

**Health Professions Council  
Audit Committee -28 February 2007**

**INTERNAL AUDIT REPORT – FINANCIAL SYSTEMS**

**Executive Summary and Recommendations**

**Introduction**

As part of the internal audit programme for 2006/7 PKF undertook a review of the financial systems at HPC. The attached report which includes a management response was agreed with the Executive in February 2007.

**Decision**

The Committee is asked to discuss the report.

**Background information**

At its meeting on 28 June 2006, the Committee approved the Internal Audit Needs Assessment and Internal Audit Plan for 2006-7. (See paper AUD 43/06).

**Resource implications**

None

**Financial implications**

None

**Appendices**

IT Hardware Asset Tagging Convention and Disposal of IT Hardware Assets - this relates to recommendation 2 in the report.

**Date of paper**

15 February 2007

Date	Ver.	Dept/Cmte	Doc Type	Title	Status	Int. Aud.
2007-02-16	a	ADT	PPR	Executive Summary Financial Systems internal audit report Audit Committee 28 February 2007	Final DD: None	Public RD: None



Accountants &  
business advisers



## Financial Systems

February 2007

Final - Confidential

**Assurance Level: Satisfactory** – Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.

**Staff Interviewed** – Simon Leicester, Charlotte Miller, Manj Cheema, Shelagh Gillick, and Suellan Vassell

**Audit Team** – Mark Wonnacott / Panyin Blankson

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# 1 Introduction

- 1.1 This review forms part of our 2006/2007 internal audit, which has been carried out in accordance with the programme which has been agreed with the Audit Committee in June 2006.
- 1.2 The aim of the audit was to carry out a review of the system and controls that are in place over the main finance systems. The review focused on the internal control arrangements for the following key financial areas:
- Payroll;
  - Travel and Subsistence;
  - Asset Management;
  - Budgetary Control;
  - Ledgers;
  - Cash, Bank and Treasury;
  - Income and Debtors; and
  - Purchasing and payments.
- 1.3 The review also included a detailed follow up of the Management Controls report conducted by Baker Tilly to ensure that the necessary improvement to the systems have been made. HPC.
- 1.4 The work was carried out primarily by holding discussions with relevant staff, reviewing any available documentation and testing controls in place to determine their effectiveness. The audit fieldwork was completed in January 2007.
- 1.5 This report has been prepared as part of the internal audit of the Health Professions Council under the terms of the contract for internal audit services. It has been prepared for the Health Professions Council and we neither accept nor assume any responsibility or duty of care to any third party in relation to it. The conclusions and recommendations are based on the results of audit work carried out and are reported in good faith. However, our methodology is dependent upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

## 2 Executive Summary

2.1 This report summarises the work undertaken by PKF and our conclusions on the financial systems in place at the HPC. The work was performed as part of our internal audit plan for 2006/07.

### Overall Conclusion

2.2 Our worked covered the following systems:

- Payroll;
- Travel and Subsistence;
- Asset Management;
- Budgetary Control;
- Ledger management;
- Cash, Bank and Treasury;
- Income and Debtors; and
- Purchasing and Payments.

### Our Overall Assessment

2.3 We have carried out the audit in accordance with the programme agreed with you. Based on the audit work carried out we have concluded that the following level of control in relation to the Financial Systems covered:

<b>Payroll</b>	The level of control in Payroll system is <b>Satisfactory</b> and the controls are operating as intended.
<b>Travel &amp; Subsistence</b>	The level of control in the Travel & Subsistence system is <b>Satisfactory</b> and operating effectively.
<b>Asset Management</b>	The level of control at corporate level is <b>Satisfactory</b> and operating as intended.
<b>Budgetary Control</b>	The level of control in Budgetary Control system is <b>Satisfactory</b> .
<b>Ledger Management</b>	The level of control in Ledgers system is <b>Satisfactory</b> but were not operating in all cases.
<b>Cash, Bank &amp; Treasury</b>	The level of control in the Cash, Bank & Treasury system is <b>Sound</b> .

**Income & Debtors**                    The level of control in Income & Debtors system is **Satisfactory**.

**Purchasing & Payments**        The level of control in the Purchasing & Payments system is **Satisfactory in Most Respects**.

2.4            We have concluded that the overall design of controls in place over the main financial systems at the HPC are **Satisfactory** and that the systems can be relied upon for management information and for accurate processing.

2.5            We have also followed up the work undertaken by Baker Tilly – Management Controls. This has shown that management have continued to make progress in implementing the outstanding recommendations.

2.6            We have not identified any fundamental concerns in any of the areas covered during this audit, although there remain some areas affected by minor risks whereby further steps should be taken to strengthen the controls in order to mitigate these risks.

2.7            We have identified areas where controls could be further strengthened and have made recommendations in this regard notably in respect of:

- Management should ensure that the verification of assets is undertaken on an annual basis, during the physical verification exercise all capitalised assets should be tagged and asset register updated to reflect all movements;
- Management should ensure that the Sage system prompts staff to change their password every 90 days;
- Management should ensure that for all journals the supporting documentation is retained and that all journals are signed by the preparer and approved before inputting into Sage; and
- Budgets holders should sign off their budgets as evidence of ownership.

2.8            Finally, we wish to thank all members of staff for their availability, co-operation and assistance during the course of our review.

