contracts in place and monitoring was good and improving. This improvement has been maintained. However, there is still a shortage of places. Some **Private and Voluntary (P & V) homes** still will not contract with HCC due to the rates that we pay. Increased rates from April 2002 may encourage some homes to consider HCC clients. ACS must ensure that contracts are used for **P & V Daycare** and not just Partnership Agreements.

Our **Home Care Purchasing** follow up confirmed an excellent system, and in particular home care delivered by **Leonard Cheshire** had improved and achieved its objectives. Electronic monitoring started in April 2002; this should safeguard clients and staff, and provide accurate billing information. Having dedicated Commissioning Officers in each area has contributed to the increased accuracy of the SSIS database.

We audited the programme for the upgrading or replacement of hostels for **Adults with Learning Disability**. We found satisfactory capital project management, and the audit of the next tranche is under way.

### Consultancy

We also provided advice in the following areas:

- **Partnership contracts**
- **Supporting People**
- **NHS Partnerships.**

We maintained contact with the ICT aspects of the **CSFA (Children Schools & Families and Adult Care Services) Oracle Project** and our comments were submitted to the HCC ICT project principals for consideration.

## CHILDREN SCHOOLS & FAMILIES

### Schools

The following table summarises our coverage in the year:

<b>School sector</b>	<b>Number of schools audited</b>
Nursery	5
Primary	101
Middle	0
Secondary	42
Special	5

<b>Total</b>	<b>153</b>

In addition to the scheduled audits shown above, we also carried out audits at a number of schools where a change of Head occurred.

Our audit of schools continues to confirm that, overwhelmingly, the standard of internal control is high. Rarely do we find fundamental weaknesses in a school's financial administration (i.e. a breakdown that could lead to significant errors, even losses, or loss of control over the school's budget). Such cases have often already been identified to us by colleagues in the School Funding Unit, since the school's problems (which are usually wider than financial) are known to the department.

However, there are a small number of schools where we judge that financial administration is below the standard which we would expect, or where there are particular factors that we judge represent a greater audit risk. Schools in this category are subject to more frequent audits to allow us to monitor their improvement. The table below summarises the position in respect of such schools:

Category (key below)	Number of schools			
	Total at the beginning of the year.	That moved to a lower risk category.	That moved in to one of the two highest risk categories.	Total at the end of the year.
Nursery – HR	0	0	0	0
Nursery – AAR	1	1	0	0
Primary – HR	6	5	1	2
Primary – AAR	9	8	14	15
Special – HR	2	2	1	1
Special – AAR	0	0	2	2
Secondary - HR	9	6	2	5
Secondary - AAR	9	4	5	10

**Key**

HR = Highest Risk category (audit interval reduced to 6 – 12 months)

AAR = Above Average Risk category (audit interval reduced to 15 – 18 months)

The figures shown in the table above allow two conclusions to be drawn:

- we find that most schools in the two highest risk categories have improved sufficiently by the time of our next audit to merit a lower risk assessment
- the overall numbers of schools in these two categories has remained broadly constant over the last year.

Beyond carrying out actual audits of schools, we dealt with numerous general queries and issues regarding schools' finances. In each case we issued advice or instructions as to whether the LEA's regulations, statutory requirements (e.g. in relation to tax or VAT), or accepted standards of probity and sound financial administration would be met. Often such queries required research with the assistance of colleagues in the School Funding Unit, the Corporate Tax Advisory section, the County Secretary's department, or our counterparts in other authorities.

The Scheme for Financing Schools requires that schools **leaving the ITnet payroll contract** must obtain approval for their proposed alternative arrangements. We carried out audits of the arrangements to operate payroll in house in two such secondary schools. In both cases we concluded that, notwithstanding certain recommendations we made, the arrangements provided for satisfactory control. Further, we reviewed the proposed contract arrangements for the supply of a payroll service by an external contractor in the case of eight primary schools that chose to leave the ITnet service, and a ninth that chose to switch to another external contractor. After making a number of recommendations to clarify or alter the provisions of these contracts, we judged that they were acceptable for the schools concerned to proceed.

At the request of our colleagues in the School Funding Unit we carried out visits to five secondary schools to resolve queries with their **annual financial returns** for the year 2000/01. In each case we were able to resolve the queries and, where necessary, we made recommendations to the schools concerned to avoid a repeat of the problem in future.

