

HERTFORDSHIRE COUNTY COUNCIL

**INTERNAL AUDIT
ANNUAL REPORT**

2002/03

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Internal Audit
May 2003***



INVESTOR IN PEOPLE

Hertfordshire County Council

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INTRODUCTION

This Annual Report brings together, service by service, the main issues we have raised in the course of our 2002/03 audit work. Wherever possible, it also outlines management's responses and actions taken to address our recommendations. We now follow up all audits to check on the implementation of agreed actions.

It is intended particularly for senior management and the Audit Committee, and to provide the Audit Commission with summaries of the work on which they may wish to place reliance. It also aims to provide the assurances required by the Finance Director when he prepares the Statement on the System of Internal Financial Control.

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.

The following paragraphs set out the key messages emerging from our 2002/03 work.

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KEY MESSAGES

System of internal financial control

New to 2002/03 is a requirement, set out in the 2002 Code of Practice on Local Authority Accounting, that the Finance Director should provide a statement explaining the framework within which financial control is managed and reviewed. This will be published as part of the 2002/03 Statement of Accounts, and will include:

- the main components of the financial control system
- arrangements for internal audit
- any significant weaknesses
- actions taken to rectify these.

The Finance Director will place significant reliance on the work of Internal Audit when preparing the Statement.

This Internal Audit Annual Report provides an independent opinion on the adequacy and effectiveness of the Council's system of financial control, including in particular:

- the key controls operating within and around the core financial systems
- high level financial management in each Department and corporately
- arrangements for the letting and monitoring of contracts
- risk management.

In the Chief Internal Auditor's opinion, the above arrangements were adequate and effective in 2002/03, with sound controls in all key areas, and no significant weaknesses requiring formal identification in the Finance Director's Statement.

This assurance is based on a programme of audit work which was delivered:

- in accordance with the Audit Plan, which in turn resulted from the systematic risk assessment of all auditable areas
- by suitably experienced and qualified auditors
- in accordance with the CIPFA Code of Practice for Internal Audit in Local Government
- to standards that have been reviewed and approved by the Audit Commission acting as external auditors.

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. SHARP, the project for Simplifying Hertfordshire's Accounting

and Resource Processes, was initiated, with our input, and is being designed to use SAP software to address efficiency and integration concerns, including those we have raised in relation to the Creditors and Debtors systems.

Financial management in Departments

For each Department, we once again undertook an audit of the high level financial management arrangements. These were sound in all key respects. We found:

- generally strong and effective budget management
- good schemes of delegation, although with some updates now needed
- documentation such as procedural guidelines either good or in active preparation
- good progress with the implementation of our previous recommendations.

Our opinion was also informed by the findings of our many other service-based audits, which showed financial management to be generally of high quality, with no major weaknesses.

Contracts and partnerships

In 2002/03, we contributed to the establishment of innovative partnering arrangements in a number of key areas including highways works, property services, accounting and human resource systems, and the joint commissioning of health and social care services. Problems can arise from differences in culture between the partner organisations, and time and effort is necessary for communication and adjustment. However, the Council's experience shows that such innovation can lead to a step change in the standard of service, as well as to considerable savings.

There were noticeable improvements in the effectiveness and adequate resourcing of project management, but with a continuing need for:

- the application of a sound and practical project management methodology
- the clear and realistic allocation of responsibilities
- proper management of transition periods
- well documented and communicated processes
- attention to detail
- effective control of risks.

Projects do increasingly display these attributes, and full implementation of, and training in, the new Contract Regulations should ensure that the appropriate culture and practices are inculcated.

We reviewed a wide range of client-side management arrangements for existing contracts. There were many examples of effective contract monitoring, while in

some cases we recommended improvements such as more structured and better documented monitoring of performance.

Risk management

Through 2002/03, Internal Audit worked closely with the Head of Risk Management on the continued refinement of risk management arrangements. This included:

- development of a process, approved by the Cabinet, for the involvement of members in an annual risk identification and management process
- identification and assessment, through the Finance Board, of the key risks currently faced by services and the measures being taken to mitigate them.
- sharing of Internal Audit's own assessment of key risks
- attendance at the Safety and Risk Management Board.

Corporate governance and the CPA

The Government's Comprehensive Performance Assessment (CPA) was introduced, with Hertfordshire CC as a pathfinder authority. We provided significant input to the preparation and actual assessment process. This included:

- work to ensure that the Council complied with the CIPFA/SOLACE (Society of Local Authority Chief Executives) Code of Corporate Governance
- detailed review by the District Auditor of the work and standards of Internal Audit (assessed as attaining the top score)
- detailed audit of the relevant performance indicators
- other work on the Council's corporate assessment, overall DA assessment, risk management arrangements, etc.

The CPA resulted in HCC being judged an "excellent" authority. Nevertheless, we are aware that we and others need to continue to achieve improvements through existing and planned work, if we are to ensure that the Council lives up to this exacting standard.

Information and Communications Technology

We have continued to monitor and contribute to systems in development including:

- Project SHARP
- CSFA Oracle
- the Netbanx system for the collection of funds through the Authority's website.