**PKF (UK) LLP**  
**February 2007**

## 3 Detailed Findings

### Payroll

#### Our assessment

- 3.1 Our review of the payroll system indicated that the current controls in operation are Satisfactory and generally operating as intended. However, we noted one exception during the testing undertaken.
- 3.2 Our review focussed on the key controls in place within the HPC including;
- Authorisation of starters;
  - Accurate processing of leavers;
  - Retention of audit trail and supporting documentation;
  - Authorisation of amendments and changes; and
  - Access and security of data and personnel information.

#### Our findings

- 3.3 There is a detailed staff handbook in place which includes the policies and procedures relating to the following areas:
- Pay arrangements;
  - Overtime;
  - Pension scheme;
  - Redundancy policy; and
  - Notice periods.
- 3.4 There is also an Exit Procedure in place which details how an employee leaves the HPC. The policies and procedures in place have been deemed fit for purpose.

#### Authorisation of starters

- 3.5 There is a new starter checklist in place which is used for all new starters. This checklist was developed with by the Human Resources (HR) department with assistance from the HPC's employment lawyers. This checklist acts as a control mechanism to ensure that each item is signed off by both line management and the HR department.
- 3.6 We have undertaken testing of a sample of new starters and have confirmed that the starter checklist has been completed and signed by both the employee and the HR team. We also confirmed that for the sample tested there is a contract of employment on file and that this had been signed by the employee and by HR.

**Accurate Processing of Leavers**

- 3.7 When leaving the HPC the employee provides written confirmation of their resignation to their line manager. This letter is forwarded to the HR department and a letter sent back to the employee accepting their resignation.
- 3.8 A leavers checklist is in place at the HPC and is being completed by all leavers. We have undertaken sample testing and this has indicated that the checklist is being operated and completed correctly and that the resignation letter and acceptance of resignation letters have been retained on file.
- 3.9 The HR department has an exit procedure in place to be followed by management and has a proforma exit interview form to be used when conducting exit interviews. All leavers are offered the opportunity to have an exit interview by the HR department.

**Authorisation of Amendments and Changes**

- 3.10 The HR department send an electronic report to Finance detailing all changes (starters/ leavers and amendments) to the payroll by the 15<sup>th</sup> of each month. Supporting documents (e.g. letter of appointment) are sent to Finance and these used to update the monthly excel spreadsheet (the payroll summary form). The excel spreadsheet is used to input the payroll onto the payroll system which is maintained on one stand alone computer within the finance department. After inputting the data seven reports are generated and a monthly pre check folder is then opened and the relevant documents retained in it. The Director of Finance and the Director of Human Resources review, sign and date the reports in the pre check folder to the supporting documents and evidence these checks. A final check and approval is carried out by the Chief Executive.
- 3.11 In addition each month a detailed report showing the number of staff is sent to HR by Finance. An electronic message is sent to the relevant budget holders four days in advance of payroll payment in order for the budget holders to verify the staff being paid. This acts as a control to ensure that only valid employees are paid each month.
- 3.12 There is a system in place for processing overtime claims, whereby an email is sent to all staff on the 10<sup>th</sup> day of each month requesting that claim forms should be sent to the finance department. There is a standard overtime form in place which is completed by eligible staff and authorised by line management. Once the form has been authorised, it is input into the payroll system and onto an excel spreadsheet by the Financial Accountant. The spreadsheet is checked to the overtime forms by the Director of Finance. The result of our testing indicates that all forms have been authorised and input correctly.



### Access and security of data and personnel information

- 3.13 The payroll system is maintained within the Finance department and access to this system is restricted to two finance staff who both have full access to the system. Personnel information is retained on the HR database and HR files which are kept within the HR department in locked cabinets.

## Travel and Subsistence

### Our assessment

- 3.14 Our review of the travel and subsistence system indicated that the current controls in operation are Satisfactory and operating as intended. However, we have made a best practice recommendation.

- 3.15 The key aspects of travel and subsistence considered as part of this review relate to:

- Claim entitlement rules;
- Claims submission;
- Claim checking;
- Claim payment; and
- Audit trail.

### Our findings

- 3.16 It was established from reviewing the set of Expense claim policies that there is no mechanism in place to ensure that the policies are reviewed on a regular basis. The various policies are detailed below with their review dates:

- Expenses policy for medical and legal assessors dated April 2003;
- Expense policy for staff dated April 2003;
- How to claim for partners dated July 2003; and
- Expenses policy for Council Members dated November 2006.

### Recommendation

**1 – Management should review the expense claim policies to ensure that they remain up to date and are fit for purpose.**

- 3.17 **Council Members Claims**– For category 2 and 3 Council members the process is as follows. The expense claim forms is completed and the relevant receipts attached for all claims over £5. The completed and signed expense claim form is submitted to the Finance Department for processing. The Transaction Manager who opens all post received date stamps the expense claim forms upon receipt. The Purchase Ledger Officer completes the purchase ledger detail form (authorisation form) and a stamp number is allocated and the

expense claim is logged onto Sage system, as unauthorised. The purchase ledger detail form is sent with the expense claim form attached to the authorised signatory for approval. The relevant budget holder then signs and records the budget code on the purchase ledger detailed form and returns the forms to finance. Upon receipt of the authorised form, the Purchase Ledger Officer authorises the expense claim on the system and checks the budget code.

