

ARGYLL & BUTE COUNCIL

**AUDIT PLANNING
MEMORANDUM
FOR THE 2001/02 AUDIT**

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Background

Audit Engagement

- 1.1 Mr David McConnell, Chief Auditor, Audit Scotland (Glasgow Office) was appointed auditor of Argyll & Bute Council for five years covering the financial years 2001/02 to 2005/06.
- 1.2 Audit Scotland is a statutory body set up in April 2000 to provide assistance and support to the Accounts Commission and the Auditor General for Scotland in the exercise of their respective functions. While the Accounts Commission no longer employs its own staff it remains responsible for securing the audits of local authorities and joint boards and for considering and making recommendations on issues reported through the Controller of Audit.

Facts and Figures

- 1.3 Argyll & Bute Council (“the Council”) was established on 1 April 1996 following local government re-organisation. It is the result of the amalgamation of the former Argyll & Bute District Council, part of the former Dumbarton District Council, the old Argyll & Bute part of the old Dumbarton sub-regions of Strathclyde Regional Council. The Council serves a population of 90,000 and is split into four decentralised areas:

- Cowal and Bute – 9 Councillors
- Helensburgh and Lomond – 10 Councillors
- Kintyre, Islay and Mid Argyll – 9 Councillors
- Oban, Lorn and the Isles – 8 Councillors

While the four areas have roughly the same population, there is considerable variation in terms of geographic area, indeed the Oban, Lorn and the Isles and Mid Argyll, Kintyre and Islay area is larger than the whole area of most local authorities elsewhere in Scotland.

- 1.4 Thirty-six councillors serve the local population from their headquarters in Kilmory Castle, Lochgilphead, Argyll, PA31 8RT.
- 1.5 The budgeted expenditure for 2001/02 is £144,346,672 and the key sources of income are:
- | | | |
|-------------------------------|--------------|-------|
| • Aggregate External Finance | £109,693,000 | 76.0% |
| • Local Tax Requirement | £34,398,672 | 23.8% |
| • Additional Local Tax Income | £255,000 | 0.2% |

1.6 The key areas of expenditure are:

• Education	£59,619,818	42.0%
• Housing & Social Work Service	£25,016,562	18.0%
• Development & Environment Service	£19,825,879	14.0%
• Transportation & Property Service	£20,243,366	14.1%
• Central Services to the Public	£2,108,629	1.5%
• Corporate & Democratic Core	£2,585,626	1.8%
• Joint Police Board	£6,722,000	4.7%
• Joint Fire Board	£3,938,000	2.8%
• Valuation Joint Board	£1,094,531	0.8%
• Unapportionable Central Overheads	£428,516	0.3%

Total budgeted gross expenditure on the Housing Revenue Account is £14,416,604 and there are 6,620 council houses. The average weekly rent is £39.65.

The Council acts as sole trustee for 76 trust funds and 6 common good funds. These funds have assets of £2.4 millions.

Functions of the Council

1.7 Argyll and Bute Council provides the following services:

- **Education:** provision of primary, secondary, pre-five and learning centres
- **Housing and Social Work:** management and maintenance of council housing, and other housing services, for example housing benefits, improvement grants and services for the homeless, and the provision of services to the elderly, for children and families, for people with disabilities, for the mentally ill and for offenders
- **Transport and Property:** management of the physical assets of the Council, including roads, bridges and other highway structures, schools, council offices and vehicles, piers, harbours, coastal protection, lighting and airstrips. Activities include construction, maintenance, winter maintenance, cleaning and catering. Assists with the provision of public and school transport
- **Development and Environment Services:** provision of refuse collection, street cleaning, leisure operations, grounds maintenance, burial and cremation service, playing fields, public conveniences, planning, building control, tourism, libraries, leisure and arts, pollution and public health.

1.8 The Council is a member of the Argyll & Bute Community Planning Partnership which was established in 1999 and has grown rapidly to include most providers of public services in Argyll and Bute.