Our reviews of infrastructure areas included audits of a number of departmental networks, as well as the way the Authority manages use of the Internet, and the

procedures in place for the acquisition, control & disposal of PCs. We found all areas to be well controlled and managed.

Our work included the provision of computer audit support for the main coverage of the core financial systems. In addition, we carried out a number of standard application reviews. All were found to be operating satisfactorily.

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:

- providing the Audit Commission with data for the national data-matching exercise, the results from which we will report in 2003/04
- analytical review of the payroll and creditors systems to test for irregular payments
- 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.

The principal cases requiring detailed investigations were:

- a number of suspected creditor cheque frauds
- possibly irregular or erroneous payments to a small number of pensioners
- failure at a school to bank various sums
- apparent fraudulent claiming of a residence order allowance
- overclaimed pay at a community home
- alleged improper discrimination against a transport contractor, which we did not find was supported by the evidence
- review of an investigation by Buckinghamshire CC into allegations concerning a public transport information consortium of which Hertfordshire is a member.

In all appropriate cases, we referred our findings to the police, and supported disciplinary hearings. Wherever possible, we ensured that losses were recovered.

The broader Internal Audit role

In addition to the work outlined above, we contributed to a range of corporate activities, including:

- co-ordination and validation of performance indicators

- acting as lead officer for, and reporting to, the Audit Committee
- chairing the Finance Board
- contributing to the Best Value review of the management of the authority, which developed into the “Simply done” project
- regular liaison with the Audit Commission’s local external audit team.

We delivered audits for a number of external clients, including in particular Hertfordshire Police Authority.

GLOSSARY

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

BCP	<i>Business Continuity Plan: a plan for the continuation of a service following a disaster or other major interruption</i>
Best Value	<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>
BVR	<i>Best Value review</i>
BVPI	<i>Best Value performance indicator</i>
CPA	<i>Comprehensive Performance Assessment: an in-depth assessment by government of Councils' performance and governance arrangements</i>
Computer-aided audit techniques	<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>
Core financial system	<i>A computerised or other process fundamental to the operation of the authority's financial affairs</i>
Corporate governance	<i>The arrangements by which organisations direct and control their functions, and (in local government) relate to their communities</i>
Corruption	<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>
Data matching	<i>Comparison using computer techniques of different sets of information, from within the Council or from other bodies, designed to detect possible fraud</i>
Fraud	<i>The intentional distortion of financial records, carried out to conceal the misappropriation of assets or otherwise for gain</i>
ICT	<i>Information and Communications Technology</i>

Internal control	<i>A procedure which ensures that management objectives are properly and efficiently carried out</i>
Irregularity	<i>An improper or erroneous use of the Council's resources</i>
Key controls	<i>Those processes most likely to prevent or detect material errors or other irregularities</i>
Pre-implementation review	<i>An audit of a computerised or other system shortly before its live operation</i>
Risk assessment	<i>A systematic process, preceding or following detailed audit, to assess the probability of material error, loss or irregularity in an activity</i>
Substantive test	<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>
Systems audit	<i>An audit approach involving the documentation, evaluation and testing of controls within a financial process</i>

WORK 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's recommendations had been implemented or were being addressed. As in previous years, a comprehensive budget pack, which includes departmental schemes of delegation, was produced and made available to budget holders. This continues to provide a solid framework for budget management. The large volatile budgets are well known, have appropriate action plans in place, and continue to be very closely monitored in order that, as far as is possible, overspending is contained.

Our audit of the implementation and operation of **Contract Regulations** found extremely good rules, register and training in Adult Care Services. The updated rules have not yet been logged with Internal Audit.

Central systems

Our follow up of the previous year's review of the arrangements for **Asylum Seeker payments** noted that most of our recommendations had been implemented. However, our concerns regarding the recording and validation of subsistence payments to clients via the landlords were still being addressed and we are continuing to closely monitor developments. We also carried out an unplanned review of exceptional payments made on behalf of Asylum Seekers and made a number of recommendations, which have been accepted and are being addressed.

Our review of **ACS travel expenses** found that although most payments generally complied with the County Mileage policy a few claims were not correctly completed. In particular, certification of out of county and journeys of over 50 miles continue to be weaker areas.

Our review of the **ACS Novell Network** found it to be operating satisfactorily.

Commissioning

At the time of our audit of **Pooled Budgets**, management had identified a need to amend the over/under-spend clause of the agreement. The pooled budget for 2002/03 was approved by the contributing partners, and the principles of contribution to the pool were agreed by the Joint Commissioning Partnership Board (JCPB). The final detailed figures were not approved, as these were not finalised until November. The budget for 2003/04 requires final adjustments for the Primary Care Trust (PCT) contributions, and should be approved at the July JCPB. Management are addressing the issues we raised in our audit, including the need for procedural guidance on pooled budgets, and for induction arrangements for appropriate staff.

We are happy with the controls in place for the provision of **Extra-Care housing at Borehamwood** and the strategy for rolling it out in all ten Districts of the County. The audit did, however, highlight the need to ensure that agreements and protocols are properly finalised and signed by all parties, to ensure that the training plan is implemented and to ensure that owner-occupiers are not penalised.