- 3.18 For category 1 Council members the travel and subsistence process is the same as for category 2 & 3 Council members apart from the payment mechanism as these council members are paid through the payroll system. The same level of checking and authorisation applies to these claims.
- 3.19 **Staff Claims** - Expense claim forms are completed by staff and authorised by their line Manager. Receipts are attached for all claims that are over £5. The expense claim forms are then sent directly to the Purchase Ledger Officer within the finance department. The expense claim forms are date stamped and processed into Sage system.
- 3.20 **Partners (Panel)** - This is only applicable to partner's that attend FTP/Investigating hearings. There are currently two forms that are in use. The partner's complete the expense claim form and a fee form. The completed forms are then sent to Finance. The Transaction Manager who opens all post, date-stamps the expense claim forms upon receipt. The Purchase Ledger Officer completes the purchase ledger detail form (authorisation form). A stamp number is allocated and the expense claim is logged onto Sage system, as unauthorised. The purchase ledger detail form is sent with the expense claim form attached to the authorised signatory for approval.
- 3.21 The relevant budget holder then signs and records the budget code on the purchase ledger detailed form and returns the forms to finance. Upon receipt of the authorised form, the Purchase Ledger Officer authorises the expense claim on the system and checks the budget code.
- 3.22 **Partners (Assessment)** - The assessment is performed at the partner's residence. The international registration department email the partner, requesting the assessment to be performed ensuring that the finance team are copied into the email. Upon completion of the assessment, the partner emails or mails their invoice to the finance department. Finance logs the invoice as unauthorised in the purchase ledger then attaches the assessment request email to the invoice and forward to the international registration budget holder for authorisation. The rate for each assessment is £65 and for each test of competence is £130.
- 3.23 The testing undertaken covering the financial year under review confirmed that all the expense claim forms had been completed and signed by the claimant, appropriately

authorised by a delegated Officer, receipts had been attached were applicable, correct rates had been utilised and entered correctly into the sage system.

## Asset Management

### Our assessment

- 3.24 Our assessment of controls over fixed assets indicates that controls are satisfactory in most respects. We have made recommendations to improve the control environment.

### Our findings

- 3.25 The key aspects of asset management considered as part of this review relate to:
- Recognising additions;
  - Identifying disposals and transfers;
  - Asset accounting; and
  - Accuracy of asset information.
- 3.26 **Asset Additions** – There is an asset recognition policy in place which was approved by the Executive Management Team in September 2005 and then by the Finance and Resources Committee. We ascertained from reviewing the Asset recognition policy that it identifies capitalising threshold level, guidelines for recognising assets, security of assets. The above policy is maintained on the Council's intranet accessible to all staff. The capitalisation threshold for assets is £1,000, except for IT assets for which all assets are capitalised.
- 3.27 We tested a sample of asset additions from the financial year under review which were selected randomly and traced to the corresponding invoice. Testing confirmed that assets had been accurately coded, appropriately authorised for payments, and entered correctly into the asset register.
- 3.28 **Asset Disposals** - We noted that asset disposal processes were not included within the Asset recognition policy.

### Recommendation

**2 - The organisation should ensure that a disposal policy is documented and approved. The policy should include the procedure for disposal of broken equipment and furniture and the procedure for removal of items surplus to requirements.**

- 3.29 A standard disposal form is utilised by the HPC. This form is completed by the staff member and approved by the appropriate budget holder. Our testing confirmed that a disposal form had been completed and appropriately authorised before asset items were updated on the asset register as disposals.

- 3.30 **Asset Accounting and Asset Information** - The organisations fixed assets consist of land and buildings valued at £2,972,000, IT equipment valued at £261,794 and Furniture valued at £79,448, A detailed fixed asset register is in place and access to the register is restricted to three finance staff members – the Director of Finance, the Management Accountant and the Financial Accountant. The fixed asset register is updated on a monthly basis by the Management Accountant.
- 3.31 We were informed by the Management Accountant that physical verification of office equipment and IT equipment had been undertaken, and we obtained evidence which confirmed that the verification had indeed been performed in October 2005.
- 3.32 We selected a number of assets randomly to trace back to the Asset Register and all assets were traced correctly to the register. The assets had been etched with the Councils abbreviation and postcode. Currently no exercise is undertaken to annual verify the assets on the Fixed Asset Register. We have made a best practice recommendation in this regard.

#### **Recommendation**

**3 - Management should ensure that the verification of assets is undertaken on an annual basis, during the physical verification exercise all capitalised assets should be tagged and asset register updated to reflect all movements.**

- 3.33 We were further informed by the Management Accountant that reconciliation between the Asset register and the Finance system is performed on a monthly basis; however there was no evidence to support this. We have raised a recommendation to ensure that this reconciliation is evidenced in future.

#### **Recommendation**

**4 - A formal record of the asset reconciliation should be made and retained and authorised by management.**

### **Budgetary Control**

#### **Our assessment**

- 3.34 Our review of budgetary control indicates that controls are satisfactory and are operating effectively. Our testing indicates that the expected controls have been operating during the period and the control objectives have been met.
- 3.35 Effective budgetary control is essential for the HPC to manage its costs and ensure that it can achieve its objectives. The key elements of budgetary control considered as part of this review relate to:
- Budget planning and approval;

- Forecasting; and
- Budget monitoring.