We set aside some time every year to investigate the cause of apparent **shortfalls in school meal income** in a number of primary schools. Our inquiries invariably concluded that either the data supplied by schools was incorrect or incomplete, or that it has not been appropriately interpreted. This year we found that, in a number of the cases investigated, discrepancies had arisen because no-one on behalf of the school had agreed the numbers of meals provided, as submitted by Shire Catering, i.e. by the school cook. The CSF department, together with County Supplies and Contract Services (CSCS), has sought to address the issues affecting school meals administration by publishing a School Meals Administration Handbook (distributed to schools in September 2000). CSCS continue to work with schools to ensure adherence to established procedures.

Work carried out on the school meals income **irregularity at a secondary school** is reported under CSCS.

### **Other CSF service audits**

This was the first year of operation for the CSF department. Our review of **CSF Financial Management Arrangements** found that the department has well developed budget monitoring and control arrangements. While the department has a number of documents that define managers' roles, responsibilities and the extent of their authority, the department has still to produce a formal Schedule of Financial Delegation. This is needed to set out the allocation of accountabilities for financial functions and, crucially, to record the powers granted to officers in the department to take certain actions, authorise certain values or types of transactions, etc.

The new department has documented a number of financial procedures, instructions, guidance etc, but has not produced a single financial procedures manual to ensure consistency across the department and to provide a single point of reference for staff, and a focus for the review, update and development of procedures.

The Central Finance Unit Plan sets out the department's plans and provisions for the training of its accounting and 'finance support' staff, and its budget managers. The department's performance management arrangements provide for a review of budget manager's responsibilities (alongside their service delivery roles) and of the performance of accountants and other finance support staff. The department is currently developing a project management approach.

Our audit of the **Music Service**, part of the School Standards and Curriculum Support Division, found that budgetary control at the level of the overall service was satisfactory. However, there were a number of shortcomings in day-to-day procedures, such as a lack of clear accounting arrangements, regular reconciliation, and budgetary control at a detailed level. There was incomplete supporting cost data and control over assets, and not full compliance with VAT and PAYE regulations.

Management has accepted our recommendations, and we have included a follow up audit in the 2002/03 Audit Plan.

The following table summarises our visits to **in-house Provider Units** in the year:

<b><u>Type of unit or team</u></b>	<b><u>Number of units visited</u></b>	<b><u>Audit Days</u></b>
Under Eight's Teams	4	6
Family Placement Teams/ Permanent Family Teams	6	7
Community Homes Children	5	16
Family Assessment Unit	1	3

Our reviews of the **units** continued to focus on the high-risk issue of the handling and general security of cash, and the recording of staff hours, including those for agency staff. All managers provided a full response to the concerns that we raised.

**Other audits** carried out in the department, together with advice on the design of systems, procedures, and controls, included:

- input to the ICT aspects of the **CSFA Oracle Project** resulting in our submission of review comments to the HCC ICT project principals for consideration
- the annual **School Fund Transfer** process, being the largest single financial transaction that the Authority undertakes, was (as in previous years) audited by us during its key stages, and it was completed satisfactorily
- the financial administration in the four area **Youth service teams** and two cross county teams
- a review of procedures within the department for paying visits to **providers of nursery education** in the private, voluntary and independent sectors coupled with a sample of visits to these providers - this revealed that the processing of payments made to providers is generally sound, and we are currently discussing our findings with management
- further work on the **Planning Unit** (following the special review of capital project management) to provide consultancy on the decisions concerning financial support provided to families in difficulty with children over the age of 10
- follow-up of earlier work undertaken on the **Borehamwood Challenge Project**, which was previously reported
- work to establish that the capital project involving the **Sports Hall at Knights Templar School** was well controlled
- follow-up of work done on the **Wilbury Road Children's Home** capital project, which found that this was well controlled
- work on the department's **Contract Regulations** and **Financial Procedures for Contracts**, which found these to be satisfactory.

## **COMMUNITY INFORMATION**

Our audit of Community Information's **financial management arrangements** found good progress in the implementation of previous recommendations:

- finalisation of a departmental scheme of delegation
- implementation of procedures to ensure that debt management reports are produced regularly and received back from budget managers
- production of a list of budget holders
- issuing of monitoring balance sheet recoverable code reports to budget managers.

