

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate and Legal Services
Director: Nigel Stewart



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27 November 2002

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 24 MAY 2002** at **2:00 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate and Legal Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST**
- 3. MINUTES**
Audit Committee 8 March 2002 (PAGES 1 - 4)
- 4. PROGRESS REPORT ON 2001/02 AUDIT PLAN**
Report by Director of Finance (PAGES 5 - 8)
- 5. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS TO COUNCIL FROM 1999/00 TO PRESENT**
Report by Director of Finance (PAGES 9 - 10)
- 6. ACCOUNTS COMMISSION OVERVIEW OF THE 2000/01 LOCAL AUTHORITY AUDITS**
Report by Director of Finance (PAGES 11 - 22)
- 7. INTERNAL AUDIT PERFORMANCE TARGETS**
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Report by Director of Finance (PAGES 35 - 46)

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11. REPORT AND MINUTE FROM STRATEGIC POLICY COMMITTEE ON 18 APRIL 2002 REGARDING ACCOUNTS COMMISSION: SCOTTISH BORDERS COUNCIL EDUCATION DEPARTMENT OVERSPEND

12. SPOKESPERSONS REPORT FROM STRATEGIC POLICY COMMITTEE 18 APRIL 2002

13. ACCOUNTS COMMISSION SR 2001-4 SCOTTISH BORDERS COUNCIL EDUCATION DEPARTMENT OVERSPEND - FINDINGS

AUDIT COMMITTEE

Vincent Bradbury (Vice-chairman)
Councillor Gordon McKinven
Graham Michie
Councillor John Stirling (Chairman)

Councillor Alistair MacDougall
Councillor James McQueen
Councillor Len Scoullar

Contact: Ruby Campbell Ext: 4331

ARGYLL AND BUTE COUNCIL

MINUTES of MEETING of the AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on FRIDAY, 8 MARCH 2002

- Present:** Councillor John Stirling (Chair)
- | | |
|----------------------------------|--------------------------------|
| Mr Vincent Bradbury (Vice-Chair) | Councillor Gordon McKinven |
| Councillor James McQueen | Councillor Alistair MacDougall |
- Attending:** Nigel Stewart, Director of Corporate & Legal Services
Stewart McGregor, Director of Finance
Bruce West, Head of Accounting
Ian Nisbet, Internal Audit Manager
Alex Colligan, Internal Audit Manager
Asif Haseeb, Senior Audit Manager, Audit Scotland
Steve Clark, KPMG
- Apologies:** Councillor Len Scoullar
Mr Graham Michie

1. MINUTES

The Committee approved the minutes of the Audit Committee of 8 November 2001, as a correct record. Arising from item 4, the Director of Corporate & Legal Services informed the meeting that the Council has now adopted a Local Code of Corporate Governance. Arising from Item 8, the Director of Finance advised that Dr Midwinter's report had been submitted to the Accounts Commission.

2. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2001/2002

The progress of the work carried out by internal audit during the third quarter of 2001/2002 was outlined by the Chief Internal Auditor bringing the Committee up to date with the progress made with the annual audit plan.

Decision

Approved the progress made with the Annual Audit Plan for 2001/2002.

(Ref: Report by Internal Audit Manager dated 8 March 2002, submitted)

3. REVIEW OF INTERNAL AUDIT: PARTNERSHIP AGREEMENT

Steve Clark, Manager, KPMG gave an overview of the first 6 months of the Audit Partnership which was for three years.

Decision

1. Noted that during the Partnership KPMG will submit reports to future Audit Committees on progress being made with improving the delivery of the Internal Audit service.
2. That the proposed strategic audit annual plan be presented at the May meeting.

(Ref: Report by Director of Finance dated 7 February 2002, submitted and report by KPMG dated 7 February 2002, submitted).

4. EXTERNAL AUDIT PLANNING MEMORANDUM FOR 2001/2002 AUDIT

Asif Haseeb, Audit Scotland outlined the Audit Planning Memorandum for the 2001/2002 Audit, which set out the audit objectives, reporting arrangements and the external audit plan.

Decision

To note the terms of the memorandum and to suggest to the External Auditors the inclusion in future audit planning memoranda of reference to spokespersons and their particular portfolios within the context of the Council's revised political management arrangements.

(Ref: Audit Planning Memorandum for the 2001/2002 Audit dated 21 February 2002, submitted).

***5. REVENUE BUDGET MONITORING 2001/2002**

The Head of Accounting reviewed the current revenue budget monitoring process in terms of which Council Managers, Spokespersons and the Strategic Policy Committee are provided with information to achieve control of the revenue budget. As part of the review, the Head of Accounting referred to decisions taken by the Strategic Policy Committee arising from concerns over the robustness of education income and expenditure projections which involved responsibility for financial control of the education budget being transferred to the Director of Finance.

Decision

1. To note the revenue budget monitoring process in place, together with the reports on the Education Service financial position and the decisions taken by the Strategic Policy Committee.
2. In order to improve the robustness of the budget monitoring process to recommend to the Council that Service Directors provide a clearer explanation of variances such that the Council might have a clearer picture of income and expenditure trends.

(Ref: Reports by Service Directors, submitted, Extract of Minute of the Strategic Policy Committee (Education) dated 21 February 2002 and Report by Director of Finance, dated 19 December 2001, submitted).

6. TERMS OF REFERENCE OF AUDIT COMMITTEE

The Local Code of Corporate Governance recommends that the Audit Committee's Terms of Reference are reviewed at least annually. The Committee reviewed their Terms of Reference and the contribution which the Committee had made to achieving these during the first year or operation.

Decision

1. That the Committee was satisfied that it had made an effective contribution to achieving the Terms of Reference.
2. That the current Terms of Reference remained appropriate and effective.
3. That Internal Audit be requested to prepare a draft for consideration by the Committee in July to enable the Committee to provide its annual report to the Council on the internal control environment.

(Ref: Terms of Reference, submitted).

***7. REVISED TIMETABLE FOR FUTURE AUDIT COMMITTEES**

The Committee gave consideration to meetings in May, July and November to coincide with the Council's audit process, in substitution for the dates in the Council's current programme of meetings.

Decision

To recommend to the Council the incorporation of the following dates for meetings of the Audit Committee in the Council's programme of meetings: 24 May 2002; 26 July 2002; 8 November 2002.

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
24th MAY 2002

PROGRESS REPORT ON 2001/2002 AUDIT PLAN

1. SUMMARY

An interim progress report covering audits performed by Internal Audit during 2001-02 is appended. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The contents of this report are noted.

3. DETAILS

3.1 The report appended lists the audits which were scheduled for the financial year 2001 – 02. The objective of the report is to advise members of the progress of each audit. The reference, the audit name, start date, planned/actual completion date, percentage completion, auditor and comments are given for each audit.

3.2 The audits are categorised as follows:

- External Audit works for PricewaterhouseCoopers (PwC).
- Core Financial Systems Audits
- Departmental Audits
- Special Investigations and
- Follow up Reviews.

3.3 A total of 5 core systems audits were planned for the financial year of which 3 have been completed with final reports issued and 2 were deferred. A total of 17 departmental audits were planned for in 2001 - 02. Out of this total of 2 audits were not covered with 1 being cancelled and another being deferred. A further departmental audit was superseded by work covered by the Information Technology Department. See Appendix 1.

Of the remaining 14 audits:

- 11 are complete with final reports issued and
- 3 are at final draft stage.

3.4 A total of 12 special investigations has been carried out to the end of March 2002 and set out in Appendix 1. All external audit work in respect of PricewaterhouseCoopers (PwC) has been completed.

3.5 At the present time there are 3 remaining departmental audits being brought to conclusion. The delay in completing these remaining audits has been the result of staff shortages, therefore arrangements have been made with KPMG to cover 2 of these departmental audits with the one remaining audit covered by Internal Audit. These actions will help ensure compliance with the remainder of the audit plan for 2001 - 2002.

- 3.6 The Internal Audit section has seen the return of the Senior Audit Assistant from maternity leave and secured the services of an experienced qualified accountant for a year's contract. The accountant previously covered work for the section in the latter part of the 2001 and was well received. He will be available from mid May 2002 after completion of work with Audit Scotland. This will bring our staff situation to almost complete with the recruitment of another permanent accountant due to start at beginning of July 2002. The only vacant post remaining to be filled is that of Audit Assistant.