### **Our findings**

- 3.36 **Budget planning and approval** – There is a budget setting timetable in place which is electronically sent to all of the budget holders. The budget setting process for the 2007/08 financial year commenced in October 2006.
- 3.37 The budget holders submit their completed budget figures to the Finance Department for review by the Director of Finance, Management Accountant and the Chief Executive. This team meets with each budget holder to discuss or amend the budget submitted. The amended agreed budget is then submitted to the Finance & Resources Committee for approval. Upon approval the budget is sent back to Finance, and Finance then submits the overall budget to the Council for approval.
- 3.38 We confirmed from discussions with two budget holders that budget holders are involved in the budget setting process. Budgets are set on a zero base or using historic figures.
- 3.39 We confirmed that the Management Accountant electronically informed the budget holders that the budget template had been set up, and the budget instructions and timetable were distributed to budget holders. The budget instructions were reviewed and it identifies:
- Budget dates;
  - Documentation;
  - Payroll budgets;
  - What is required; and
  - Finance assistance.
- 3.40 The Budget Holder guidelines were also obtained and it provides guidance on the detailed process steps. The budget timetable details deadlines from budget initiation to presentation to the Council.
- 3.41 We noted from discussions held with the Director of Human Resources and Director of Finance that the final budgets are not signed by the Budget Holders as evidence of ownership for the budgets.

### **Recommendation**

#### **5 - Budgets holders should sign off their budgets as evidence of ownership.**

- 3.42 **Budget Forecasting and Monitoring** – As part of the monthly reporting cycle, the management accounts are sent to the budget holders by the Finance Department. Monthly meetings are held between budget holders and finance where the figures are reviewed and variances investigated and necessary actions agreed.

- 3.43 We confirmed from discussions with two budget holders that they attend budget monitoring meetings with the Management Accountant, where variances on the report are discussed, comparisons made with previous year and actions agreed. The budget holders also confirmed that the budget reports and management accounts are user friendly and understandable.
- 3.44 Included in the S-drive is a budget directory which provides read only access to the budget holders, and the budget holder access is further restricted to their own cost centres only. On the 21st of each month the management accounts are updated on the S-Drive and on the intranet.
- 3.45 The monthly management accounts are reviewed by Finance & Resources Committee, EMT and Council each month. We also noted that finance training has been provided to budget holders to enhance their understanding of the process.

## Ledgers

### Our assessment

- 3.46 Overall our review of the ledgers indicated that controls in place are satisfactory but not operating in all cases.

### Our review

- 3.47 The effective control over the operation of ledgers is essential to ensure accurate internal and external financial reporting. The key aspects considered as part of our review relate to:
- Access and security;
  - Journal entries and adjustments; and
  - Completeness and accuracy of processing.

### Our findings

- 3.48 **Access and Security** - Physical access to the Finance Department is restricted to authorised staff only. All visitors entering the building are subject to access control via the main reception. Only authorised staff has access rights to log onto computer workstations within the building and then the finance system has additional controls as there are access rights and the systems are also password protected. The Financial Accountant is responsible for setting up access rights to the Ledgers for the relevant staff. From our review we note that there are currently only eight staff members who have access to Sage (8 licences). The system is password restrictive. We reviewed the list of access rights to confirm this. However, the system does not automatically prompt staff to change their passwords.

**Recommendation**

**6 – Management should ensure that the Sage system prompts staff to change their password every 90 days.**

3.49 Sage data is stored on onto M drive Server, which is backed up on a daily basis by IT. Back ups are stored on to tapes, one tape is kept in IT safe and one tape is stored offsite.

3.50 **Journal Entries and Adjustments** – All journals are prepared by members of the Finance Department. Accruals journals are prepared by the Financial Accountant and depreciation or prepayment journals are prepared by the Management Accountant. Supporting documents for each of the journal are to retained and kept on file.

3.51 We tested a sample of journals to ensure that they were all signed by the preparer, approved and input into Sage accurately and that the supporting documents were retained. We noted that on one occasion the supporting information was not retained and not all journals were approved before input into Sage.

**Recommendation**

**7 – Management should ensure that for all journals the supporting documentation is retained and that all journals are signed by the preparer and approved before inputting into Sage.**

3.52 **Completeness and Accuracy of Processing** – As part of the month end procedures there is a month end check list in place. This checklist covers the nominal ledger, registrations and the cash book. This is maintained by the Financial Accountant. The Director of Finance performs a review of the Management Accounts and reviews and checks all of the reconciliations and signs the front page of the Management Accounts to evidence this review. The documents reviewed as part of this process include:

- Schedule Listing – Fixed assets, investments, debtors, bank, income in advance and accruals;
- Trial Balance;
- Consolidated Management Accounts;
- Variance Commentary; and
- Consolidated Balance Sheet.

3.53 Each month the finance information is exported onto excel spreadsheets to ensure that audit trails is retained.

## Cash, Bank and Treasury

### Our assessment

- 3.54 Our review of the cash, bank and treasury system indicates that the relevant controls are sound and that cash is adequately safeguarded.

### Our review

- 3.55 The aspects of cash, bank and treasury considered as part of this review were:

- Day to day cash management;
- Bank account management;
- Treasury management; and
- Petty Cash.

### Our findings

- 3.56 **Petty Cash** – There is a petty cash float maintained with a value of £70. This is kept in a locked petty cash tin within the Safe that is kept in the locked Finance Department room. The Financial Accountant maintains the petty cash book. Petty cash vouchers are completed and signed by the claimant. All claims are accompanied by the relevant receipts. The claims and vouchers are retained by the Director of Finance.
- 3.57 Cheque request form is completed for the petty cash reimbursements by the Financial Accountant and approved by the Director of Finance. The Director of Finance reviews that claims at this stage of the process rather than on a claim by claim basis.
- 3.58 **Bank Account Management** – the bank account is reconciled on a monthly basis by the Financial Accountant and reviewed by the Director of Finance as part of the month end exercise. We have also reviewed a sample of bankings and traced them through to the cash book, Sage and the bank statement and found no errors. There is a bank mandate arrangement in place and which was effective from 11 July 2006. The bank mandate details the cheque signatories and all cheques are also kept within the Safe in the Finance Department room.
- 3.59 **Treasury Management** – As an organisation the HPC has an investment portfolio which is managed by an Investment management company – Rensburg Sheppard's Investment Management Limited. The Council receive and review quarterly investment reports from the investment managers. The investments were valued at £1.891 million in November 2006.
- 3.60 There is also an Investment Policy in place which was approved by the Council on the 20<sup>th</sup> November 2006. This policy is planned to be reviewed on an annual basis.