We also found that budget monitoring arrangements were of a high standard. Our recommendations chiefly related to the potential benefits from the integration of Libraries, Arts & Information, Trading Standards, and the ICT teams. This should lead to greater consistency of financial procedures across the department, including:

- a common format for performance and development agreements
- the development of the departmental Finance & Administration Manual to cover all parts of the department (it was originally developed for the library service)
- a common debt management practice
- a common format for budget monitoring reports.

### **Information and Communication Technology (ICT)**

Our review of the **Mainframe Physical Environment** found that it was being well managed by ITnet who have introduced an ICT infrastructure control team, **Data Storage** matters have been improved with the introduction of new media management software. We also found the **Wide Area Network Link** proactively managed with back up arrangements the subject of regular testing. The **Mainframe Security Software** (RACF) and **Mainframe Transaction Management** (CICS) provided by ITnet were reviewed and found to be generally sound.

The National Audit Office and the Society of Information Technology Managers have recently commended HCC's **Herts Connect / Gateway** (Customer Service Centre and Herts Direct website). The work carried out by both Computer and Contract Audit confirms that this is well founded and reflects the drive, commitment and professionalism of those involved in developing, maintaining and supporting the services.

We have found good work taking place in the development of practicable **Corporate ICT Strategies and Standards**, and their management in a 'whole organisation' manner; we see this improving further as our response to the ICT Best Value outcomes progresses.

The County Hall **Business Continuity Plan** appears to provide excellent support in an emergency situation; the ongoing 'project' to develop, maintain and review it is well managed by an expert, highly committed team.

The status of both the **Corporate Property Database** developments and **APS Hosted Systems** was reviewed and provision made for following these up in 2002/3 when the former should be operationally established, and the latter subject to contractually enforced changes.

The Corporate **Electronic Mail** system was found to be sound in most areas reviewed with a comprehensive business continuity plan in the process of being written and other areas for improvement being addressed in the new PC Support Service Definition Document

The implementation and use of the latest **Contract Regulations** for ICT Infrastructure and Libraries contracts was audited and found to be satisfactory.

We have continued to input as required to **E-Commerce** matters including the streamlining of one element of the Authority's Bank Reconciliation.

Our review of the Authority's approach to **Virus Protection** found the arrangements in place for the detection of, and protection from, such attacks to be sound.

**Other audits** carried out within the Community Information Service in the year included audits of the North Hertfordshire and Welwyn / Hatfield Library Districts.

## **CORPORATE SERVICES**

Our annual review of **Financial Management** within the department confirmed that the main financial controls were working well. In particular, performance management agreements were in place for all staff, and all groups had achieved Investors in People (IIP) status. A comprehensive Financial Administration Guide was also finalised and issued in November 2001.

Our review of the **Financial Procedures** in operation identified minor control weaknesses in most of the controls audited and some inconsistent practices, as follows:

- 8 cheques where banking had been delayed
- authorisation procedures for Travel & subsistence claims for the few staff who exceed the NJC rates
- re-charging employees for private calls made on business mobile 'phones
- poor maintenance of inventories for non-IT equipment

The Head of Business Support Unit (BSU) has agreed to put procedures in place or issue the relevant published procedures (as in the Financial Administration Guide) to the appropriate services.

## **CHIEF EXECUTIVE'S**

Prior to their move towards the National Care Standards Commission in April 2002, we carried out a final review of the independence and effectiveness of the **Adult Care Services Inspection Unit** on behalf of the Chief Executive, as required by the Department of Health. We found once again that the Unit had achieved 100% of statutory inspections due and that the Unit continued to seek ways to improve its practice.

We followed up earlier work on the **Borehamwood Challenge** project with further special audits of **Capital Payments and Budgetary Controls**, which are reported in the People and Property section of this report.

### **Best Value**

Prior to publication of the **Best Value Performance Plan 2001/02** we offered advice on the Best Value Performance Indicator's (BVPI's) and validated the actual performance data for 1999/2000 where this had to be included. We continue to provide advice on the definitions and interpretations of the BVPI's and attend a South-East Counties group, which aims to ensure a consistent approach. We co-ordinated the response to the consultation document for changes to BVPI's, which was then submitted to the Audit Commission. As in previous years we provided the numbers behind the BVPI's, to make the information for local publication more meaningful.

We audited the actual **Best Value and Audit Commission PI's for 2000/01** and validated the results back to supporting systems. This was the first year that many of the BVPI's had been collected and there were many instances where we had to seek clarification and corrections from Service Departments prior to submission to District Audit. In a few instances services did not have sufficient information to calculate the PI in accordance with the statutory requirements. Measures have been taken to ensure that the information is available but this continues to be of concern when the DTLR continue to amend indicators on an annual basis.