4. CONCLUSIONS

Progress has been made on audits planned for 2001 - 02. With the exception of 5 audits as detailed above the planned audits for 20001 – 02 have been completed.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 24 May 2002.
24mayprogreport24may

REF.	AUDITS	% COMPLETE	Annual Plan Audit Days	Used Audit Days	Remaining Audit Days	Comment
*	EXTERNAL AUDIT WORKS					
External	Stock Taking Y/End 2001TPS / DES	100	92	88	4	Y/End 2002 work done report for TPS stock completed. DES Prices awaited.
External	Housing Benefit Grant Claim 2001	100	40	45	-5	Complete, accepted by PwC
External	Performance Indicators 2001	100	80	146	-66	Assistance with additional PI work for external audit.
	TOTAL		212	279	-67	
*	CORE AUDITS					
Core	Capital Contracts	100	53	70	-17	Final report issued
Core	Creditors Payments	100	40	45	-5	Final report issued
Core	Housing & Council Tax Benefits	100	40	45	-5	Final report issued
	TOTAL		133	160	-27	
*	DEPARTMENTAL AUDITS					
CE15	Car Leasing	100	30	15	15	Final report issued
ED20	Schools Income	100	30	17	13	Final report issued
DES01	Refuse Collection (Income)	100	40	35	5	Final report issued
HSW14	Elderly Accommodation & Income	100	30	14	16	Final report issued
TPS35	DLO Roads Job Planning & Manpower Allocation	100	20	22	-2	Final report issued
VFM01	Stock Holding v Direct Purchase	100	30	17	13	Final report issued
IT09	Review of Adhoc Systems in Front Line Departments	100	20	13	7	Superseded by IT department work
ED05	All Schools Review of Income & Controls Testing	100	30	42	-12	Final report issued
HSW15	All Homes Income & Control Testing	100	30	17	13	Final report issued
TPS28	Parking, Piers & Ferry Income	100	20	22	-2	Final report issued
CLSO2	Collection of Fines & Fixed Penalties	100	20	20	0	Final report issued
IT06	Disaster Recovery Procedures Proposal	100	20	12	8	Final report issued
TPS51	Contract Vetting	100	20	12	8	KPMG Draft Report issue stage
TPS49	Contractors conditions Tendering etc	100	20	12	8	KPMG Draft Report issue stage
FD27	Fixed Asset Management	100	30	25	5	Final DRAFT report issue stage
	TOTAL		390	295	95	
*	SPECIAL INVESTIGATIONS					
ASI16	Housing & Social Work Department investigation	100	0	1	-1	Complete final report issued
ASI18	TPS Catering SI	100	0	2	-2	Complete final report issued
ASI29	Vehicle Leasing	100	0	1	-1	Complete final report issued
ASI32	Asylum Seeker Grants	100	0	1	-1	Complete final report issued
ASI33	Phone Bills	100	0	45	-45	Complete final report issued
ASI34	Insurance Claim	100	0	8	-8	Complete final report issued
ASI35	Fuel Investigation	100	0	13	-13	Complete final report issued
ASI36	Materials - Islands	100	0	14	-14	Complete final report issued
ASI37	Revenues Investigation	100	0	5	-5	Complete final report issued
ASI39	HSW - Islay	100	0	4	-4	Complete final report issued
ASI40	DES - Campbelltown Victoria Hall	100	0	2	-2	Complete final report issued
ASI41	DES - DLO Building - Helensburgh	100	0	9	-9	Complete final report issued
	TOTAL	*	120	105	15	
*	FOLLOW UP REVIEWS					
AAF01	Advice to Finance	100	0	2	-2	Advice to Income Section.
AFI01	Fraud & Irregularity - External Audit	100	0	2	-2	External report completed for PwC.
ASI19	PwC Letters to Members	100	0	11	-11	Ongoing completion 4th quarter
ASI28	TPS Catering IS	100	0	2	-2	Complete.
ASI30	Registrar Funds	100	0	12	-12	Complete
ASI31	School Funds	100	0	1	-1	Complete
DES19	DES Stock & Material Control	100	0	15	-15	Complete
EDU07	DMR Unit Budgeting	100	0	1	-1	Complete.
HSW24	Specific Grant Applications	100	0	4	-4	Complete.
HSW25	Grant Mental Illness	100	0	8	-8	Complete.
HSW27	Social Work Grants	100	0	5	-5	Complete.
TPS12	Reports & Information	100	0	2	-2	Complete.
	TOTAL	*	50	65	-15	
*	NEEDS ASSESSMENT	*	42	58	-16	
	ADJUSTED AUDIT PLAN DAYS		947	962	-15	
*	CANCELLED AUDITS					
HSW09	Unified Benefits Systems - Housing		30		30	Considerable auditing of this function has already taken place.
	TOTAL		30	0	30	
*	AUDITS DEFERRED					
Core	General Ledger Operations	*	40		40	Audit start date Jan - Mar 2002
Core	Budgetary Control	*	40		40	Audit start date Jan - Mar 2002
FD26	Loans Fund	*	30		30	Audit start date Jan - Mar 2002
	TOTAL		110		110	
	TOTAL AUDIT PLAN DAYS		1087	962	125	

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
24th MAY 2002

**PROGRESS REPORT on EXTERNAL AUDIT REPORTS TO COUNCIL FROM
1999/00 TO PRESENT**

1. SUMMARY

A progress review regarding the implementation of recommendations raised in both the PricewaterhouseCoopers (PwC) finalised Interim Management Letter 2000/2001 and Second Interim Management Letter 2000/2001 has been performed by Internal Audit and two exception reports produced. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The contents of this report are to be noted and followed up by Internal Audit.

3. DETAILS

3.1 Appendix 1 details the reports that have been received by the Council from PwC since the Final Report to Members 1999/2000. The list uses the following headings, report name, whether management comments have been collected or not.

3.2 In the previous report to committee in November 2001 it was reported that there were 10 remaining action points still to be implemented from the original 22 detailed in the Interim Management Letter 2000/2001. A review by Internal Audit as at the 30th April 2002 indicates that 4 action points remain ongoing.

3.3 In November 2001 it was also reported to the committee Second Interim Management Letter 2000/2001 of July 2001 that only 14 action points remained to be implemented from the original 41 action points identified by PwC. Sound progress was reported of the Information Technology Department in the implementation of external audit recommendations. The position as of the 30th April 2002 is that 9 points remain ongoing.

3.4 It was reported to committee in November 2001 that no audit follow-up had been performed on the Draft Audit Management Letter 2000/2001, this position has altered. As of the 30th April 2002, Internal Audit established that 9 of 15 recommendations have been implemented and 6 remain ongoing.

3.5 With regard to the above management letters, Internal Audit has accepted management assurances that implementation has taken place. No testing has been carried out to confirm their assurances. No testing has yet been performed on the Systems Audit Management Letter 2000 – 2001 for the Housing & Council Tax Benefit System as it is in the last stage of being finalised and returned to PwC.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit as part of next year's plan. Those action points still to be implemented will be circulated to the appropriate Director for follow-up action.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 24May2002.
24mayprogreport24may

**ARGYLL AND BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
24 MAY 2002**

**ACCOUNTS COMMISSION OVERVIEW OF THE 2000/01 LOCAL AUTHORITY
AUDITS**

1 SUMMARY

- 1.1 This report shows how the comments highlighted in the Accounts Commission Report relate to Argyll & Bute Council

2 RECOMMENDATIONS

- 2.1 That this Committee notes the report

3 DETAIL

- 3.1 The report refers to the completion and audit of annual accounts
- 3.2 It also refers to the set up of an Audit Committee and the performance of Internal Audit
- 3.3 The report also comments on value for money studies, best value and performance indicators.

Bruce West
Head of Accounting
29 April 2002
Report29aprilcauditcommittee



ARGYLL & BUTE COUNCIL

OVERVIEW REPORT 2000/01
ACCOUNTS COMMISSION
FINDINGS

Audit Commission Review	Argyll & Bute Council Comparison
<p>Introduction</p> <p>1 This statutory report is prepared under section 102(1) of the Local Government (Scotland) Act 1973 to advise the Accounts Commission of the main issues arising from the 2000/01 local authority audits. It is also made available to all local authorities to enable them to assess their progress in key areas of financial stewardship and performance. It draws on reports prepared by external auditors at the conclusion of their audits and covers all the significant matters arising from the 2000/01 audits of the 32 councils and 35 related local authority bodies, such as police and fire boards.</p>	<p>Below is detailed how Argyll & Bute compares against the comments raised by the Accounts Commission in their annual report.</p>
<p>2 The report is in two parts. The first part relates to recurrent general issues and shows the broader results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 2000/01.</p>	<p>As above.</p>
<p>Part 1: Annual results and trends</p> <p>Completion of accounts and audits</p> <p>3 The deadlines for the completion of accounts and audits are challenging. The performance of councils in completing their accounts by the statutory date of 30 June was commendable. The performance of external auditors in completing audits represented an overall improvement over previous years, but there is scope for further improvement.</p>	<p>Argyll & Bute Council accounts were submitted by the statutory date of 30th of June and the Audit was completed by 30th September.</p>
<p>4 The 2000/01 accounts of two of the 32 councils were qualified, an improvement compared with 1999/2000 when four were qualified. One of the 35 'other' local authority bodies' accounts for 2000/01 was qualified.</p>	<p>The Accounts of Argyll & Bute Council were not qualified.</p>

<p>Corporate governance and financial controls</p> <p>5 The audit committee concept is an integral component of good governance. External auditors reported that councils are increasingly adopting audit committee principles, often as part of a wider review of committee structures and scrutiny arrangements. In 2000/01 about half of the 32 councils had audit committees or their equivalent in place.</p>	<p>Argyll and Bute Council has an Audit Committee set up and running since 2000.</p>
<p>6 Internal audit is a key element of the internal control system established by a council's management. The Accounts Commission report 'A job worth doing – raising the standard of internal audit in Scottish councils' (August 2001) identified that some performed significantly better than others but that all had room for improvement. Twenty of the 32 councils complied with over 70% of CIPFA's standards for internal audit.</p>	<p>Argyll & Bute Council is currently taking steps to improve standards and performance of Internal Audit in conjunction with its audit partner KPMG.</p>
<p>7 It is disappointing that auditors' 2000/01 reports referred to continuing weaknesses in fundamental financial controls including: _no reconciliations between key financial systems _internal control weaknesses in major financial systems such as payroll, housing benefits administration, commercial and industrial rents systems</p> <p>_weaknesses in budgetary control and monitoring systems.</p>	<p>Better internal audit and external audit reports may identify weaknesses in internal controls. Potential improvement will be laid out in an action plan. Implementation of action plan is monitored and reported to the Audit Committee.</p>
<p>8 In future local authorities will need to include within their accounts a statement on the internal financial control systems in operation. Such statements are already required in most parts of the public sector and emphasise that the responsibility for sound systems of internal control rests with management. Internal financial control statements within the accounts of local authorities will enable them to set out the framework within which financial control is managed and reviewed and the main components of</p>	<p>This will be done. An annual report on internal audit will be submitted to the Audit Committee in July 2002.</p>