3.61 We have no recommendations to raise in this area.

## **Income and Debtors**

### **Our assessment**

3.62 Overall our review of the income and debtors indicated that controls in place are satisfactory.

### **Our findings**

3.63 The key aspects of income and debtors considered as part of this review were:

- Raising timely and accurate invoices;
- Receipt and banking of payments; and
- Follow up of outstanding debtor amounts

3.64 There are a set of policies that have been devised by the organisation and approved by the Council. These policies are accessible to staff through the intranet. The policies are:

- Fees General Policies which was approved by the Council in May 2006 was reviewed and it contains adequate information.
- Registrations Creditors Policy was approved by the Finance & Resources committee in September 2006 and details creditors' procedure and credit control.
- Registrations Debt Policy was approved by Finance & Resources committee in September 2006 and identifies recovery procedure, debt control and debt management.
- Direct debit collection dated for registration and renewals is maintained on the organisations intranet accessible to public.
- New graduate fees structure was introduced in October 2004, which applies to all professions. This information is available of the organisation intranet

3.65 The Income streams from registration fees are collected in one of three ways:

- Yearly registration - £60;
- 6 monthly direct debit - £30; and
- One off scrutiny fee - £200.

3.66 Access to the registration system is restricted to the relevant departments – Finance and Registrations. In each of these the funds are collected two months in advance. Scrutiny fees can only be paid by cheque/ postal order/ bank draft or debit/credit card. Registration /renewals fees can be paid by all the above methods and also by direct debit.

3.67 For all credit card payments the registrations department is responsible for all of the processing. The Finance Officer checks the statements to LISA (the HPC registration

system). All write offs are authorised by the Financial Accountant and then processed by the Transactions Manager. There is adequate segregation of duties in place.

3.68 Registrants can seek a refund of their registration, by three methods:

- voluntary removal;
- lapsed from the register with credit on their account; and
- overpayment.

3.69 Refund can only be paid by cheque. Only Finance staff members can action refunds on LISA and issue the appropriate cheques. On a monthly basis the finance department produce a schedule of refunds as part of the management accounts.

3.70 When the organisation receives notice from the bank (bank statement) that a fee has been rejected. The Transactions Manager will make contact with the registrant with a letter within 10 days of receiving the notification, and three weeks are allowed for the registrants to repay the debt. If no contact is made by the end of the three weeks, the registrants is advised in writing that they will be lapsed from the register and will have to go through the readmission process to come back onto the register. On a monthly basis a schedule of rejected payments is produced as part of the management accounts.

3.71 Our testing indicated that procedures as documented were being followed and no exceptions were noted.

## Purchasing and Payments

### Our assessment

3.72 Overall our review of the purchasing and payments indicated that controls in place are satisfactory in most respects.

### Our findings

3.73 The key aspects of purchasing and payments considered as part of this review relate to:

- Purchasing of goods and services;
- Invoice processing and approval; and
- Payment of invoices.

3.74 There are a set of policies that have been devised by the organisation and approved by the Council. These policies are accessible to staff through the intranet. The Procurement procedure which was approved by the EMT in October 2005 was reviewed and it identifies:

- Procurement process in step boxes;
- Tender process; and

- Trade supplier payment process.
- 3.75 The supplier consideration guidelines approved by EMT in September 2005 was obtained and reviewed. The guidance identifies the processes for when organisation should outsource a function or should do the function in house. Instructions for one off payments have been documented and accessible to staff through the organisations intranet. We further confirmed that a purchase ledger payments date schedule including staff expense claims has been established and includes the latest date to the finance department, date for authorisation and submission to bank, and date entered into bank. The finance department's invoice and payment procedures is in place and accessible to all finance staff.
- 3.76 The process for making a purchase and the subsequent payment is commences with the department completing a purchase order which is approved by the relevant line manager. The departments send orders to the suppliers directly and retain a copy of the purchase order. The subsequent invoices are sent to direct to the finance department. Upon receipt of invoices they are dated stamped and attached to Purchase Ledger details form (Payment authorisation sheet). The invoice and payment authorisation sheet is then sent to the relevant budget holder for payment approval. The budget holder signs the payment approval form, codes the expense and attaches the purchase order and sends back to the finance department.
- 3.77 There are authorised signatory listings in place for purchase orders and invoices. These were updated in September 2006 and include specimen signatures. Purchase order books are issued from finance to the departments and the purchase ledger officer maintains a list of those that are issued to departments. The list details the order numbers, the department and the date issued.
- 3.78 Our testing indicated two occasions where that invoice was not date stamped on receipt by the finance team. If invoices are not date stamped on arrival then it is not possible to accurately measure how long they have taken to be paid. As a result, there is a risk that the Council will not be complying with the requirement to measure performance against the Public Sector Payment Policy.