We participated on a consultancy basis in a number of **Best Value Reviews (BVR's)** and took the findings into account, in terms of effects on the internal control environments, when completing our risk based audit planning.

We provided an element of challenge in both the **Environmental Management** and **Economic Development Unit BVR's**.

## **CORPORATE FINANCE**

### **Budgetary control and Financial Ledger**

Our Computer Audit team continued to provide input into the projects to acquire both a new **Finance System** and a new **Human Resources System**, and in addition gave advice on IT specific aspects of the **Core Financial Systems** reviews.

We were generally satisfied with the **General Ledger** controls operating within the departmental finance sections. We made some recommendations in respect of the prompt clearing of error suspense items and the authorisation of journals, which are being dealt with.

We were also pleased to see that considerable efforts have been made to investigate and clear any unused or unnecessary **Recoverable Charges** subledger codes.

We found generally sound procedures in place for corporate **Budgetary Control**. In particular we noted a revised system for forecasting and reporting variances to members. This should improve the identification of significant budget variances at an early stage and enable effective revenue and capital control. Our detailed financial management reviews in each of the main departments examined local budgetary controls. Our comments are detailed under the various sections as appropriate.

### **Bank and Cash**

We were satisfied with the controls operating within the Treasury Section for **Bank Accounts and Charges** and the continuing progress made to ensure that the National Westminster Bank and Hertfordshire County Council could agree the number and status of all HCC bank accounts. The Treasury Manager has also agreed to maintain a list of all **Business Cards** held by non-school HCC establishments and has drawn up a guidance note for those introducing business cards to their sections.

We were generally satisfied with the controls operating over the production of fortnightly **Bank Reconciliations** within ITnet Cashiers. The proposed transfer to the Bankline system could also reduce reconciliation delays by providing more flexibility as to when reconciliation reports could be run.

Our audit review of **Cash Processing** identified that, due to the way in which the data processing system is set up, income is not always allocated against the correct invoice reference.

We investigated 13 instances of **fraudulently amended cheques**, which if they had all been processed and charged to HCC would have resulted in a loss of £253,000. These were all reimbursed, with interest if appropriate, by the bank, which assumed responsibility for investigating and following up with the Police, and instigating proceedings as appropriate.

### **Creditors**

Whilst the infrastructure for maintaining an accurate database and specimen signature library for **Authorised signatories** are in place, a number of the errors found during this review were mainly due to human error. ITnet are putting revised procedures in place by 1 May 2002 which will require sections within ITnet to forward all original forms to the Administrator who will then issue copies to all sections within ITnet. We also identified inappropriate authorisation delegated to one finance member of staff and authorisation of listing by a less senior member of staff in one department. ITnet are not in a position to identify these anomalies. We therefore recommended that the authorisation be completed centrally in each Department.

Our review of the **Creditors** financial systems in operation both in the Departments and ITnet has identified the following control weaknesses, some of which we have previously reported:

- a lack of information supporting the reason for urgent payments
- a few duplicate payments are still occurring. This problem was exacerbated by the number of creditors with more than one vendor number; however, the Systems Team have agreed a protocol for removing these, and for making payments to the same payee but at a different address.
- coding errors continue to be a problem. Finance Managers have been reminded of the need to investigate and correct errors promptly.
- payments of less than £10 continued to be in the disappointingly high range of 230 - 260 per month.

However, there has been a significant and welcome increase in the percentage of creditors payments made by BACS compared to the same period in the previous financial year.

### **Debtors**

The significant discrepancy found in the ledger during our 2000/01 audit of the **Accounts Receivable** computer system has been accounted for, and subsequently managed satisfactorily, by Corporate Information Systems. At 31 March 2002, the total value of debt over nine months old was £2.9m, compared with £3.6m the previous year. We acknowledge that the Finance Board continues to bear down on the debt position, and that the Group Manager, Corporate Accountancy is carefully monitoring the situation and considering charging interest for late payments. All Finance managers have been told to review their departmental write-off procedures and to ensure that all the appropriate departmental finance staff are aware of need to promptly raise debts and to apply the correct write off procedures. In addition, we restated that ITnet must only process write-offs, credit notes and adjustments on receipt of a properly authorised document.