We provided consultancy by working with staff to ensure that appropriate controls and monitors were being put in place for **Learning Disability Hostels, Western House Re-provision** and **Supporting People**.

The audit of **Gypsy site upgrades** showed the need for improvements in documentation of project planning, progress and monitoring, minuting of meetings, and liaison with utilities. There was a need to further enhance budget reporting by site for the removal of rubbish.

Preserved Rights money received to date from the government in monthly payments was found to be correct and properly accounted for.

The Free Nursing Care audit showed a perception that it was an unnecessarily bureaucratic process by both HCC and the NHS staff involved. DoH guidance was often issued late which delayed the process. Learning points included the need for an effective process plan, proper guidance, prompt finalising of agreements and a proper clause stating terms regarding the nursing care element and bonds.

The following table summarises our visits to **in house Provider Units and Area Teams** in 2002/03.

Type of unit or area	Number of units visited
Day Centres Elderly	5
Day Centres (Physically Disabled) Adults	2
Hostels (Physically Disabled) Adults	1
Hostels (Learning Disability) Adults	15
Staffed Group Homes and Housing Support Teams (Learning Disability) Adults	3
Day Centres (Learning Disability) Adults	3
Sensory Disability Team	1
Hostels (Mental Health) Adults	1
Community Support Teams (Mental Health) Adults	3
Multi-Purpose Day Centres Adults	3
Area Elderly Physical Disability (EPD) Teams	7
Area Community Learning Disability (CLD) Teams	7
Total	51

In addition to carrying out audits of the in-house residential units and the Area Teams, we continued to deal with a number of general queries, particularly regarding the security of cash and the recording of staff hours. All managers provided a full response to the concerns that we raised.

Consultancy

We also provided advice in the following areas:

- Partnership contracts
- Old Peoples Commissioning Strategy

We maintained contact with the **CSFA (Children Schools & Families and Adult Care Services) Oracle Project**, and provided input as appropriate.

CHILDREN SCHOOLS AND FAMILIES

Schools

The following table summarises our coverage in the year:

School sector	Number of schools audited
Nursery	7
Primary	169
Middle	3
Secondary	36
Special	9
Total	224

Beyond the scheduled audits shown above, we also carried out audits where a change of Head occurred (and we judged that an audit could not wait until the next scheduled audit) and in cases of schools merging or closing.

We continue to find that, apart from in a small minority of cases, the standard of financial administration within schools is very good. The typical Hertfordshire school has the following control processes in place:

- a Scheme of Financial Delegation (modelled on the template suggested by the Authority) which defines the roles and responsibilities of the Governing Body, its committees, the Head and other members of staff for financial control

- monthly reports of the budgetary position (including both amounts committed but not yet paid out, and any variances against the profiled budget) which are reviewed by the Head/senior managers, before providing the basis of reports to the governors to be reviewed at their meetings
- checks on both payroll input and output to ensure that the payroll is correct, and on other recharges to the school's account to ensure that these are legitimate
- monthly reconciliations of the school's accounts to its bank account
- checks to ensure that payments to suppliers are legitimate and that VAT requirements are met
- records which identify income due to the school and which provide a trail to the corresponding income received
- an inventory of equipment (although checks on the items listed may not have been made for some while)
- proper records and accounts are maintained for any 'private' or unofficial funds
- awareness of the mechanisms to be followed to ensure compliance with the Inland Revenue requirements in respect of payments to contractors within the construction industry, and generally to persons potentially covered by PAYE
- as far as possible a separation of duties within these processes to maintain internal check.

Our audits reviewed these processes and the recommendations we made following the audit of a typical school were designed to:

- strengthen their procedures
- eliminate actual or potential weaknesses (sometimes occasional, sometimes systematic)
- correct a misunderstanding or ignorance of a particular financial regulation or legal requirement (sometimes this required retrospective compliance)
- or to promote best practice.

We recognise that schools have limited resources to support financial administration, and that this restricts their ability to sustain ideal systems.

In addition to carrying out scheduled school audits, we responded to many **enquiries for advice and guidance** in respect of issues affecting schools' financial administration. Our audits may reveal school initiatives or activities where the boundaries of the Authority's responsibility, or the appropriate accounting treatment, have been uncertain. We appreciate the help of the School Funding Unit (SFU) and other subject experts in determining whether these activities comply with policy and legal requirements.

Once again we responded to a request for assistance by SFU to follow up the **annual accounting returns** of certain schools, where SFU had identified significant errors or omissions, or had doubts about the accuracy of the figures provided. These cases were all satisfactorily resolved.

We carried out initial logging and identification work for the proposed audit of **contract letting and monitoring arrangements** at schools. This audit was deferred following consultation with SFU, and will be completed in 2003/04.

The annual **School Fund Transfer Process** was audited during its key stages and was completed satisfactorily. The process for the **Recovery of School Pay Costs** was reviewed and found to be well controlled.