<p>the system, including the arrangements for internal audit.</p>	
<p>9 In order to maintain confidence in the conduct of public business it is in the interest of councils to create a culture where significant issues are brought to the attention of management so that corrective action can be taken. External auditors reported that councils are making progress in implementing 'whistle blowing' policies but that some have been slow to take action.</p>	<p>A whistle blowing policy was adopted by Argyll and Bute Council in March 2001. A copy is available in the public folders directory under standing orders.</p>
<p>Financial position</p> <p>10 The total value of reserves held by councils at 31 March 2001 was some £586 million, though there were wide variations in the amounts held by individual councils. Auditors have indicated that the statutory basis and purpose of amounts described as 'other reserves' is not always clear.</p>	<p>The General Fund reserve of Argyll and Bute Council stands at £85,000 which is 0.04% of the Council's gross revenue expenditure, Pricewaterhouse Coopers, in their report submitted to the Council on 1st of November 2001, commented on the small level of General Fund surplus carried forward and available to offset against any potential future overspends.</p> <p>The balances on the Housing Revenue Account and DLO/DSO reserves stand at £1,573,000 and £108,000 respectively. These reserves were created in accordance with relevant legislation.</p> <p>The fixed asset restatement reserve (FARR) and the capital financing reserve (CFR) stand at £74,895,000 and (£9,278,000) respectively. These are non-distributable and are requirements of the code of practice on capital accounting.</p> <p>These are also ear marked reserves</p> <ul style="list-style-type: none"> - Repairs and Renewals – vehicles £584,000 - Repairs and Renewals – General £649,000 - DLO Capital Fund £86,000 <p>These are established under schedule 3 of the Local Government (Scotland) Act 1975.</p> <ul style="list-style-type: none"> - Education Reserves £342,000 <p>This allows replacement of major items of equipment within schools and on this basis</p>

	<p>can be covered under Schedule 3 of the Local Government (Scotland) Act 1975.</p> <ul style="list-style-type: none"> - Insurance Fund £1,234,000 <p>This has been established in accordance with powers under the Local Government (Scotland) Act 1994.</p>																		
<p>11 Total General Fund capital expenditure in 2000/01 across all councils was £590 million of which £87 million (15%) was financed from current revenue. Housing Revenue Account capital expenditure totalled £356 million of which £118 million (33%) was financed from current revenue. Again, within these overall figures, there was wide variation in the extent to which capital expenditure was financed from current revenue.</p>	<p>Total General Fund Capital Expenditure for Argyll and Bute Council was £12,837,000 of which £134,000 (1%) was financed from current Revenue. Housing Revenue Account Capital expenditure was £3,175,000 of which £700,000 (22%) was financed from current revenue.</p>																		
<p>12 The total amount due to councils (net of bad debt provisions) at 31 March 2001, for the four main account areas relating to charges levied against taxpayers and council tenants, increased to £609 million. This is a 3% increase from 2000 and results from increases in net amounts due for council tax and housing rent arrears, offset by a decrease in net amounts due for community charge and non domestic rates.</p>	<p>The total amount due to Argyll & Bute Council for the four main account areas is</p> <table border="1"> <thead> <tr> <th></th> <th>2000/01</th> <th>1999/00</th> </tr> </thead> <tbody> <tr> <td>Council Tax</td> <td>£2,068,000</td> <td>£2,379,000</td> </tr> <tr> <td>Community Charge</td> <td>£44,000</td> <td>£44,000</td> </tr> <tr> <td>Non Domestic Rates</td> <td>£462,000</td> <td>£663,000</td> </tr> <tr> <td>Housing Rents</td> <td>£101,000</td> <td>£58,000</td> </tr> <tr> <td>Totals</td> <td>£2,675,000</td> <td>£3,144,000</td> </tr> </tbody> </table> <p>This is a decrease of 15% from 2000.</p>		2000/01	1999/00	Council Tax	£2,068,000	£2,379,000	Community Charge	£44,000	£44,000	Non Domestic Rates	£462,000	£663,000	Housing Rents	£101,000	£58,000	Totals	£2,675,000	£3,144,000
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<p>DLO/DSO performance</p> <p>13 The Direct Labour/Service Organisation (DLO/DSO) results show further improvement over recent years with 97% of all DLOs/DSOs in Scotland achieving the statutory break-even target with net surpluses totalling £52 million. In 1999/2000 94% achieved break-even with total surpluses of £41 million.</p>	<p>The Direct Labour/Service Organisations for Argyll & Bute Council all met their statutory financial objectives and contributed £389,000 to the General Fund.</p>																		
<p>14 The Local Government Bill proposes the repeal of Compulsory Competitive Tendering (CCT) and its replacement with a</p>	<p>Noted.</p>																		

<p>statutory duty of Best Value. In the meantime, councils are reviewing services under the existing Best Value framework. Where these services remain subject to the CCT regime, Best Value initiatives may lead to developments which are not consistent with the existing CCT legislation.</p>	
<p>Housing and council tax benefits</p> <p>15 External auditors must be satisfied that councils' housing and council tax benefit subsidy claims are fairly stated and that councils' underlying systems for calculating and paying benefit are sound. In light of the sums and risks involved and the complexity of the system, it is anticipated that housing and council tax benefits will continue to feature significantly in external auditors' work programmes in future years.</p>	<p>This is noted. Internal and External Audit have held discussions to establish/determine which areas will be covered by each of them in their respective work plans.</p>
<p>Financial relationships with external parties</p> <p>16 External auditors assessed the extent to which councils comply with 'The Code of Guidance on Funding External Bodies and Following the Public Pound' and found a mixed picture of the reliability and adequacy of such arrangements. In view of auditors' reports of difficulties at councils in achieving compliance with the existing Code, and the increasing use by councils of arms-length arrangements, Audit Scotland intends a more detailed review of this area.</p>	<p>Noted.</p>
<p>Audit follow-up</p> <p>17 Where external auditors conclude that action needs to be taken, they agree action plans with the local authority which they then monitor and follow up. In cases where remedial action has not been agreed or where the local authority has been slow to implement agreed action, Audit Scotland may pursue the matter directly with the authority. The Controller of Audit may also report formally to the Accounts Commission on any matter arising from an audit. The various measures available in terms of follow-up of audit findings provide a flexible framework for action in relation to</p>	<p>Four External Audit Management Letters were received by the authority in 2000/01. Of the three letters 19 action points remain ongoing. The fourth Management Letter is due to be returned in May-June 2002. This letter relates to a systems audit of Housing Benefits. It has been delayed pending clarification of some of the recommendations and action points. It is now complete and in the process of being submitted to the Management Team.</p>

<p>the annual audit of accounts, stewardship of funds and governance matters.</p>	
<p>Part 2: Matters arising during the year</p> <p>Statutory reports</p> <p>18 During 2001, the Controller of Audit prepared four statutory reports for consideration by the Accounts Commission, including last year's overview report. Two were follow-up reports on the progress being achieved at Inverclyde Council in addressing weaknesses in accounting procedures and financial administration. The fourth report, on Scottish Borders Council, was concerned with the financial management of the council's education budget.</p>	<p>Argyll and Bute Council was not the subject of any statutory reports.</p>
<p>General accounting issues</p> <p>19 The main accounting issues reported by auditors related to councils' compliance with the capital accounting regime and the implications of new requirements for pensions accounting. Auditors highlighted the potential pressures faced by fire boards in funding firefighters' pensions.</p>	<p>Argyll & Bute Council is not the subject of any of these reports.</p>
<p>20 There are a number of public/private partnerships (PPP) and private finance initiative (PFI) contracts at various stages of completion in councils in Scotland. External auditors review the processes by which councils progress their interests in these schemes and, where appropriate, provide preliminary views on the proposed accounting treatment. Audit Scotland is examining the value for money of recent Private Finance Initiative schools deals in Scotland with a view to making recommendations to help promote good practice in the preparation and delivery of PFI schemes.</p>	<p>Argyll and Bute Council entered into a waste management PPP with Shanks in September 2001.</p> <p>In response to the Scottish Executive's initiative "Revenue support for public/private partnership (PPP) school building projects" Argyll and Bute Council lodged, in December 2001, an application for support.</p>
<p>Matters arising at individual councils</p> <p>21 The auditors of Clackmannanshire Council expressed serious concerns about the council's lack of progress in reviewing its financial interests in external bodies. At</p>	<p>There are no major issues at Argyll & Bute Council.</p>