The lack of receipts produced to prove purchase of cars financed by **Car Loans** is an ongoing issue. In addition, a number of outstanding balances on the car loans spreadsheet had no movement during the year because staff had transferred to an external provider and debtor accounts were raised.

Our review of the **Education Billing** system identified some potential control weaknesses, which have now been dealt with. In the **Home Care Debtors** system, we saw examples of poor authorisation procedures and delays in providing any follow-up information. We are currently following up the audit to check that debt recovery procedures have improved.

**Debtors Periodic Income** is still a manual system, but there are improved checks within ITnet. The checking within Departments was not consistent, and Finance Managers have therefore been advised to check copy invoices.

## **Payroll**

During our **Payroll** audit, we were concerned that ITnet stated that they do not have the resources to cross check some input. The Group Manager Corporate Accountancy is checking the contractual position with Contract Management, and will discuss the potential cost of including this or make a risk assessment of the impact of not including such checks.

We raised our continuing concern that there are inadequate procedures and accounting arrangements for the recovery of overpayments of pay, which is also the main reconciliation problem within the **Payroll Control Accounts**. We are pleased that the Group Manager Corporate Accountancy, Corporate Personnel, Contract Management and ITnet Payroll are discussing improved, more clearly documented procedures for handling payroll overpayments, and have provided us with draft procedures to comment on. We particularly welcome the proposed procedures, which include specifying the recovery period with exceptions being approved by Personnel Managers. These revised procedures will take some time before they impact on the Control Accounts, and we gained assurance from ITnet that they will deal with the backlog more speedily in the meantime.

Our **Payroll Analytical Review** of the overall numbers of employees and payments has revealed a surprising number of employees still on weekly payrolls after the single-status conversion to monthly pay; we are pursuing this with the relevant departments. We continue to provide **Client Consultancy** advice on procedures and best practice.

At the time of our audit of **Relocation and Lodging Allowances**, very few claims had been processed under the new scheme. Our findings have, however, led to us making a number of recommendations aimed at County Personnel, who we believe should be more directly involved with processing and verifying claims, and managing the scheme as a whole. We will follow this up in 2002/03.

During our audits and on request we confirm, with the assistance of the Taxation Section, the correct treatment of expenditure and benefits. During this year our other main **Taxation Client Consultancy** focus has been on aggregation of earnings.

We undertook detailed testing of **Travel and Subsistence** expenses claims. In 2001/2 there were nearly 7000 claimants, claiming £3.9m for nearly 9 million business miles and other expenses. We found:

- instances where the County Mileage Policy had not been applied, raising doubts as to the effectiveness of the authorisation process
- errors in entering taxable allowances correctly
- evidence that ITnet staff were altering claims without consulting the authorising officer or returning the claim for correction (they have been informed of the correct procedure).

CSF were hoping to compile clear instructions within the Schools Handbook on how to apply the Mileage Policy, should the school choose to do so, and how to use the EXP1. The form, which was generally disliked, was due for re-design. The **Herts Connect - simply done** - project includes a complete review of the claiming process and in particular a radical review of the forms. We continued to participate in this process.

We also continued to extract and distribute monitoring reports on the costs of expenses. These were provided on request to various sections.

### **Pensions**

With the decision to appoint ABN AMRO Mellon Global Securities Services as Global Custodians of the Fund, we took the opportunity, during our audit of the **Pension Fund**, to test the Shareholder records in greater detail prior to the transfer of information to the new system, and found no problems. Our testing of **Transfer Values**, for employees joining or leaving our fund, found that the system of monitoring requests has greatly improved in the last two years with the introduction of the scanning of documentation. On an ad hoc basis we also provide **Pensions Client Consultancy** advice on matters such as the issue of life certificates.

### **Other audits**

We also undertook a number of other reviews as follows:

- follow up on the 2000 **National Fraud Initiative** data matching where further investigations were still being undertaken (there was no national data-matching in 2001 as it is now on a biennial cycle)
- ITnet **Cashiers** (Imprest A/C) function
- Service Departments' **Imprest Account Monitoring**
- **Capital Accounting/Asset Registers.**

### **COUNTY SECRETARY'S**

The management of the service was going through a period of transition at the time of our audit of the **Coroners Service**. We found that there had been little evidence of effective budgetary control procedures, and elements of poor handling of cheques received for post mortem reports and inquest tapes. Systems were already being put in place to address these issues, and all of our recommendations were promptly implemented.

Our review of the latest **Contract Regulations** found that they had been successfully implemented.