Investigations and special audits (schools)

We undertook a number of unplanned investigations and special audits, including:

- fraudulent invoices purporting to be for Data Protection registration renewals – we took the necessary action, and SFU issued warning bulletins
- stolen and fraudulently amended cheques intended for a supply-teacher agency, in relation to which an arrest was made
- various shortfalls in schools meals income, mostly explained by errors, or by debts that schools had still to recover from parents
- failure at a primary school to bank various sums including funds raised for charity, which we are likely to refer to the police
- a primary school where we found the school's financial organisation and management to be weak, and another where the budget was not properly set or effectively monitored (in both cases, new Heads have recently been appointed and are actively addressing the issues we raised)
- a secondary school, where we were asked by the Director of CSF to examine what the governors regarded as significant shortcomings in budget monitoring

and other financial management information - we found that the integrity of the school's accounts and financial records was secure.

Other provider units and teams

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

Type of unit or team	Number of units visited
Youth Offending Teams	4
Family Support Teams	9
Community Homes, Children (incl. Family Assessment Unit)	8
Education Support Centres	5
Hostels for Children with learning disabilities	2
Total	28

Our audit of the units continues to focus on the high risk areas of cash handling, particularly the appropriateness and recording of local cash payments, and the monitoring and recording of staff hours, including those for agency staff. All managers provided a full response to the concerns that we raised, and we continue to work with managers and departmental finance support staff to resolve ongoing issues.

Other CSF audits

Our second audit of CSF **Financial Management Arrangements** since the inception of the department has found that all recommendations made following the 2001/02 audit have been addressed. We found that the key controls were essentially sound. The department does not yet have a consolidated financial procedures manual, but we understand that work has begun on this and that a working group should have produced one by the Autumn of 2003. We will complete our work in early 2003/04.

The audit of the implementation and use of the **Contract Regulations** led to agreement to rewrite the departmental rules for contracts, update delegations, improve training, and enhance the contract register.

Our first audits of the four **Quadrants** that deliver the services of the Local Services Division were completed in the year. We were pleased to report that all the administrative and finance staff were doing an excellent job in the circumstances. However, having the quadrant offices on a number of sites adds to the administrative burden on the staff. In addition, it can make it harder to ensure that there are adequate controls within the financial systems.

We noted that budgets were monitored on a timely basis and that all quadrants faced budgetary pressures within the year. Our reports are being finalised, and issues we will raise include:

- adequacy of management information and commitment accounting
- clarity of financial procedures
- compliance with Contract Regulations, particularly in relation to transport arrangements.

Our computer audit review of the **Student Awards** system (Feast Plus) revealed an efficient control system that interfaces securely to the corporate general ledger system and we made only minor recommendations relating to documentation, web security, restore and BCP issues. The accompanying audit of student award administration procedures found a good level of internal control, particularly in the initial eligibility assessment stage. We questioned the rigour of the processes for recovery of debts from students who had withdrawn from courses after receiving awards. The relevant HCC and ITnet staff are addressing this issue.

We followed up our 2001/02 audit of the **Music Service**, and were pleased to note that the service has taken action to address most of our earlier recommendations, which concerned financial administration. The service has now appointed a business manager, who has been instrumental in seeing through many of the changes, and is actively working to resolve the remaining issues.

Our planned computer audit review of the **School Standards & Curriculum (SSC) Division's Local Area Network** coincided with a security review lead by the IT Security Analyst of the Schools IT Systems Support Unit. This identified business continuity planning, resilience and security issues. We support the recommendations from this report.

Our computer audit of the **CSF Local Area Network (LAN)** revealed adequate measures relating to the control of user account management. In this and the SSC LAN audit above, we recommended that the new HCC System Access process be adopted when it becomes available.

We maintained contact with the **CSF Oracle Project** and provided input as appropriate.

Our audit of **Special Educational Needs Recoupment** (i.e. the recharges between Local Authorities for providing SEN services to 'out county' pupils) found that there are effective controls to ensure that we recoup the County's outlay on our 'imports', and that we properly establish our liability for our 'exports'.

We found an excellent procedure for the overall repairs and maintenance process during our audit of **Non-School Capital Repairs and Maintenance**. Minor weaknesses are being addressed regarding various budget issues and the Criminal Records Bureau checks requirement for contractors.

The learning points arising from the audit of the tendering process and financial aspects of the **School Places Forecasting System Contract** have been addressed, including the confirmation in writing of roles and responsibilities, appointment and training of a contracting officer, and use of expert guidance.

The audit of the **Planning Division** activity commenced and is concentrating upon the extension of the National Children Homes contracts for over and under 10's.

Investigations and special audits (non-schools)

We investigated the apparent fraudulent claiming of around £10,000 of a residence order allowance. We have referred the matter to the police, and an arrest has recently been made.

We carried out an investigation into pay irregularities at a community home, which were resolved internally. Overclaimed pay was repaid in full by the residential social worker concerned.

Unplanned audit work was carried out to formalise the use for community meetings and lettings of the Newton-Price Centre in the grounds of Central Primary School, Watford.

COMMUNITY INFORMATION

Our latest audit of the department's **Financial Management Arrangements** revealed that these continue to be sound. Improvements had been made to budgetary control processes and the departmental plan for 2003/4 provides a sound framework for monitoring. There were still no department-wide procedural guidelines, nor a common performance and development agreement that is applied to all staff with financial control responsibilities. We await management's response to our recently issued draft report.