<p>Comhairle nan Eilean Siar (Western Isles Council) the auditors reported that the Building Maintenance and Roads DLOs failed to achieve break-even with deficits of £321,000 and £253,000 respectively. These are significant in terms of the level of DLO activity, representing over 10% of turnover in each case. The external auditor of Midlothian Council referred to a contract for an extension to a school in which there had been a £560,000 (over 30%) overspend. At South Lanarkshire Council the auditor expressed concerns about a contract for debt recovery services.</p>	
<p>Value for money studies</p> <p>22 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. Reports on 2000/01 study topics related to: pre-school education; property risk management in schools; internal audit; and homecare services for older people.</p>	<p>Noted.</p>
<p>Best Value</p> <p>23 Best Value was introduced in Scotland in 1997. It requires councils to provide high quality services that meet the needs of their customers and communities, and achieve value for money. Councils must also demonstrate that they are accountable and delivering continuous improvement. The Scottish Executive is expected to introduce legislation that will place a statutory duty on councils to deliver Best Value. The Accounts Commission published a progress report in December 2001 ('Making Progress with Best Value') that provided a snapshot of councils' performance management and planning arrangements.</p>	<p>Noted.</p>
<p>Performance Indicators</p> <p>24 The Local Government Act 1992 places upon the Accounts Commission an annual</p>	<p>Liaison between the Chief Executive Department, Audit Scotland and Internal</p>

<p>duty to direct local authorities to publish information which will, in the Commission's opinion, assist in the making of appropriate comparisons. By reference to the criteria of cost, economy, efficiency and effectiveness, comparisons can be made between the standards of performance achieved by different authorities in a financial year and the standards of performance achieved by individual authorities in different financial years. In 2000/01 councils, fire brigades and police forces were required to report their standards against 76 statutory performance indicators covering a wide range of services.</p>	<p>and External Audit has taken place at local level in an effort to address general issues over national comparison requirements.</p>
<p>25 The statutory performance indicators are only one means by which the performance of councils can be measured and need to be interpreted in a broader context. Nevertheless, it is encouraging to note that the general trend is one of overall improvement, with the majority of councils improving on most indicators between 1998/99 and 2000/01.</p>	<p>The number of PI's, which were qualified, rose from 9 in 1998/99 to 11 in 2000/01.</p>

ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
24 MAY 2002

INTERNAL AUDIT PERFORMANCE TARGETS

1. SUMMARY

- 1.1 The attached appendix lays out the proposed performance targets for Internal Audit. This has been prepared in conjunction with KPMG our internal audit partners

2. RECOMMENDATION

- 2.1 The performance targets for Internal Audit are approved.

3. DETAILS

- 3.1 Earlier reports on the agenda for today's Audit Committee cover the Mission Statement and Terms of Reference and Audit Needs Assessment and Strategic Audit Plan. In order to pull these together into a concise assessment of the success of Internal Audit a set of performance targets have been prepared. These are attached as Appendix X. Approving a set of performance targets will address one of the recommendations in the PricewaterhouseCoopers review of Internal Audit.
- 3.2 Internal Audit will monitor progress against these targets during the year and report formally on the outcome at the end of 2002-2003 year. Should performance fail to progress adequately during the year then any exceptions will be reported to the Audit Committee.

Bruce West
Head of Accounting
30 April 2002

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Argyll and Bute Council

Internal audit performance indicators

22 April 2002

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1 Internal audit performance measurement

1.1 Internal audit performance indicators

1.1.1 Performance indicators are a means of measuring the performance of internal audit. This allows comparisons to be made year-on-year and set targets for improvement. By meeting such targets, the audit committee can have confidence that internal audit will be delivering a quality service.

1.1.2 In addition, to those indicators listed below, internal audit can participate in benchmarking reviews, which allow comparison with other local authorities. This will provide additional information on where improvements could be made compared to peers.

1.1.3 The table below sets out performance measures for internal audit. These provide both quantitative and qualitative feedback on internal audit activity.

Ref	Performance indicator	Target
1.	Percentage of audit work qualified and specialist staff.	65%
2.	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)
3.	Follow-ups to be performed within one year of the audit taking place.	100% of recommendations followed up in following year
4.	Completion of every assignment in the annual plan (in budgeted time), subject to variations agreed by audit committee, and if appropriate, audit managers..	100%
5.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%
6.	Issue of final reports within 5 working days of management responses be received.	5 days – 100%
7.	Recommendations accepted compared to recommendations made.	Fundamental – 100% Material and minor - 80%
8.	Reports display: <ul style="list-style-type: none"> ■ clear opinion; ■ action plan of prioritised recommendations and management responses; ■ person responsible; and ■ date for completion 	All reports (100%) state a clear conclusion/opinion, contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.

Ref	Performance indicator	Target
8	Management's feed back on audit planning, fieldwork and	To achieve 'average' or better in questionnaire ratings. (ie: a mean score of '3' or more for each question
9	Internal audit costs are within budget (including in-year budget variations)	100% (Total costs within budget)
10	Percentage of time direct audit time	67%

**ARGYLL AND BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
24 MAY 2002**

MISSION STATEMENT AND TERMS OF REFERENCE

1 SUMMARY

- 1.1 This report introduces the Mission Statement and Terms of Reference for Internal Audit. The Mission Statement and Terms of Reference are attached as appendix 1

2 RECOMMENDATIONS

- 2.1 The attached Mission Statement and Terms of Reference for Internal Audit are approved

3 DETAIL

- 3.1 A Mission Statement and Terms of Reference for Internal Audit has been prepared in conjunction with KPMG, our internal audit partners. This is attached as an appendix and requires to be approved by members.
- 3.2 The lack of an approved Mission Statement and Terms of Reference were identified as a shortcoming in the review of Internal Audit carried out by PricewaterhouseCoopers in 2001. The attached appendix, if approved, will address this requirement.
- 3.3 The Mission Statement and Terms of Reference lay out the objective and scope of Internal Audit. It specifies Internal Audit's status on independence, authority and access, internal audit management and quality and skills.

Bruce West
Head of Accounting
30 April 2002
Report15aprilauditcommittee

DRAFT for audit committee approval

MISSION STATEMENT

“To contribute to the achievement of Argyll and Bute Council’s mission and strategic objectives by providing assurance to the Council that financial and operational controls and arrangements for Best Value are functioning efficiently and effectively and that the significant risks to the organisation are being managed.”

TERMS OF REFERENCE

OBJECTIVE

Internal Audit is responsible for advising all levels of management and Council (through its Audit Committee), on the Council’s systems of internal control. It is a review activity which continuously reinforces line management’s responsibility for effective internal controls. Internal audit supports:

- Management’s organisational objectives
- The Audit Committee’s need for overall assurance on the quality and cost effectiveness of internal controls.

Internal Audit areas of focus include :

- Internal control effectiveness
- Statutory, procedures and control compliance
- Implementation of recommendations
- Corporate governance
- Systems development
- Process improvement
- Value for money and Best Value

Over time it is envisaged that the function increase the proportion of reviews of operational systems, value for money and contribute to Best Value.

SCOPE

Internal Audit’s work provides assurance on the extent to which management controls ensure that:

- the Council’s assets are safeguarded from significant losses, including those caused by fraud, waste, inefficiency and commercially unsound practices;
- relevant laws, rules and regulations are complied with;
- operations are conducted effectively, efficiently and economically in accordance with Council policies and procedures;
- management information systems are reliable and secure;
- systems under development are monitored, that appropriate internal controls are built in and are consistent with the organisations’ needs;
- significant Council risks are identified and effectively managed;
- major Council projects achieve their objectives.

In addition, Internal Audit may perform special reviews requested by the senior management or the Audit Committee. When plans are changed for such reviews, this is reported to the Audit Committee so that it clearly understands the implications on resources and for the assurance it requires about internal controls, and any impact on the delivery of agreed plans.

DRAFT for audit committee approval

INDEPENDENCE

Internal Audit is independent of the systems and activities it reviews and will objectively report its findings to the appropriate level of management in order to ensure corrective action is taken on a timely basis. To this end, Internal Audit has the authority to require a timely written response to any findings and recommendations contained in assignment reports.

AUTHORITY AND ACCESS

Internal Audit has no responsibility for operational functions within the Council and no direct responsibility for, nor authority over any of the activities subject to internal audit review. Internal Audit derives its authority from the Council members who enable them to have unrestricted access to all records, systems, documents, property and staff as required in the performance of its work.

INTERNAL AUDIT MANAGEMENT

The Council's Internal Audit management team has responsibility for:

- Assisting executives with risk management.
- Developing a plan that is based on assessed Council risks and Internal Audit's objectives.
- Developing a programme based on the plan and which is flexible enough to meet changing organisational needs.
- Ensuring that resourcing arrangements are in place to deliver the plan and are flexible enough to cope with special requests
- Providing regular progress reports to senior management and the Audit Committee.
- Ensuring Internal Audit remains effective, credible, productive and focused on areas of most significance to the company.
- Working with line management constructively to challenge and improve established and proposed practices and to put forward ideas for improving processes.
- Developing an appropriately skilled team, supported where necessary by external expertise, to meet best practice.
- Maintaining an open relationship with the external auditors.
- Fostering a culture of joint-working with management leading to agreed solutions.

Internal Audit is not relieved of its responsibilities when areas of the Council are subject to review by others. It always needs to assess the extent to which it can rely upon that work, co-ordinate its audit planning with those other review agencies, e.g. external auditors, and decide what further investigations need to be carried out.

QUALITY AND SKILLS

The Council's Internal Audit management team is responsible for ensuring the skills of Internal Audit are developed and maintained through:

- re-skilling and training Internal Audit staff e.g. in complex technical areas, in the use of technology, implementing best practice and in developing inter-personal skills such as communication;
- techniques such as benchmarking to identify and adopt appropriate best practices;
- the engagement of external specialists as and when necessary and cost-effectively to meet changing Council needs.

DRAFT for audit committee approval

- developing and monitoring appropriate internal audit performance measures, including mechanisms for continuous improvement

Internal Audit must demonstrate objectivity and professionalism, including applying best practice and compliance with the Code of Practice for Internal Audit for Local Authorities in the UK.

ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
24 MAY 2002

AUDIT NEEDS ASSESSMENT AND STRATEGIC AUDIT PLAN

1. SUMMARY

- 1.1 This report introduces the Audit Needs Assessment and Strategic Audit Plan. The Audit Needs Assessment and Strategic Audit Plan have been prepared with KPMG, our internal audit partners.

RECOMMENDATION

- 2.1 The Audit Needs Assessment and Strategic Audit Plan is approved. In approving this Members should consider whether additional resources be provided or audit scope, timescales and assessment modified.

3. DETAILS

- 3.1 Preparation and approval of an Audit Needs Assessment and Strategic Audit Plan was a requirement identified by Professor Midwinter and PricewaterhouseCoopers in their reviews of Internal Audit.
- 3.2 The Audit Needs Assessment and resulting Strategic Audit Plan and also the Annual Audit Plan for 2002-3003 are attached.
- 3.3 The Audit Needs Assessment lays out the methodology employed in carrying out the assessment. Internal Audit believes that adequate audit coverage and assurance can be provided within existing resources, however members specifically require to consider if additional resources should be provided or audit scope, timescale and assurance modified. Each audit area has been allocated a risk ranking.
- 3.4 The Strategic Audit Plan translates the Audit Needs Assessment into a detailed schedule of assignments. Over the planned period the Strategic Audit Plan will address the Audit Needs Assessment and provide an annual assurance statement on the Council's overall internal audit framework. The number of days for 2002/03 to 2004/05 proposed are shown against each audit area
- 3.5 The Annual Audit Plan lays out the broad scope and objectives for each assignment proposed for 2002-2003. Appendix 5 details the calculation of audit days for 2002-03.

Bruce West
Head of Accounting
30 April 2002
report15aprilbwauditcommstrategicplan

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Argyll and Bute Council

Internal audit needs assessment,
strategic plan 2002-3 to 2004-5 and
annual plan 2002-2003

22 April 2002

Draft for audit committee approval

KPMG

This report contains 7 pages

Appendices contain 20 pages

jgm/sgc/790

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4	Appendix 4
4.1	2002-03 annual plan and review objectives
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1 Introduction

The purpose of this document is to inform the audit committee of proposed plans for the Council's internal audit service for the three years ending in 2005. The strategic and annual internal audit plans reflect internal audit's understanding of the needs of the Council based on a review of the strategic and business issues facing the Council at this time, together with knowledge of the local government.

1.1 Scope

1.1.1 Section 95 of the Local Government Act 1972 requires authorities to 'make arrangements for the proper administration of their financial affairs and shall secure that the proper officer has responsibility for those affairs.' Additionally, Scottish Office circular 5/85 states that effective internal audit cover is regarded as a matter of good practice. The prime responsibility of the internal audit function at Argyll and Bute Council is to provide members, the audit committee, chief executive officer and Council management with an effective assessment of the adequacy and effectiveness of its internal control systems. Responsibility for internal controls rests fully with Council management.

1.1.2 The scope of internal audit covers all of the Council's internal control systems, covering all activities – financial and non-financial. The work is to be performed in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ('the Code'). This requires the internal audit function to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control system.

1.2 Terms of reference

1.2.1 Internal audit will operate to terms of reference agreed with the Council's audit committee. In accordance with the Code, these terms of reference will:

- Establish responsibility and objectives of internal audit;
- Establish the position of internal audit within the organisation;
- Define the scope of internal audit; and
- Establish internal audit's right of access to all records, assets, personnel and premises, and its authority to obtain such information and explanations, as it considers necessary to fulfil its responsibilities.

1.2.2 Internal audit's terms of reference will be prepared based on guidance from the Code. This will ensure full coverage of the Council's operations is included within the coverage of internal audit and sufficient authority is given.

1.2.3 Internal audit performance measures will be reported against annually to the audit committee.

2 Audit needs assessment

An audit needs assessment defines the various areas and topics requiring audit, and ranks them in order of priority, thus ensuring that audit resources are efficiently and effectively targeted. It further enables the audit committee to review the effect of any decision it makes regarding audit scope and resources. Additionally, Council management and internal audit are able to determine the level of internal audit work which is appropriate to enable a reasonable level of assurance to be given on the Council's systems of internal control.

2.1 Methodology

2.1.1 The process of preparing the audit needs assessment involved:

- identifying key areas of the Council's activities;
- obtaining the views of senior management to gain a view of strategic and business risk, and the specific areas which should be considered high risk;
- assessing the vulnerability (risk) and controls effectiveness of each area of work;
- grouping these for audit purposes;
- determining the periods over which all systems will be audited;
- estimating the resources required to meet audit needs.

2.1.2 The needs assessment process considers the inherent risk and effectiveness of controls associated with each system and results in the allocation of a 'total risk' score for each. The number of audit days is subsequently determined based upon this score, while also using knowledge and judgement to decide whether the audit frequency and days are appropriate.

2.1.3 The following factors were considered in allocating risk factors to specific areas:

- ✓ **materiality** - an assessment of financial size;
- ✓ **inherent risk** - the risk associated with a particular activity due to its very nature, and the level of sensitivity attached to a possible breakdown in the effective operation of that system;
- ✓ **controls effectiveness** - an assessment of the degree of control that management currently has over the inherent risks; and
- ✓ **management views** - from discussions with senior management an assessment was made of any areas of particular concern. Previous audit experience of the internal control risk was also considered in this assessment.

2.1.4 In producing the needs assessment, internal audit considered both the financial and non-financial systems operating within the Council. Both of these categories are of critical importance in terms of managing the Council's activities and meeting the mission and objectives of the Council.

2.1.5 A risk score based on the above factors was allocated to each system, along with management's assessment of the

effectiveness of the controls in place for these risks. These are set out in appendices one to three, although it should be noted that assessment is a continuing process and factors may well change overtime.

2.1.6 For financial systems, internal audit have included an assessment of materiality, however, in assessing priorities for non-financial systems, value for money and consideration of management arrangements, internal audit have excluded the financial materiality rating and used a rating for 'management priority/experience'.

2.1.7 Each independent element within the risk assessment was awarded a ranking between one and five, with five being the highest risk. Controls were ranked in a similar way, with five being for the least effective controls. The *materiality* rating was also scored out of five, with five being for the highest values and *management views* were rated between three for high priority and a one for normal priority. Internal audit have weighted the risk scores, with inherent risk having greater weight. Financial systems are therefore rated between nil and 50. The non-financial, value for money and operational management arrangements are rated between nil and 44. Higher scores are therefore more likely to need reviewing. These scores were based on discussions with Council management.

2.1.8 This overall assessment is therefore determined using a combination of the risk factors, management comment and internal audit's experience of individual systems and the environment in which they operate.

2.2 Specific issues identified

2.2.1 In completing this needs assessment, internal audit met with the senior management in the Council to identify specific areas of risk where audit resources should be allocated.

2.2.2 Following these discussions, which included both current and potential issues across the whole Council, internal audit identified a number of possible review areas. These include the following:

- Education private public partnership (PPP)
- Housing stock transfers;
- Waste management PPP;
- Leisure activities;
- Contribution to Best Value reviews;
- Review of governance and risk management processes;
- Review of performance indicator systems and PMP;
- Specific reviews of departments;
- Capital accounting;
- Housing benefits; and
- Non-domestic rates.

2.3 Resources required

- 2.3.1 Internal audit have produced the needs assessment which is shown at appendix four. This covers the higher risk areas in the next three years. The assessment indicates that adequate audit coverage can be met with 1,441 days (including KPMG partnership time). This is subject to agreeing the specific internal audit scope and objectives of each assignment to cover necessary risks and additional requests from management and the audit committee.
- 2.3.2 In considering the needs assessment, the audit committee may determine whether:
- additional resources should be provided; and/or
 - audit scope or timescales, and hence assurance, should be modified.
- 2.3.3 Internal audit believe this provides adequate audit coverage for the Council and reflects the developments occurring in the Council over the next three years.
- 2.3.4 Whilst the needs assessment has been prepared on the basis of information provided and discussions held, it should be recognised that the results of the work undertaken during each period will influence the needs assessment for future years and may require a level of input which is either higher or lower than that now proposed.

- 2.3.5 Appendix 5 sets out the number of available audit days based on the number of internal audit posts.

2.4 Supporting Argyll and Bute Council objectives

- 2.4.1 The Council's overall aim is to play a full part in improving the quality of life and opportunities for the people of Argyll and Bute.
- 2.4.2 In providing the audit committee and management with assurance over the Council's key financial and operational systems and input to Best Value and value for money reviews, internal audit will contribute to the Council achieving its goals.
- 2.4.3 Internal audit will contribute to the Council's aims and objectives in accordance with the Council's defined values.
- 2.4.4 A key influence on the work of internal audit is the report by the value for money report produced by Accounts Commission. Action points from this report are being addressed by internal audit to ensure the most value to provided to the Council.

3 Detailed strategic and annual internal audit plans

The main components of the strategic internal audit plan are considered in this section, included within this is the draft annual internal audit plan (appendix four) for 2002-2003 for consideration by the audit committee.

3.1 Strategic internal audit plan

3.1.1 The strategic plan provides a framework within which the internal audit work is carried out and ensures that internal audit resources are effectively planned and controlled. It should be seen as a flexible management tool which meets the following objectives:

- a clear view of the workload of the internal audit team;
- a base for assessment of the adequacy and future deployment of audit resources;
- a yardstick against which progress and performance can be measured;
- providing authority to act once it is approved by the audit committee; and
- a permanent record of the factors considered and judgements made.