## **COUNTY SUPPLIES AND CONTRACT SERVICES**

The audit of the **Financial Management Arrangements** showed that CSCS is continually changing, and that procedure updates are keeping pace with this. Our recommendations in respect of delegations and the sharing of financial management duties, ICT strategy completion, and business support strategy are all being addressed.

Our audit work on the **Managed Financial Services Monitoring Team** again confirmed a good reactive monitoring service. Following the audit, responsibilities and authority levels will be set out in writing.

We assisted with the investigation of an **irregularity** involving **school meals income** at a secondary school. This investigation resulted in the dismissal of the Catering Manager at the school and consequent implementation of secure procedures. We have subsequently carried out a short audit of **Shire Catering**, and gained assurance that the control weaknesses at the school are not repeated in other parts of the county.

The **Stock check system** audit confirmed improvements arising from the use of the new system since our last audit, although further improvements will be possible following the introduction of quality checkers.

We performed a consultancy role in the **PC Support** contract negotiations. Contact was also maintained with the **Internet Trading project** and we will conduct a post implementation review of the system in early 2002/03.

We followed up earlier work on **Energy contracts** and **Central Buying Consortium**.

Audits were also completed of the **PC disposal contract** and **Contract Regulations**.

## **PEOPLE AND PROPERTY**

### **Hertfordshire Property**

The work completed last year on the project management of the **Borehamwood Challenge** scheme was followed up and the arrangements for managing this development which were put in place are now satisfactory.

Two further special audits, of **capital project management** were completed. We completed a special review for the Chief Executive of **capital payment and budgetary control** for all major capital projects in place or starting and this substantial piece of work led to a range of recommendations, which are being implemented. The recommendations covered the development and implementation of HCC gateway workbook processes and procedures, as well as specific schemes.

The other special audit covered the **last 20 capital schemes** to be completed, comparing actual outturn spend to original estimate. Despite some systemic failures, arising from earlier HCC systems, the new gateway project processes being introduced, together with Health and Safety survey changes, should further improve the management of capital projects.

We have continued to assist in preparations for the new **contractual and client arrangements** for the delivery of Professional Property Services by contributing to the **mobilisation** working groups on information requirements and financial systems. This has been informed by our work on the **property trading systems** in APS. We have also contributed consultancy advice during the ongoing **tender evaluation process**.

The **Facilities Management** audit has led to the minuting of fee agreements in the monthly monitoring meeting, and to other improvements.

We reviewed the status of both the **Corporate Property Database** developments and **APS Hosted Systems**.

A review of **corporately held works of art** led to the decision to implement central management, in order to improve control over these assets, improve security and reduce risks. Improved control will also clarify a number of currently unclear issues, and help to ensure that information is properly provided to the register.

We also reviewed Herts Property's implementation of the latest **Contract Regulations**, and confirmed that procedures now properly reflect the position of Education Workshops.

We contributed consultancy advice on:

- Central Services' **ISO 14001** Environmental Management System
- **Strategic Contracting Measured Term Contracts**.

### Corporate Personnel

An extended exercise was carried out on the implementation and operation of the **Recruitment Centre Contract**, which led to a large number of recommendations throughout the county council. These form part of an improvement plan, which is being implemented.

We audited the **Employment Assistance Contract**, which was found to be operating well.

We carried out a short review of **Training Expenditure and Charges**, and made some minor recommendations, all of which were accepted and implemented.

We also undertook reviews of **Relocation and Lodging Allowances** and **Travel and Subsistence Allowances**, which are covered under Corporate Finance.

We also reviewed the Corporate Personnel implementation of the latest **Contract Regulations** and confirmed compliance.

### **Safety, Emergency and Risk Management (SERM) Unit**

We integrated risk management into our risk analysis, and attended the **SERM Board** where appropriate.

Our view on the County Hall **Business Continuity Plan** is included in the Community Information section of this report.

### **ENVIRONMENT**

Our review found that the Department's **financial management arrangements** were generally satisfactory, particularly with respect to management information and budget setting. Improvements have been agreed regarding authorised signatories, financial procedures (collation and review), and virements. Reviews of the implementation of recommendations from the 2000/2001 Best Value Reviews - in Environment and Transport Operations - are planned for 2002/2003.

### **Transport Management**

We have kept abreast of the development and tendering of the contracts for the **Next Generation Highways Services**, with a view to ensuring a proper progression. We attended the presentations for both the works and the consultancy contracts in the new strategic alliance concept, and were happy that a proper process was followed.