#### **Recommendation**

**8 – Management should ensure that all invoices are date stamped upon receipt to ensure accurate calculation of the prompt payment statistics.**

- 3.79 A suggested payment run is generated which is checked to the relevant invoices. The BAC's and cheque payment run is generated and checked by the Director of Finance. The E-Banking report is authorised by the Chief Executive. We confirmed that the suggested payment run was generated. The payment report was reviewed and approved by two authorised signatories. A Sage payment report is also produced and was checked and

evidenced by two authorising signatories. We traced the payment total amount from the sage payment report to the BAC's payment report and the standard transaction report. There were no discrepancies found.

- 3.80 As part of the month end procedures a check list is also completed by the purchase ledger officer. The aged creditor listing and unauthorised transactions listing is generated and reviewed and investigated where necessary.

## 4 Action Plan

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R1	<p>There are a number of expenses policies in place which have not been reviewed for some time. The polices are detailed below with their review dates:</p> <ul style="list-style-type: none"> <li>• Expenses policy for medical and legal assessors dated April 2003;</li> <li>• Expense policy for staff dated April 2003;</li> <li>• How to claim for partners dated July 2003; and</li> <li>• Expenses policy for Council Members dated November 2006.</li> </ul>	<p><b>Management should review the expense claim policies to ensure that they remain up to date and are fit for purpose.</b></p>	Low	<p>To date, expense rates have been altered when; the HMRC allowable expense rates have changed, when HPC Registrant fee rises have been enacted, when further policy clarification was needed (to avoid loopholes), and/or when the Executive has been encouraged to increase fees and allowances by the Council. As part of the Budget, we are planning a Partner rate rise (in the 07/08 Budget) for work done from 1<sup>st</sup> October 2007.</p> <p>Going forward, we will review the Expense policies and rates included in them on an annual basis when the Annual Budget is prepared, or when HMRC allowable rates change.</p>	Dec 2007

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R2	We noted that asset disposal processes were not included within the Asset recognition policy.	<b>The organisation should ensure that a disposal policy is documented and approved. The policy should include the procedure for disposal of broken equipment and furniture and the procedure for removal of items surplus to requirements.</b>	<b>Low</b>	Section 8.3 and 8.4.1 of the current Financial Procedures Manual (Dec 06) covers the accounting aspects of fixed asset disposals & impairments respectively.  Regarding equipment disposals (including fixed assets disposals), the Facilities Manager to develop a Disposals procedure, incorporating consideration of hazardous disposals (damaged kit) and equipment containing confidential information (PC's and laptops).	March 2007

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R3	Currently no exercise is undertaken to annual verify the assets on the Fixed Asset Register. We have made a best practice recommendation in this regard.	<b>Management should ensure that the verification of assets is undertaken on an annual basis, during the physical verification exercise all capitalised assets should be tagged and asset register updated to reflect all movements.</b>	<b>Medium</b>	<p>Section 8.4 of the current Financial Procedures Manual (Dec 06) covers fixed asset monitoring by the Management Accountant. A physical verification exercise of Fixed Assets will be overseen by the Management Accountant in March 2007.</p> <p>On Springfield&gt;IT&gt;IT Assets section, there is an Asset-Tagging Convention policy. This states that certain types of equipment (IT kit) will be tagged. The policy states that kitchen equipment, inbuilt building security and safety equipment, desks, chairs, phones, lamps, artworks, inbuilt building security and safety equipment including Fixed Assets, will not be tagged. Software Developments that are capitalised also cannot be tagged.</p> <p>The existing system of acid-etching items will shortly be replaced by a bar-coding system.</p>	March 2007 and annually thereafter

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R4	The reconciliation between the Asset register and the Finance system is performed on a monthly basis; however there was no evidence to support this.	<b>A formal record of the asset reconciliation should be made and retained and authorised by management.</b>	<b>Medium</b>	In the November 2006 Management Accounts, the SAGE Trial Balance figures for Fixed Assets (all types) were matched to the Management Accounts and their supporting Fixed Assets Register. There were no reconciling differences. This check was signed and dated by the Director of Finance in early January.  A reconciliation will be made in future months, at least quarterly, if not monthly.	Ongoing quarterly or monthly
R5	We noted from discussions held with the Director of Human Resources and Director of Finance that the final budgets are not signed by the Budget Holders as evidence of ownership for the budgets.	<b>Budgets holders should sign off their budgets as evidence of ownership.</b>	<b>Low</b>	This action will be taken by the Management Accountant and copies held on file, once the final version of the Annual Budget is approved by the Council. The Chief Executive and Director of Finance will also sign off the final copy of the summary budget.	March 2007 and annually thereafter



Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R6	The SAGE system is password protected. From our review we note that there are currently only eight staff members who have access to Sage (8 licences). However, the system does not automatically prompt staff to change their passwords.	<b>Management should ensure that the Sage system prompts staff to change their password every 90 days.</b>	<b>Low</b>	<p>At present, we have 6 users, 7 SAGE-accessible PC's/laptops and an 8 user licence.</p> <p>With the current DOS-based version of SAGE, there is no automatic prompt for users to change their passwords. The Financial Accountant (SAGE System Administrator) will cancel existing passwords twice yearly (starting in March 2007), get users to re-set them and keep a record of the change date.</p> <p>When we implement a Financial Systems upgrade or replacement system in 2007/08, we will specify this 90 day password change requirement. NB: The SAGE Payroll password security is entirely stand-alone and will also be changed every six months.</p>	March 2007 and on a 6 monthly basis thereafter