Core financial systems

3.1.2 These are the systems fundamental to the financial management of the Council because of their size and importance and so include significant systems such as income and expenditure streams.

3.1.3 These financial systems include:

- Budgetary control;
- Capital accounting;
- Capital contracts;
- Cash collection and income banking;
- Council tax and non-domestic rates;
- Housing and Council tax benefits;
- Housing rents;
- Payroll;
- Purchases, tendering and certifications;
- Treasury management; and
- Sundry debtors.

Non financial systems

3.1.4 Although it will always remain a key audit requirement for a continuous review of financial systems, internal audits approach will also focus on non-financial systems and specific strategic and business issues. The Code requires that internal audit not only look at the financial systems but also other systems of management control used to ensure the Council's objectives are met.

Department reviews

- 3.1.5 As part of systems reviews, internal audit will cover a range of issues which will require contact with the Council's departments, both central and devolved. Internal audit will seek to carry out reviews of departments as shown in the plan or requested by Council management.

Computer audit

- 3.1.6 In view of the significance of information technology for controlling Council activities and providing management information, the risk ranking in the needs assessment and comments by Council management, internal audit will include reviews over general IT controls, security and IT strategy which are in place. Audit focus in this area will be co-ordinated with KPMG specialists and the external auditor, Audit Scotland.

Value for money (VFM) reviews

- 3.1.7 The economic, efficient and effective use of resources in all areas is fundamental in ensuring that the Council can operate successfully on an ongoing basis. As internal auditors, in reviewing and appraising systems and controls, internal audit will also evaluate the control arrangements established and operated by the Council's management to achieve VFM.

- 3.1.8 Specific areas offering scope for a VFM review have been reported in the appendix. These reviews will focus on ensuring activities, processes and services operate efficiently and effectively.

Best Value and performance indicators (PI's)

- 3.1.9 The best value framework requires local authorities to deliver robust, challenging reviews of their functions in order to secure improvements in service delivery. Councils have to ensure they have robust systems for ensuring appropriate performance management and monitoring.

- 3.1.10 Internal audit will contribute to best value and performance measurement through input to reviews currently planned and through assessing systems for ensuring performance. Internal audit can test and challenge performance management systems (financial and non-financial PI's) to contribute to best value.

Audit follow-up

- 3.1.11 For internal audit to be as effective as possible, its recommendations need to be implemented. To provide assurance that this is happening, a provision of time is included within the strategic plan to enable internal audit to monitor pro-actively the progress made towards implementing agreed audit recommendations.

- 3.1.12 There will be a follow-up exercise undertaken each year to assess the extent of progress made on past internal audit recommendations.

Contingency

- 3.1.13 Contingency audit time is to allow for input into unforeseen events which, by their nature, cannot be planned for, for example:
- notification of frauds, significant weaknesses or loss;
 - consideration of controls for new or amended systems; and
 - reviews of significant breakdown of internal control which cannot be accommodated within planned audits.
- 3.1.14 Clearly, the extent to which any contingency will arise depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity.
- 3.1.15 It is important that a flexible approach is adopted in determining internal audit resources and therefore internal audit has built in a contingency element to plan. This is approximately 10% of the total planned time.
- 3.1.16 Where, due to the nature or extent of the skills required, consideration will be given to using external specialist skills.
- 3.1.17 Such contingency work might include specific investigations or the provision of specialist advice and assistance on certain matters.

The strategic and annual internal audit plans translate the results of the needs assessment exercise into a detailed schedule of assignments. Over the planned period, these assignments will address the areas of risk identified by the needs assessment and will allow internal audit to provide an annual assurance statement on the Council's overall control framework.

3.2 Annual internal audit plan

- 3.2.1 The draft plan for 2002-2003 is shown at appendix four and includes a brief summary of the broad objectives for each the assignment.
- 3.2.2 The annual plan breaks down the areas identified in the needs assessment and strategic plan into the proposed areas of coverage for 2002-2003. Consideration has been given both to the comments made by management and the time since an area was last audited. The plan has been structured to help ensure that reviews provide a service to the audit committee and Council management by:
- identifying and assessing the system of internal control;
 - assessing compliance with established and expected standards of controls and procedures; and
 - making recommendations designed to improve internal control. This approach allows internal audit to examine all key controls and also to identify value for money issues or opportunities within systems work.
- 3.2.3 As part of managing the internal audit function, issues raised by the Accounts Commission, through the Council's previous external audit, will be addressed through the coming period.

kpmg

Argyll and Bute Council

Internal audit needs assessment,
strategic plan 2002-2005 and annual
plan 2002-2003

Appendices

22 April 2002

Draft for audit committee approval

KPMG

These appendices contain 20 pages

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1 Appendix 1

1.1 Calculation of audit risk (core financial systems)

	Materiality factors	Inherent risk	Control rating	Total audit risk score	Ranking
<i>Core financial systems</i> <i>(Weighting)</i>	(x3)	(x5)	(x2)	(max 50)	
Budgetary control	5	5	3	46	1
Capital accounting	5	5	2	44	2
Capital contracts	5	4	2	39	3
Car allowances	4	3	2	39	3
Cash and income banking	5	5	2	44	2
Contract hire and operating leases	5	3	2	34	5
Council tax and non-domestic rates	5	5	2	44	2
Creditor payments	5	5	2	44	2
Debtor accounts	5	5	3	46	1
Direct transport costs	4	4	2	36	4
Purchasing of equipment and materials	5	5	2	44	2
Unified benefits system	5	5	2	44	2
Housing rents	5	5	3	46	1
General ledger operations	5	5	2	44	2
Government grants	5	5	3	46	1
Payroll	5	4	2	39	3
Public transport costs	5	3	1	32	6
Purchase ordering and certification	5	4	2	39	3
Tendering procedures (including financial control)	5	4	2	39	3
Treasury management	5	5	2	44	2
Payments to voluntary associations (following the public pound)	4	4	2	36	4

Risk scores - 5 (high risk) to 1 (low risk) Control effectiveness scores - 1 (good control) to 5 (poor control) Materiality scores - 5 (high value) to 1 (low value)
--

- 1.1.1 **Note:** Individual budget lines have been consolidated for audit purposes. This has resulted in materiality rankings mainly falling in the 4 and 5 grouping. Likewise risk and control ratings have been consolidated for audit purposes. In completing reviews, consideration will be give to individual ratings when focussing audit work.

2 Appendix 2

2.1 Calculation of audit risk (non-financial systems, Best Value and VFM)

<i>Non-financial systems and value for money (Weighting)</i>	Inherent risk (x5)	Control rating (x2)	Management priority (x3)	Total audit risk score (max 44)	Ranking
Central services to the public					
Legal services – public	4	3	2	32	5
Local tax collection	4	2	2	30	6
Corporate and democratic core					
Corporate management / Chief Executives Unit	4	3	2	32	5
Central support services					
Financial services	4	3	3	35	3
Information technology	4	3	3	35	3
Development and environmental services					
Public protection	4	3	3	35	3
Amenity services (Waste PPP)	4	2	2	30	6
DLO's					
Building	5	3	3	40	1
Roads	5	3	3	40	1
DSO's					
Cleaning	3	2	2	25	9
Catering	3	2	2	25	9
Leisure	4	2	3	33	4
Ground maintenance	3	2	3	28	7
Refuse collection	3	2	3	28	7
Transport	4	2	3	33	4
Education					
Schools – pre-primary education	5	2	2	35	3
Schools – primary	5	2	2	35	3
Schools – secondary	5	2	2	35	3
Schools - special	5	2	2	35	3
Education other than at school	4	2	3	33	4
Continuing Education - Careers	1	3	3	20	11
Housing and social work					
Elderly people	3	2	2	25	9
Housing benefit	3	1	2	23	10
Transportation and property services					

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Argyll and Bute Council
Internal audit needs assessment, strategic plan
2002-2005 and annual plan 2002-2003
 22 April 2002

	Inherent risk (x5)	Control rating (x2)	Management priority (x3)	Total audit risk score (max 44)	Ranking
<i>Non-financial systems and value for money (Weighting)</i>					
Roads	4	2	1	27	8
Property and related services	4	2	1	27	8
Piers and Harbours	5	2	3	38	2

Risk scores - 5 (high risk) to 1 (low risk) Control effectiveness scores - 1 (good control) to 5 (poor control) Management views - 1 (normal priority) or 3 (high priority)

3 Appendix 3

3.1 Assessment of audit days: 2002-2005 strategic plan

	Risk ranking	Last audited	2002-03	2003-04	2004-05	Total
<i>Core financial systems</i>						
Budgetary preparation and control	1		20	20	15	55
Capital accounting	2		20		20	40
Capital contracts	3	2001/02	30		20	50
Car allowances	3		20	20	20	60
Cash and income banking	2	2000/01	20	20	20	60
Contract hire and operating leases	5			20		20
Council tax and non-domestic rates	2	200/01	30	30	30	90
Creditor payments	2	2001/02	30	30	30	90
Debtor accounts	1	2001/02	20	20	20	60
Direct transport costs	4			20	20	40
Purchases of equipment and materials	2		20	20	20	60
Unified benefits system	2	2001/02	50	50	50	150
Housing rents	1	2001/02	20		20	40
General ledger operations	2	2001/02	20	20	20	60
Government grants	1		20	20	20	60
Payroll	3	2000/01	42	42	42	126
Public transport costs	6			20		20
Purchase ordering and certification	3	2000/01	30	30	30	90
Tendering procedures	3	2000/01	20	20	20	60
Treasury management	2		20	20	20	60
Registration of births, marriages and deaths	-	2000/01		10		10
Stock taking	-	2001/02	15	15	15	45
Payments to voluntary associations	4			25	20	45