Our audit of the operation of the new style **Bridgework Contract** found that the work was performed and managed well, but that there was considerable Mouchel TSC time spent on checking final accounts and on agreeing realistic target prices. Detailed discussions took place between Internal Audit, Mouchel TSC and Environment regarding interpretation of the Engineering Construction Contract, regarding whether certain items are covered by the contractor's overhead percentages or can be charged separately to HCC.

More **Structural Maintenance** work was undertaken than originally conceived under the new style target price contract, due to more funds being available. This work was managed satisfactorily, but to the detriment of producing final accounts.

We found the **Watford Highways Agency** work to be well managed; however, three schemes have yet to be completed before the agency is transferred back to HCC.

Our audit work on **Broxbourne Highways Agency** showed the need for some financial and administrative improvements relating to claims and tendering, which are being addressed.

The audit of **North Herts Highways Partnership** showed generally satisfactory control, particularly concerning the management and control of the work programme. However, improvements to accounting procedures will be implemented.

We also audited:

- **Safety Engineering**
- **Intalink Contracts**

We followed up audits of:

- **Cross Boundary Bus Services**
- **Client Contract Management of the Highways Consultancy Contract**
- **The Transport Operations Best Value Review**

### **Strategy**

We maintained a watching brief over **Hatfield Aerodrome Section 106 agreements**.

Further detailed work was undertaken on **Trade Waste**. We clarified the controls that are necessary, including proper written agreements with Districts, which will be implemented.

### **Environmental Management**

The audit of the **Biological Records Centre** resulted in a number of recommendations, which will be put to the HBRC Board and user group.

We provided a challenge function in the **Best Value Review of Environmental Management**.

Follow up work on **Recreation Sites** led to the provision of financial procedures to the manager.

### **EXTERNAL CLIENTS**

We continued to deliver our internal audit service to the Hertfordshire **Police Authority** under a separate contract, and to report our findings to the Authority's Audit Panel.

We completed our internal audit service under contract with the Hertfordshire **Probation Board**: the Home Office has now effectively terminated all local authority audit services for the new National Probation Service, and we have made our final report to the Audit Committee.

We continued with our internal audit of the Hertfordshire **Magistrates' Courts Committee**.

We also audited the final accounts of the following Hertfordshire-based **charities and voluntary bodies**:

- Dimsdale Charity
- Herts Charity for Deprived Children
- Bowley Charity
- Herts Association of Local Councils
- Herts Chief Financial Officers
- HCC Staff Sports and Social Club.

## **FIRE & RESCUE**

Our annual audit of the service's **financial management arrangements** found that progress has been made to implement recommendations made previously to introduce or improve controls.

A scheme of financial delegation has been drafted which had still to be signed off by the Chief Fire Officer. We recommended that the document first be reviewed against current service practices.

The department has a body of financial procedures, some of which have been revised and updated in the past year, but the service has yet to bring its review of procedures to the point where it can issue a financial procedures manual. This is needed to provide a single point of reference for staff, and a focus for the review, update and development of procedures.

We recommended that, when the service introduces performance management for its non-uniformed staff, this should also cover the financial responsibilities of all staff (i.e. their role in significant financial procedures or management of budgets). Other recommendations were made in respect of the need for a charging policy, the identification of purchase commitments at the point of raising the order, and the use of profiling as an aid to budget monitoring.

Our first audit of the **Community Fire Safety Division** identified scope to improve the procedures in place to assess the cost effectiveness of initiatives to promote fire safety. Improvements should also be made in the procedures to account for the large stocks of smoke detectors purchased. We made a number of other recommendations regarding procedures and practices within the Division – all of which were accepted and agreed. At the request of the Divisional Officer, we will be conducting a short follow-up audit to assess progress in implementing our recommendations.

An audit of the new style **Personal Protective Equipment Contract** has ensured that a full “stock check” will be reconciled against the contractor's records. The contract was found to be operating satisfactorily, with as much of the administration as possible successfully out-sourced.

Our audits of **Fire and Rescue Contract regulations** and **Capital expenditure (non-building related)** found that the systems were satisfactory.

We undertook short follow-up audits of **Capital expenditure (building related)** and **Buildings Repairs and Maintenance** which confirmed that recommendations made previously were being implemented.

We contributed to the **Fire Service Procurement Best Value review**.