There was a satisfactory implementation of the latest **Contract Regulations**, including a detailed ICT Infrastructure contracts register.

Hertfordshire Archives and Local Studies

Our audit of the financial administration within the HALS operation found that procedures generally exhibited good controls, notably budget monitoring and inventory checks. However, we did recommend that the monitoring of income received be improved, by reconciling amounts banked to the prime records of sales or chargeable activities. We also recommended that goods and services that attract VAT should be clearly identified. We noted that one of the storage areas used for archive materials is not suitable for this purpose – we understand that this is due to accommodation and budget limitations.

Library services

During the year we also carried out audits of two of the ten **Library Districts**: Stevenage and Hertsmere Districts. We found that the controls within processes such as budget monitoring, income recording and banking were, in the majority, sound. We recommended that monitoring of the income from the sale of franchised items be improved, and we suggested that greater separation of duties be introduced in the income handling and recording processes where possible.

We were happy with the sophisticated **contractual arrangements for the supply of library books** operated by the library service as part of the Central Buying Consortium. The minor control enhancements recommended have been agreed for implementation.

Information and Communications Technology (ICT) Infrastructure

Our audit of **Mainframe Operations** focused on the management of ITnet's data centres at Laburnum & Cedar Houses, in Birmingham, and the software environments they support. We were generally satisfied with what we found.

Our review of a number of departmental **Novell Networks** was augmented by in-depth technical reviews by ICT infrastructure. All were found to be operating satisfactorily, and we support the proposal for a generic approach to managing system access.

We reviewed the way the Council manages use of the **Internet** and found it to be well controlled, and we were happy with the procedures in place for the **Acquisition, Control & Disposal of PCs**.

The audit of the **monitoring of the PC Support Contract** provided an opportunity to highlight possibilities for improvement with the handover of responsibilities to ICT infrastructure from January 2003. These included monthly review meeting

processes, service level agreements between service departments and ITnet, transition period arrangements, and improved server protection.

Corporate Information Systems

Our comments on **Project SHARP** and the **CSFA Oracle** system have been included in the relevant departmental entries.

CORPORATE SERVICES

We are generally satisfied with the **Financial Management** controls operating within Corporate Services Department. We found schemes of delegation, for the various sections in the department, which gave authority to appropriate officers, and were reinforced by authorised signature listings, although they varied in extent and format. Management information is sufficient to ensure effective control of resources. Budgets are realistically set, high-risk areas closely monitored and named budget managers maintain control of their designated budgets.

SHARP, the project responsible for managing the business transformation project for Finance, HR and Payroll within HCC, will have a significant impact on the way HCC works including improving access to effective management information. We continued to provide input to the projects and gave advice on ICT and contract-specific aspects.

The **Contract Regulations** audit made a number of recommendations which have been implemented and suggested the enabling of a single point of access to all contract registers which is in progress.

CHIEF EXECUTIVE'S

We have continued to provide advice on the correct definitions of the statutory **Best Value Performance Indicators**. Following our audit of the 2001/02 performance Indicator outturn data, we held meetings with each Service Department to promulgate the quality assurance process expected to be adopted by them. The key messages from the External Audit review of our processes were that we should:

- question the data to check it makes sense throughout the year
- analyse results to make sure they fit with all known information (e.g. previous year's result)
- ensure that our estimate reflects the complexity of the data (i.e. address seasonal fluctuations, policy changes etc)
- be able to validate our estimates (and recreate them)
- use the most up-to-date information available

- know and follow the detail of the indicator
- use information to manage - not just a 'statistic'.

The role of Internal Audit in the **Best Value Review** (BVR) process in HCC was scaled back as a result of the successful outcome of the CPA review of the county. The effective system for follow-up of BVR's operated by Strategy and Consultancy and the Resources Scrutiny Committee further reduced the need for internal audit work. As in previous years, the timing of BVR's, and their effects on the internal control environment, were taken into account in our risk-based audit planning. In addition, the timing of our systems audit work complemented and was integrated into BVR's or equivalent reviews, providing opinions on the adequacy of internal controls and business processes.

We contributed to the large-scale review of "Management of the Authority" (which developed into the "Simply done" work) and the core BVR of "Financial Systems and Services" which was subsumed into the SHARP project. We kept a watching brief on the "Planning and Transport Policy" BVR.

CORPORATE FINANCE

Budgetary Control and Financial Ledger

We were generally satisfied with the **General Ledger** controls operating within the departmental finance sections.

We reviewed the central co-ordination of the budget setting and monitoring cycle within our **Budgetary Control** audit, and generally found sound procedures in place.

Our financial management audits in the main departments included **Balance Sheet Monitoring**. The Team Leader Corporate Accountancy regularly circulates a balance sheet report to the named officers which reinforces routine monitoring.

The infrastructure for maintaining an accurate database for **Authorised signatories** and the specimen signature library is in place. Issues for HCC departments included inappropriate authority for some staff members contrary to the scheme of delegation, and inappropriate staff authorising others.

We are generally satisfied with the controls operating within the **Capital** Section of Corporate Finance, and that the final output from the main accounting system is correctly presented in the Authority's Annual Statement of Accounts.