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R7	We tested a sample of journals to ensure that they were all signed by the preparer, approved and input into Sage accurately and that the supporting documents were retained. We noted that on one occasion the supporting information was not retained and not all journals were approved before input into Sage.	<b>Management should ensure that for all journals the supporting documentation is retained and that all journals are signed by the preparer and approved before inputting into Sage.</b>	Medium	The Management Accountant (ACCA qualified) to act in the Approver role for all monthly financial journals raised and posted and to ensure adequate supporting information is attached.  A copy of the Approver-signed and dated journals & supporting information to be held on file.	March 2007 and monthly thereafter
R8	Two invoices had not been date stamped on receipt by the finance team. If invoices are not date stamped on arrival then it is not possible to accurately measure how long they have taken to be paid. As a result, there is a risk that the Council will not be complying with the requirement to measure performance against the Public Sector Payment Policy.	<b>Management should ensure that all invoices are date-stamped upon receipt to ensure accurate calculation of the prompt payment statistics.</b>	Low	Ongoing compliance to be achieved.	Monthly

## 5 Follow up of Baker Tilly Report

- 5.1 In the initial review by Baker Tilly in June 2005 68 recommendations were raised. This work was followed up by Baker Tilly and the review in November 2005 indicated that 58 of the 68 recommendations “appear to be working effectively”.
- 5.2 We have followed up the remaining items to update the Audit Committee on further progress made.

Ref.	Outstanding Recommendation	Findings	Status	Due Date
R1	<p><b>Bank</b></p> <p>1 - HPC should consider repaying their loan in order to save interest.</p> <p>2 - The Finance Manager needs to review the investment policy to ensure that competitive rates are being obtained.</p> <p>3 - The investment policy needs to be reviewed and updated immediately.</p>	<p>1 – We have confirmed that this loan was repaid in 2005.</p> <p>2 and 3 - The Investment policy was reviewed by the Council at their meeting dated 20 November 2006 and was agreed to be reviewed on an annual basis.</p>	Implemented in Full	

Ref.	Outstanding Recommendation	Findings	Status	Due Date
R2	<p><b><u>Investment</u></b></p> <p>Management have produced draft investment and reserves policies. The Finance and Resources committee have not yet agreed these documents. They are due to be reviewed and approved on the 21 November 2005.</p>	<p>The Investment policy was reviewed by the Council at their meeting dated 20 November 2006 and was agreed to be reviewed on an annual basis.</p> <p>Reserves policy was approved by the Council in November 2005. The policy identifies:</p> <ul style="list-style-type: none"> <li>• Reserves policy;</li> <li>• Benchmarking; and</li> <li>• Reporting.</li> </ul> <p>It is planned to review the Reserves Policy in 2007.</p>	Implemented in Full	
R3	<p><b><u>Budget and Monitoring</u></b></p> <p>Individual budget holders, the Finance Director and the CEO should evidence their agreement to the budget by signing and dating it prior to it being ratified by the Finance and Resources Committee.</p>	<p>The recommendation has been reiterated.</p> <p>During time of audit fieldwork the budget for 2007/08 was being set.</p> <p>The budget bids are set by the budget holder. Reviewed by Finance and if necessary amended by the budget holder. The budget bids were currently being revised by the Budget holders.</p>	The recommendation has been reiterated as part of this review.	

Ref.	Outstanding Recommendation	Findings	Status	Due Date
R4	<p><b><u>Budget and Monitoring</u></b></p> <p>The Management Accountant should give a presentation on a monthly basis at each EMT meeting, identifying what has taken over the last month and focusing on significant/key variances. This would facilitate manager's understanding of not only their budget and expenditure, but how it fits within the whole organisation.</p>	<p>Financial training is provided for non financial managers. The last training was performed in December 2006 by Hawksmere, (External provider).</p> <p>We also confirmed from discussions with two Budget holders that they attends budget monitoring meetings with the Management Accountant, where variances on the report are discussed, comparisons made with previous year and actions agreed.</p> <p>A transaction list is also sent to the Budget Holder from Finance for reviews.</p>	<p>Management Commentary – During the Budget process, Budget holders are asked to prepare and document volume-driven estimates for their departments and projects. EMT systematically go through all expense items as a group and prioritise project spending. This helps them understand HPC spending priorities and spending trade-offs for the organisation.</p> <p>A Forecast Out turn to March 31<sup>st</sup> 2007 by income type and department (the "Reforecast") was presented to the Finance &amp; Resources Committee at their meeting of 7<sup>th</sup> February 2007. The Reforecast will also be presented to EMT in February. The Reforecast helps the Executive and the Committee understand the likely outcome inclusive of under and overspends.</p>	

Ref.	Outstanding Recommendation	Findings	Status	Due Date
R5	<p><b><u>Budget and Monitoring</u></b></p> <p>A separate Partner/ HR budget should be created for each department</p>	HR have two different budgets in place for Partners and HR. Individual departments are responsible for budgeting for partner costs.	Implemented in Full	
R6	<p><b><u>Budget and Monitoring</u></b></p> <p>The budget process should be started earlier. Consideration should be given to whether rolling budgets may be more appropriate.</p>	There is a detailed budget timetable in place, commencing in October to ensure that the agreed budget is in place for the start of the financial year. The current budget is on track to meet the timetable.	Implemented in Full	
R7	<p><b><u>Insurance</u></b></p> <p>The IT Director should review the cover for IT equipment and associated peripherals or in his absence a nominated member of the team, to ensure that it is adequate.</p>	All insurance needs including IT equipment Insurance are updated when the Risk Register is updated, as required. Insurance coverage is co-ordinated by the Director of Finance.		