	Risk ranking	Last audited	2002-03	2003-04	2004-05	Total
Follow-up external audit management letter points	-	2001/02	20	20	20	60
Vehicle leasing – special investigation	-		15			15
Subtotal core financial systems			482	492	492	1,466
Non-financial systems / Best Value / VFM						
Education	3, 4, 11		40	40	20	100
Housing and social work	9, 10			30	20	50
Transportation and property	2, 8		20	20	20	60
Development and environmental services	3, 6		20	20	20	60
DLO's	1		20	20	20	60
DSO's	4, 7, 9		35	35	45	115
IT / MIS strategy and controls	-	2000/01	30	30	30	90
Best Value reviews	-		30	30	30	90
Performance Indicators	-		70	40	40	150
Performance indicators (PMP)	-		33	33	33	99
Corporate governance compliance / risk management	-		30	30	30	90
Subtotal non-financial			328	328	308	974
Special investigations contingency			100	100	100	300
Risk assessment, strategic plan, annual plans			20	10	30	60
Internal audit follow up			40	40	40	120
Total			970	970	970	2910

Note: It is intended that where reviews are repeated in subsequent years, that the focus / emphasis will change. For example, education payroll maybe considered in one year, then another area in the following year.

4 **Appendix 4**

4.1 **2002-03 annual plan and review objectives**

4.1.1 The following sections outline the broad scope and objectives for the reviews identified for the 2002-2003 year.

4.2 **Budgetary control**

Objectives

4.2.1 The specific objectives of this review will assess whether:

- The responsibilities of Officers and Members for the setting and control of budgets are properly defined;
- Budgets are set in accordance with pre-determined approved policy objectives;
- Revenue items are properly controlled by the effective periodic monitoring of financial out-turns against detailed budgets;
- Virements are managed and controlled effectively;
- Significant variances are promptly identified, reported and acted upon; and
- The system contributes to the body's ability to demonstrate that resources are being used in an economical, effective and efficient way.

4.3 **Capital accounting**

Objectives

4.3.1 The specific objectives of this review will assess whether:

- Fixed assets are identified and classified in accordance with Accounting Code of Practice (ACOP);
- Fixed assets are correctly recorded in an asset register;
- Fixed assets are valued in accordance with CIPFA guidance;
- Capital charges are made to service accounts in accordance with ACOP;
- Fixed assets and capital charges are correctly recorded in the financial ledger; and
- The system contributes to the economic, effective and efficient management of the body's assets.

4.4 **Capital contracts**

Objectives

4.4.1 The specific objectives of this review will assess whether:

- Appraisal procedures are effective at selecting appropriate projects;

- The design satisfies the original project criteria;
- The tendering process awards the contract to the most suitable contractor at the most advantageous price;
- Work is properly supervised and executed to contract specifications;
- The system ensures the preparation of accurate interim valuations and final accounts; and
- All relevant information on the project is collected, evaluated and used to improve future performance.

4.5 **Car allowances**

Objectives

4.5.1 The specific objectives of this review will assess whether:

- Car allowances are being claimed in accordance with Council policies and procedures;
- Car allowances are being paid to the appropriate individuals at the appropriate rates; and
- The Council is getting the best value for money from the current structure for car allowances.

4.6 **Cash and income banking**

Objectives

4.6.1 The specific objectives of this review will assess whether:

- Officers receiving cash are unable to misappropriate funds without detection;
- Cash is promptly and fully banked;
- Payments received are promptly processed and correctly recorded in the financial ledger;
- Security for non-banked cash is adequate; and
- Income arrears procedures are properly controlled.

4.7 Council tax and non-domestic rates

Objectives

4.7.1 The specific objectives of this review will assess whether:

Council tax

- All relevant data from the valuation list is promptly and correctly transferred to the billing system;
- Bills are correctly calculated (including discounts, reliefs etc) for all relevant properties;
- Only valid amendments can be made to the billing system;
- Payments received are promptly processed and correctly posted to taxpayers' accounts;
- Write offs, cancellations and refunds are properly controlled;
- Arrears follow up procedures are properly controlled;
- Relevant properties are identified and included in the valuation list;
- Properties included on the valuation list are allocated to the correct valuation band;
- Only valid amendments can be made to the valuation list; and
- All relevant data from the valuation list is promptly and correctly transferred to the billing system.

Non-domestic rates

- All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll;
- Properties included on the valuation roll are given the correct rateable value;
- Only valid amendments can be made to the valuation roll; and
- All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll.

4.8 Creditor payments

Objectives

4.8.1 The specific objectives of this review will assess whether:

- Payments are made only for goods and services which were the subject of authorised orders;
- Procedures for adding to and removing contractors to/from the standing list, and for selecting tenderers, are properly controlled;
- All invoices are properly authorised and paid at the appropriate time;

- Payments are made only to valid creditors;
- Payments are correctly recorded in the financial ledger; and
- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

4.9 **Debtor accounts**

Objectives

4.9.1 The specific objectives of this review will assess whether:

- Accounts are properly raised and posted for all chargeable services;
- Accounts are issued promptly;
- Payments received are promptly processed and correctly posted to debtors' accounts;
- Write-offs, cancellations and credit notes are properly controlled; and
- Arrears follow-up procedures are properly controlled.

4.10 **Purchases of equipment and materials**

4.10.1 The specific objectives of this review will assess whether:

- Payments are made only for equipment, furniture and material which were the subject of authorised orders;
- Procedures for adding to and removing contractors to/from the standing list, and for selecting tenderers, are properly controlled;
- All invoices are properly authorised and paid at the appropriate time;
- Payments are made only to valid creditors;
- Payments are correctly recorded in the financial ledger; and
- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

4.11 **Unified benefits system**

Objectives

4.11.1 The specific objectives of this review will assess whether:

Council tax

- Benefit can be awarded only to valid applicants;
- Claims are accurately assessed and benefit calculated in accordance with Regulations;
- Claims are processed and determinations made within the timescales required by Regulations;

- Benefit awards are correctly recorded in the benefits system, the council tax debtors system and the financial ledger;
- Adequate steps are taken to prevent and detect fraud;
- Overpayments are recovered, where appropriate; and
- The annual subsidy claim is accurate and complete.

Housing benefits

- Benefit (rent rebate and rent allowances) can be awarded only to valid applicants;
- Claims are accurately assessed and benefit calculated in accordance with Regulations;
- Claims are processed and determinations made within the timescales required by Regulations;
- Benefit awards are correctly recorded in the benefits system, the rent accounting system and the financial ledger;
- Adequate steps are taken to prevent and detect fraud;
- Overpayments are recorded, where appropriate; and
- The annual subsidy claim is accurate and complete.

4.12 Housing rents

Objectives

4.12.1 The specific objectives of this review will assess whether:

- Relevant properties are identified and included on the rent roll;
- Rent charges are properly raised for all relevant properties in accordance with rent levels and other charges set by the Council;
- Payments received are promptly processed and correctly posted to tenants' accounts;
- Write offs, rebates, refunds and voids are properly controlled;
- Arrears follow-up procedures are properly controlled; and
- Rent charges are correctly recorded in the rent accounting system and financial ledger.

4.13 General ledger operations

Objectives

4.13.1 The specific objectives of this review will assess whether:

- Prior year balances are correctly brought forward;
- All data input to the system is properly authorised;
- Data from feeder systems is correctly transferred to the financial ledger;
- Output properly reflects the financial data within the system;

- Output is produced in accordance with a prescribed timetable and in a format which contributes to the financial management of the body; and
- The system contributes to the economic, effective and efficient management of the body's assets.

4.14 **Government grants**

- 4.14.1 Various grants claims and other grants are received by the Council from the Scottish Executive and cover housing, social work, education and benefit subsidies.

Objectives

- 4.14.2 The specific objectives of this review will assess whether:
- All Government Grants are identified and applications made in accordance with grant requirements;
 - Grants are only applied to the purposes provided;
 - Amounts receivable / received are complete;
 - The use of Government Grants is planned and controlled; and
 - Adequate monitoring and reporting mechanisms are in place for management information.

4.15 **Payroll - Education**

Objectives

- 4.15.1 The focus of the payroll review for year one of the strategic plan will be on the Education payroll. The specific objectives of this Education payroll review will assess whether:
- Payments are made only to valid employees;
 - Payroll budgets (eg: supply / temporary teachers) are set in accordance with pre-determined approved policy objectives;
 - Data (particularly standing data) is accurate and complete;
 - Payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc; and
 - The system contributes to the body's ability to demonstrate that resources are being used in an economical, effective and efficient way.

4.16 Purchasing, ordering and certification

Objectives

- 4.16.1 The specific objectives of this review will assess whether:
- Only goods and services which are required for the audited body's business are ordered;
 - Orders are placed only after costs have been ascertained;
 - Orders are placed only with authorised suppliers;
 - Invoices are passed for payment to the correct supplier and only for goods/services received; and
 - Invoices are correctly coded for posting to the financial ledger.
- 4.16.2 Reviews of purchasing and ordering will include payments and involvement with joint ventures, partnerships or leisure trusts for example.