During our review of **Value Added Tax**, we were satisfied that the returns are complete, timely and reconciled to the ledger, and that the systems in place are adequate.

Bank and Cash

We audited the well-established **BACS** service provided by the ITnet Bureau, located at County Hall, and concluded that key processes are soundly managed and secure.

Our review of the **NETBANX** system for the collection of website income found it to be operating satisfactorily.

We have reviewed the Authority's **temporary lending and borrowing** activities. We are satisfied that the recovery of temporary investments is properly controlled and recorded and interest is correctly calculated, recorded and charged.

We continue to attend meetings with Treasury Management and National Westminster Bank. We reviewed **Bank Accounts and Charges** and we are satisfied that effective controls are now in place. The use of **business cards** in Departments has increased significantly.

We were generally satisfied with the controls operating over the production of fortnightly **Bank Reconciliations** within ITnet Cashiers Treasury Management.

We restated a previous recommendation within our review of **ITnet cashier's imprest** that cashiers have a copy of signatures for any employee collecting cash from the imprest account in order to identify the recipients.

We are generally satisfied with the controls operating within the **Cash Processing Section**, with the controls for **Income Monitoring** and the **Cheque Control and Cancellation Procedures** being operated within the various ITnet sections.

We investigated 3 instances of **fraudulently amended cheques**, which, if they had all been processed and charged to HCC, would have resulted in a loss of £28,000. However, this was reimbursed in full by the bank.

Creditors

Overall, we are generally satisfied with the controls operating within the **Creditors** system, but we do have specific concerns over the adequacy of controls exercised by HCC Departments when passing invoices for payment. Duplicate payments are still occurring, mainly due to a combination of circumstances in both ITnet and Departments with faxed or photocopied invoices being processed. Departments need to exercise more care in the checking of invoices before authorisation. A radical change in the invoice processing procedures is being considered and we have reported our general concerns in relation to the payment of Creditors direct to the SHARP Project Leader.

We also reviewed **Payments to Sub-Contractors** and the procedures to reclaim payments made on behalf of **External Customers**.

Debtors

We are generally satisfied with the controls operating within the **Debtors** system. However, the Debt Statistics report indicates a continued increase in the total value of debt over nine months old, from £2,703k in February 2002, to £2,860k in February 2003. Over the same period the number and value of Debtors aged six to nine months decreased by 6%. We noted instances where the invoice date was backdated to the service date and not the date the invoice was actually raised. We noted over 350 invoices for less than £10. The facility of accumulating debts onto one invoice once their aggregate value reaches a certain level will be accommodated in project SHARP. Finance Board receives monthly debt position reports, and Board members are well aware of, and actively addressing, the debt position.

Although most of the areas reviewed during our **Homecare Debtors** audit were found to be satisfactory, effective debt recovery remains a important issue. The appointment of a new Debt Recovery Officer, with the aid of debt recovery procedures currently being drafted, should ensure that the ACS Districts are given the support that they need.

We have suggested the extension of the direct debit system to Home Care.

We also reviewed **Debtors Periodic Income** and the few remaining **Mortgages**.

Payroll, Benefits and Pensions

During our **Payroll** review we reviewed progress to correct some 'Equivalent Whole Time' calculations, and we also checked the 'work permit' procedures for some under 16 year olds on our payroll. We are generally satisfied with the controls operating within the Payroll system, and our **Payroll Analytical** monitoring throughout the year did not identify any significant areas of concern.

The **Payroll Control Account** codes continue to be monitored each month by ITnet but reconciliations are still eight months behind, almost the same position as at the time of the last audit. The Assistant Director of Finance is aware of the position and intends to include appropriate action in the 2003/04 Corporate Finance Business Plan.

We continue to provide **Client Consultancy** advice on procedures and best practice. This year we were continuing to evaluate the possibility of using ITnet's BACS system for payments of an urgent nature, between normal payroll runs e.g. for

new staff whose details were not received in time for normal processing, which are currently paid by cheque

We continue to extract and distribute monitoring reports on **Travel and Subsistence** expenses claims. The claiming process is being analysed and we are participating in the selection and adaptation of an electronic claims process which will be piloted during 2003.

The **Car Leasing** system software was being replaced but has not incorporated our recommendations for specific information on individuals' annual mileage, thus preventing prompt recharging of any excess costs.

Our review of the **Pension Fund CPX system** and ITnet's accounting for contributions from Admitted Bodies has identified some control weaknesses. There is no follow-up system to correct balances where information received from Admitted Bodies is incorrect/incomplete.

We are generally satisfied with the controls operating within **ITnet Pensions** for calculating pension entitlement. We have undertaken increased analytical testing and data sorting within the **Pensions Payroll** to identify potential anomalies for detailed checking. In a small number of cases, our work, and the results from the **National Fraud Initiative**, led to the identification of overpaid pensions. ITnet are taking active steps to resolve these. ITnet are also undertaking a checking process between all pensions on Payroll and the amounts held on CPX to detect any similar errors. We understand that the Payroll Service Delivery Manager is investigating the potential use of a number of alternative controls within the system to prevent future overpayments.