Ref.	Outstanding Recommendation	Findings	Management Response <i>Responsible Officer</i>	Due Date
R8	<p><b><u>Purchase Ledger</u></b></p> <p>The Purchase Ledger Clerk has many invoices, purchase orders and expense claims on her desk which appear to be in no order.</p> <p>Filing system to be introduced.</p>	<p>We confirmed from physical observation of the Purchase Ledger Officer and the Finance Office that all invoices are filed in sequential numbered black boxes contained in filing cabinets.</p>	<p>Implemented in Full</p>	
R9	<p><b><u>Purchase Ledger</u></b></p> <p>Consideration should be given to implementing a computerised purchase order system</p>	<p>The budget for the computerised PO system is to be considered as part of the 2007/08 Capex budget. We understand that the evaluation of an appropriate system will be undertaken in August 2007.</p>	<p>Recommendation in progress of being implemented</p>	

Ref.	Outstanding Recommendation	Findings	Management Response <i>Responsible Officer</i>	Due Date
R10	<u>Policy review</u> The Financial procedures and Standing Financial Instructions to be up-dated.	The draft Financial Regulations (replacing the Standing Financial Instructions) was reviewed for approval by the Finance & Resources Committee at the meeting dated 20 November 2006. At the same meeting the revised Financial procedures were noted.	Implemented in Full	



## 6 Assurance Definitions

Assurance Level	Definition
<b>Sound</b>	Satisfactory design of internal control that addresses risk and meets best practice and is operating as intended.
<b>Satisfactory</b>	Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.
<b>Satisfactory in Most Respects</b>	Generally satisfactory design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect.
<b>Satisfactory Except For.....</b>	Satisfactory design of internal control that addresses the main risks and is operating as intended in most respects but with a major failure in design or operation in the specified area.
<b>Inadequate</b>	Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.

## IT Hardware Asset Tagging Convention at HPC

Baker Tilly has recommended that HPC security marks high value items. HPC IT has indicated that this will not prevent theft, but may act as a minor deterrent.

Following a years trial of the agreed solution (namely etching) it has been determined that this solution is not permanent, and “wears off” over time.

Following discussions with the Internal Auditors PKF, it was decided to use the same method as that employed by PKF, namely bar coded self adhesive labels. These Where possible existing machine naming conventions will be used.

PC processor units, Laptop computers, file servers, network printers, photocopiers, scanners, will be etched with the company abbreviation, company postcode for the Park House site and a unique asset number. Any IT hardware asset of £1000.00 purchase cost including VAT of the types indicated in the table will be provided with an asset tag following satisfactory rollout.

This information will be used with the serial and model number where appropriate

Asset type	Leading code	Initial range	Mapping to other data
PC	PC###	001 – 200	PC###
Laptops	LT###	001- 200	LT###
Printers	AS###	001 – 40	PR###
Servers	AS###	050 – 080	Server names
Scanners (major items)	AS###	090 – 120	
Photocopiers	AS###	150- 160	
Comms/ Projectors /Monitors/Switches/Hubs	AS###	170 – 200	Item names

Items that are no longer in use and are past their commercial life will not be tagged, but will be removed from the asset list.

Equipment leased by HPC will not be tagged. Mobile telephones will not be tagged.

The mechanism and policy of tagging will be reviewed in September each year, to determine if the convention is working with the level of HPC staff, IT assets and IT resource to manage the process end to end.

No IT asset tagging system is able to deal with all types of hardware construction material and remain indelible. Etching works well on enamelled metal, but works less well on some plastic finishes. Linen or paper based tags can be removed with a modelling knife.

The only permanent numbering is by engraving which can invalidate warranties and damage the machine.

## Disposal of IT Hardware Assets

IT hardware typically has a useful operational life in the order of 3-5 years, depending on the type of equipment and the purposes for which it is used.

Mobile equipment such as laptops, projectors and portable printers are used in more harsh environments, and may last for only 2 years due to wear and tear.

An automatic replacement programme will be followed on the basis indicated in the table below. However, any item outside warranty or support will be considered eligible for replacement if its repair cost exceeds 10% of the replacement cost; or its business impact of repeat failure is high.

Asset type	Fixed or mobile	Expected life	Automatic replacement after;
PC	Fixed	4 yrs	4-5 years
Laptops	Mobile	2 – 3 yrs	3 years
Printers	Fixed or mobile	Fixed = 4-5 yrs Mobile = 1-2 yrs	
Servers	Fixed	5 yrs	5 years
Scanners (major items)	Fixed	3 years	3 years
Photocopiers	Fixed	5 years	
Comms/ Projectors /Monitors/Switches/Hubs	Fixed or mobile	Projectors = 2 yrs Other = 4 yrs	2 years 4 years

Any IT hardware asset previously containing HPC personal data will have the hard drive physically destroyed prior to disposal. The drive will be removed by IT and the spinning media physically disrupted.

HPC will take note of the WEEE directive regarding disposal of IT assets in future. Existing suppliers will be approached to determine if they have an appropriate disposal mechanism for past economic life hardware.

Note:

Desks, chairs, individual telephones, lamps, inbuilt building security and safety equipment irrespective of purchase price will not be tagged by IT. Kitchen equipment will not be tagged by IT. Artworks will not be tagged by IT.