4.17 Tendering procedures

Objectives

- 4.17.1 The specific objectives of this review will assess whether:
- Only goods and services which are required for the audited body's business are ordered;
 - Procedures for adding to and removing contractors from the standing list, and for selecting tenderers, are properly controlled;
 - Valid submitted tenders are recorded and held securely prior to formal opening;
 - Tender opening procedures are properly controlled;
 - Tenders comply with European Journal regulations where necessary;
 - Only authorised alterations are made to tenders after the opening process; and
 - Procedures for evaluating tenders and selecting successful tenders are properly controlled.

4.18 Treasury management

Objectives

- 4.18.1 The specific objectives of this review will assess whether:
- Borrowing and lending transactions are in accordance with statutory powers and approved policy and strategy;
 - Annual borrowing requirements and daily balances are properly estimated;
 - Borrowing and lending transactions are properly controlled;

- Loan repayments and interest are paid on the due dates and in respect of valid loans;
- Deposits and interest are recalled/repaid on the due dates;
- Borrowing and lending transactions are correctly recorded in bank accounts, the financial ledger, and other subsidiary records (eg registers); and
- The annual subsidy claim is accurate and complete.

4.19 **Stock taking**

Objectives

4.19.1 The specific objectives of this review will assess whether:

- Systems are in place for maintaining accurate stock records;
- Stock is held in a secure environment; and
- Adequate procedures are in place for management to count stock at year-end;

4.19.2 A selected amount of stocktaking will be completed to assist the external auditor.

4.20 **Follow-up of external audit recommendation**

Objectives

4.20.1 The specific objectives of this review will assess and report on:

- Progress made by management to address the points raised by the external auditor; and
- Further recommendations made to improve operations and controls in the same areas.

4.21 **Education – VFM / operational reviews**

Objectives

4.21.1 Resource will be allocated to review operations and activities for pre-primary, primary and secondary education. Consideration will be given to the policy and objectives set for each of these education areas, the processes and procedures in place for achieving these objectives and specific areas of development or change. Additionally, consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

4.21.2 The focus of the review will be whether arrangements are in place to secure economy, efficiency and effectiveness while achieving the objectives of the education areas.

4.21.3 Recognition will be given to budgetary control / virement issues within Education as reported on separately by KPMG. This will be considered as part of VFM reviews in this area.

4.22 **Transportation and property - VFM / operational review**

Objectives

4.22.1 Resources will be allocated to review operations and activities for the roads area, including local and national roads. Consideration will be given to the policy and objectives set for the roads areas, the processes and procedures in place for achieving these objectives and specific areas of development or change. Additionally, consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

4.22.2 The focus of the review will be whether arrangements are in place to secure economy, efficiency and effectiveness while achieving the objectives of the roads areas.

4.23 **Development and environmental services - VFM / operational review**

Objectives

4.23.1 Resources will be allocated to review operations and activities for the public protection area. Consideration will be given to the policy and objectives set for public protection, the processes and procedures in place for achieving these objectives and specific areas of development or change. Additionally, consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

4.23.2 The focus of the review will be whether arrangements are in place to secure economy, efficiency and effectiveness while achieving the objectives of the roads areas.

4.24 **Direct Labour Organisations**

Objectives

4.24.1 Resources will be allocated to review operations and activities for the building DLO. Consideration will be given to the policy and objectives set for the building DLO, the processes and procedures in place for achieving these objectives and specific areas of development or change. Additionally, consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

4.24.2 The focus of the review will be whether arrangements are in place to secure economy, efficiency and effectiveness while achieving the objectives of the building DLO.

4.25 **Direct Service Organisations**

Objectives

4.25.1 Resources will be allocated to review operations and activities for the transport and leisure DSO's. Consideration will be given to the policy and objectives set for these DSO's, the processes and procedures in place for achieving these objectives and specific areas of development or change. Additionally, consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

- 4.25.2 A significant issue for DSO's is the risk of not achieving the statutory break even requirements. The focus of the review will this and whether arrangements are in place to secure economy, efficiency and effectiveness while achieving the objectives of the transport and leisure DSO's.

4.26 **IT / MIS strategy and controls**

- 4.26.1 IT controls form an essential part of managing the Council's use of technology. There is a balance to be achieved between reducing risk and maximising efficiency. Given the on-going changes in IT and in the Council internal audit plan a follow-up to past recommendations made by the Council's previous external auditors. Additionally, KPMG will be used to complete a review of IT as part of the internal audit partnership agreement. The results of KPMG's report will be provided to Audit Scotland to assist them in planning their future IT reviews.

Objectives

- 4.26.2 The broad objectives will be to review:
- key IT risks
 - security of information systems
 - system development/change control
 - management and organisation of IT
 - continuity of systems

4.27 **Best Value reviews**

- 4.27.1 The best value framework requires local authorities to deliver robust, challenging reviews of their functions in order to secure improvements in service delivery. This includes annual performance plans setting out achievements and targets.

Objectives

- 4.27.2 The specific objectives for the input from internal audit to best value include:
- Assessing and advising on the processes in place to manage best value;
 - Advise on (or participate in) best value reviews as a source of internal challenge; and
 - Helping the Council to assess whether the principles of best value – challenge, comparison, consultation and competition are being addressed.
- 4.27.3 The best value reviews scheduled for up to August 2002 with further Strategic Reviews and Scrutiny Review up to March 2003 include:
- Strategic Review – Knowledge Management
 - Strategic Review – Partnerships and
 - Scrutiny Review – Legal Services end of August 2002;
 - Strategic Review – Financial Management
 - Strategic Review – Communication & Consulting the Community and

- Scrutiny Review – Community Education end of March 2003;

4.27.4 Internal audit will be involved in providing challenge and advice in on the above reviews as well as reviewing the framework for managing and controlling best value. Additional to the above reviews Service Management will be involved in efficiency reviews within their own services.

4.28 **Performance indicators**

4.28.1 The Council is required to collect, record and publish performance indicators to allow benchmarking with other local authorities and against the Council's own past performance. It needs to ensure its systems and processes are robust and operating efficiently and effectively to capture and report such information.

Objectives

4.28.2 The broad objectives of this review will be to review the processes for reporting key performance indicators. Internal audit will test 30 of the 57 Performance Indicators (PI's) to ensure they operate efficiently and effectively so as to provide accurate and complete information. The following PI's will be reviewed by Internal Audit in 2002-03;

- Development and Environment Services – Libraries;
- Development and Environment Services – Trading Standards;
- Housing and Social Work – Social Work;
- Education – All, and
- Finance – All.

4.29 **Performance Management Planning (PMP)**

4.29.1 PMP is designed to assist local authorities establish clear targets and standards for all areas of activity. This is closely aligned to the performance indicator reporting noted above. The Council is required to implement a framework for PMP. This allows Councils to identify opportunities for improving performance and achieving best value through delivering services that meet the needs of the community it serves and providing value for money for these services.

Objectives

- 4.29.2 The broad objectives of this review will be to assess and challenge the Council's arrangements for developing and implementing a PMP framework.
- 4.29.3 Internal audit will consider the findings from the external auditor's 2001-02 reports on PMP and complete reviews to support and compliment those findings.
- 4.29.4 Consideration will be given to:
- Trading Standards;
 - Transport; and
 - Community Care.

4.30 Corporate governance compliance / risk management

- 4.30.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) together published '*Corporate Governance in Local Government – A Keystone for Community Governance*'. This is a guidance note to assist Council's in achieving good practice corporate governance.

Objectives

- 4.30.2 The broad objective of this review will be to assess the arrangements put in place by the Council to implement the good practice guidance.

4.31 Follow-up of internal audit recommendations

Objectives

- 4.31.1 The broad objectives of the review are to:
- Identify outstanding recommendations made at previous audits; and
 - Confirm progress and secure action dates from Council management where necessary.

4.32 Special investigation – vehicle leasing

- 4.32.1 The management of the Council may from time to time request that Internal Audit carry out Special Investigations.

Objectives

To report on issues raised by Council Management.

5 Appendix 5

5.1 Internal audit resource

	Audit Manager	Audit Manager	Accountant	Accountant	Senior audit assistant	Audit assistant	KPMG	Total
Number of days in full year	260	260	260	260	260	260	140	1,700
Less: Public holidays	13	13	13	13	13	13	-	78
Annual leave	25	28	25	25	28	20	-	151
Sickness leave	5	5	5	5	5	5	-	30
Working days available	217	214	217	217	214	222	140	1,441
<i>Audit Support Work:-</i>								
IA management	60	50	15	15	-	-	32	172
Planning and reporting	50	30	15	15	10	-	-	120
Training (formal and informal) *	2	2	2	2	2	2	35	47
Other development *	5	5	3	3	3	3	-	22
Seminars and audit meetings	15	15	2	2	2	2	8	46
Advisory	10	10	2	2	0	0	40	64
Total for Audit Support Work	142	112	39	39	17	7	115	471

	Audit Manager	Audit Manager	Accountant	Accountant	Senior audit assistant	Audit assistant	KPMG	Total
Time available for Direct Audit Work	75	102	178	178	197	215	25	970
<i>Direct Audit Work:-</i>								
Core financial systems / regularity / follow-up	5	70	148	20	70	209	-	522
Computer audit	15	-	5	-	-	-	10	30
Operational / value for money / Best Value	30	15	20	110	108	-	15	298
Fraud / other contingencies Strategic plan and annual plans	20	7	5	48	14	6	-	100
	5	10	-	-	5	-	-	20
Total for Direct Audit Work	75	102	178	178	197	215	25	970

* - Note – Time for informal/on-the-job training received by internal audit staff from KPMG is included within the time allocated for each individual review.