On an ad hoc basis we continued to provide **Pensions Client Consultancy** advice on issues such as payments sent abroad, and the issue of life certificates.

We have been progressing with the audit of **Capital International (Pension Fund Manager)** but have encountered delays due to the transaction accounting processes being undertaken in Geneva. Their control systems are audited by Deloitte Touche and all investments are actually held by ABN-AMRO Mellon, which provide independent verification of the sales and purchases.

Other audits

We also undertook a number of other reviews, including:

- **Insurance** Team, where we were generally satisfied with the controls operating
- The **Controlled Stationery** department within ITnet Business Support, which we found to be well organised and efficiently run.

- The **Crouchfield Trust**, which was being run in accordance to the rules laid down.

COUNTY SECRETARY'S

The audits of **Land Charges** and the **Registration Service** identified a few minor control weaknesses. Our recommendations have been accepted and are in the process of being implemented.

Our audit of the implementation of the latest **Contract Regulations** identified the need to provide the accountant (contracts) with departmental rules. This has been done.

COUNTY SUPPLIES AND CONTRACT SERVICES

The high level audit of **CSCS - Overall Financial Control** was generally satisfactory, apart from minor weaknesses in areas such as signatory listings and references procedures.

We carried out unplanned audit work for the **Managed Financial Services Monitoring Team** on the claim by ITnet to offset their staff time against under performance rebates, due to the Council in respect of the Pensions Service. We found that the evidence did not justify the ITnet claim.

Our audit of the **Cleaning Contract Monitoring** was extended to include **Grounds Maintenance Contract Monitoring**. We drew attention to the need for improved control over contractors' insurance cover, particularly for sites which use their own external contractor, for Criminal Records Bureau checks, and for compatibility with the proposed SHARP system.

Other audits undertaken within the Department included:

- **Impressions** - minor weaknesses being addressed include review of job descriptions, stock levels, wastage, prices and leasing periods.
- The audit review of the reletting of the **PC Support Contract** is reported in the Community Information section.
- The activities of the **Provisioning** section were found to be both efficient and effective. A number of documentary and procedural controls were suggested and are being implemented subsequently.
- The **Home Ability** function was found to be well managed and up to date.
- We had some involvement with the process for reletting the **County Hall Catering** contract and have no concerns.

- Our review of the **School Meals Administration System (SCAM)** revealed an efficient control system that interfaces to the corporate general ledger system and we made only minor recommendations relating to security, resilience, and BCP issues.
- Whilst generally happy with the controls surrounding the **CSCS Online Catalogue**, we recommended minor improvements to account administration and use of expenditure codes.

PEOPLE AND PROPERTY

Property

The revenue budget arrangements for **Corporately Managed Property (CMP)** were found not to have been reflected in the relevant Service Property Strategy or Property Guidance Note. There was a need for improved internal and external liaison. In 2002/03, only one property was transferred across to CMP using the tariff system, and there was a need to strengthen processes and the relationships between departments.

Control of **Rent** collection procedures was found to be generally satisfactory in both the case of property held by Aldwyck Housing Association and Corporately Managed Property. In the case of Corporately Managed Property, however, there were minor weaknesses, which are being addressed.

Control over the contract with GL Hearn (GLH) for **Rates** evaluations and payments was working well, and the audit found much good practice.

We followed up our earlier audit of **Capital Payment and Budgetary control**, by monitoring the implementation of the recommendations and reviewing progress. The Gateway process of project management ensures effective monitoring of prices and progress. Projects such as the Porterswood offices for CSF, however, continued to be at risk of overspending, despite having been highlighted in our original audit report.

We continued to input to various working groups facilitating the re-letting, mobilisation and implementation of the **Professional Property Services** contracts. The work in progress, and the handover of files and systems working groups, were particularly important. We contributed to the tender negotiation and letting process. We were also involved in the contract preparation and selection of **strategic contractors**.

As a result of our audit of **Contemporaneous Contracts**, weaknesses are being addressed relating to the risk of not securing planning permission, resulting in the

abandonment of a project, and also to the risk of land values falling. There was much good practice identified.

We were pleased with controls operating over the development of the **Corporate Asset Management Plan (CAMP)**. A number of recommendations for minor improvements were accepted.

The audit of the **Strategic Management of Property** concentrated upon the County Hall reorganisation and demonstrated well controlled project management.

Our planned work on **Measured Term Contracts**, and on the **Project Management of Minor Works** was deferred, with the agreement of Herts Property.

We also attended the monthly budget meetings for **Facilities Management**, and ensured that a protocol was written to regularise the disposal of **confidential waste** in HCC.

The audit of the **security arrangements** identified that there is no single "owner" responsible for security strategy or developing, implementing and co-ordinating issues covering all aspects of security cost effectively throughout all departments. Contractual and prioritisation issues were also highlighted. These will be raised at the SERM Board.

We also reviewed the Herts Property implementation of the latest **Contract Regulations**, and found that procedures now better reflect the position of Education Workshops, although more refinement may be necessary in this area. Departmental Rules and delegations will be brought up to date to reflect the new arrangements for the provision of professional property services. Minor improvements will be made to the sub-register in Corporate Estates.

The planned post-implementation computer audit of the **Corporate Property Database** was deferred owing to the delay in implementation of the system.

We contributed consultancy advice on the **Central Services ISO 14001 EMS system**.

Corporate Personnel

We carried out further audit work on the implementation of the **Recruitment Centre Contract** improvement plans. We were pleased with the improvements and the effective use of departmental sponsors. However, there is still a need for improved control over timesheets, improved response to job requests, order numbers and budget codes. We also carried out process mapping for use in the SHARP project.

We undertook short reviews of **Corporate Safety and Risk Management financial procedures**, and **Telephone charges/recharges**, and made a few minor recommendations, all of which were accepted and implemented.

Safety, Emergency and Risk Management Unit

We again integrated risk management into our risk analysis, and contributed to the **SERM Board** including the ZM audit. Other work relating to risk management is referred to in the Key Messages section above.

ENVIRONMENT

Environment Department's **Overall Financial Management Arrangements** were generally found to be satisfactory. The authorisation listings supplied to ITnet, however, were not up to date.

Following our audit of **Contract Regulations**, we recommended the proper issue of completed departmental rules, registration of contracting officer delegations and the establishment of a non-TMG register of contracts.

Our review of the **Environment Local Area Network (LAN)** revealed adequate measures relating to control account management, and we recommended only that some minor items of hardware be included within the inventory.

Transport Management

We evaluated on an ongoing basis the short listing, tendering and evaluation for the **Next Generation Highways Services** procurement process. We were satisfied with the evaluation model used for **the Consultancy and Works contracts** for the **Strategic Alliance** and the bases of the decisions made.

Our audit of **Stevenage Highways Agency** found that the Borough Council's application of controls over tendering, documenting and monitoring contracts was weak. Long Term Structural maintenance schemes were not properly documented. Many claims for routine maintenance were for the full allocation rather than actual expenditure. The County Council has now taken over responsibility for these areas with the subsequent ending of the Highways Agency agreement.

The **Dacorum Highways Agency** audit was generally satisfactory, with weaknesses identified in budget allocation and monitoring, untraced vehicle damage detection, and a high level of temporary staff.

Although there were good procedures for detecting untraced vehicle damage and procedures and regulations were well documented, the **St. Albans Highways Partnership** audit found weaknesses in lack of segregation of duties and documentation.

We were content with the preliminary groundwork stage of the design and build contract for **Baldock By-Pass**, on which the risks were being addressed and roles and responsibilities of the project team determined.

We were generally satisfied with the controls operating in the **Safety Engineering Unit**, apart from some minor weaknesses in the quality control processes for scheme documentation.

We carried out an unplanned special investigation of a complaint relating to the **Taxi Contracts** unit in the Passenger Transport Unit. In the course of the investigation we identified some control weaknesses relating to contract regulations, procurement methods and the proper documentation of decision making.

We independently reviewed the investigation that Buckinghamshire County Council's Internal Audit undertook into **Traveline South East**. This confirmed that Buckinghamshire County Council's Internal Audit had undertaken a thorough and proper investigation. This unplanned work led to a number of recommendations to enhance HCC control over contributions to the South East Local Transport Authorities consortium.

Strategy

We continued our watching brief involvement with **Hatfield Aerodrome Section 106 agreements**.

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 also provided an agreed internal audit service to the Hertfordshire **Magistrates' Courts Committee**.

The **Charities'** and other bodies' final accounts audited this year were:

- Herts Association of Local Councils
- Herts Charity for Deprived Children
- Herts Education Foundation
- Dimsdale Charity
- Bowley Charity
- Staff Sports Club.

FIRE & RESCUE

Our latest audit of the department's **Financial Management Arrangements** revealed that these continue to be essentially sound, and that progress has been made in implementing recommendations made previously. The Service's Scheme of Financial Delegation has been updated in certain respects, but it has not yet been finalised. Further work is still needed to produce an up-to-date financial procedures manual for the Service, and this also applies to its Contract Regulations. We are pleased to report that we had no need to make any recommendations in respect of the Service's budget setting or budgetary control procedures.

We audited the implementation and operation of **Contract Regulations**. We recommended that the Chief Fire Officer provide the information required by other sections of HCC, under the County's Contract Regulations, in respect of the Service's own contracts rules, its contract register, and training issues (that reflect changes made in these areas). We await the reply to our final report.

We also carried out an audit of the **Retained Fire-fighters' Pay system** in the year. We have learnt from previous audits of this system that, since it involves a number of processing stages, it is prone to human error. Management is keen to find a way to replace what it regards as a cumbersome system. We found that the Service has not managed to effectively implement all recommendations made previously, and we believe that consequently the source of some pay errors and anomalies remain. We have recommended that the Service re-check a number of pay and allowance elements to identify and correct under and over-payments. We await management's response to our final report.

Initial investigatory work was carried out for the audit of the **Radio Replacement Project**, but the scheme will not now take place until 2007. The audit was deferred with the agreement of the Service.

The audit of **Phase 2 of the Personal Protective Equipment Contract** and our computer audit of the **Command & Control System** were similarly deferred due to the industrial action.