1.9 The Council identifies the following key values:

- **Getting closer to the communities:** to ensure good communication with value being placed on the views of the communities and to decentralise services to bring them closer to the communities and acknowledge the differing community needs
- **Valuing employees:** to listen and value the opinions of our employees with an open line of communication and to encourage co-operative working across organisational boundaries

- **Working with partners:** to foster partnerships and co-operation with organisations in the public, private and voluntary sector
- **Services provided:** to ensure that the services provided are delivered in a fair, consistent, efficient and effective way taking into account their social and environmental impact and the needs and aspirations of communities and individuals.

1.10 The Council undertakes the following categories of work and defined activities in-house:

Direct Labour Organisations

- Property Maintenance
- Roads Direct-Trunk Roads
- Roads Direct-Local Roads

Direct Service Organisations

- Catering
- Cleaning
- Grounds Maintenance
- Leisure Management
- Refuse Collection
- Street Cleaning
- Vehicle Maintenance

The Council also engaged private contractors to carry out maintenance work amounting to £2,344,000 during 2000/01.

Organisation and Committee Structure

Organisation Structure

1.11 The details of the Council's Management Team are as follows:

Chief Executive's Unit	Chief Executive	James McLellan
Service Departments	Housing & Social Work Transportation & Property Services Development & Environment Services Education	Douglas Hendry Alistair Gow George Harper Archie Morton
Central Services to Public	Local Tax, District Courts & Licensing	Stewart McGregor/ Nigel Stewart
Support Departments	Finance Information Technology Corporate & Legal Services	Stewart McGregor Gavin Boyd and Gerry Wilson Nigel Stewart

Council Structure

1.12 Elections take place every four years, the most recent having been held in May 1999. The current composition of the Council is:

<i>Party</i>	<i>No. of Members</i>
Labour	0
Liberal/Democrat	6
Conservative	4
SNP	4
Independent	3
Non Aligned Group	19
TOTAL	36

The non-aligned group currently form the administration.

1.13 The table below details the current post holders:

Council Leader	Councillor Allan Macaskill (Non Aligned Group)
Council Depute Leader	Councillor Robin Banks (Non Aligned Group)
Convenor	William Petrie (Non Aligned Group)
Vice-Convenor	Dugald MacKinnon (Non Aligned Group)

Standing Committees

1.14 The table below details the current post holders:

<i>Committee</i>	<i>Convenor</i>	<i>No. of Members</i>
Strategic Policy	Allan Macaskill	11
Strategic Policy (Education)	Allan Macaskill	16
Public Service and Licensing	Stanley Latimer	8
Audit	John Stirling	7
Standards	Dr G F Doughty	7
Commercial Operations Board	Bruce Robertson	5

- 1.15 The Council has approved terms of reference and particular delegations of responsibility for all the committees and these are included in the Standing Orders which regulate the conduct of their proceedings.
- 1.15 The Financial Regulations provide a clear basis for accountability in relation to financial matters. The range of issues includes budgetary control, security of assets, payment of staff and purchasing. The Financial Regulations are updated on an annual basis.
- 1.16 The Council's Audit Committee comprises 7 members and invites officers to attend as required. The main duties of the Audit Committee are to:
- review the systems of internal control and control environment and evaluate the decision making process
 - review internal audit strategy and plan, receive and consider audit reports
 - review the operational effectiveness of the internal audit service
 - review external audit strategy and plans and review its management letters and final reports
 - discuss any relevant issues with external auditors
 - review any changes or revisions to Standing Orders, Financial Regulations and the Scheme of Administration and Delegation.

Main Financial Systems

- 1.17 An overall impression of the Council's Information and Communications Technology (ICT) function will be gathered by completion of a checklist known as a Pathfinder Diagnostic Review (PDR). This is a high-level risk based assessment of all ICT dependent systems and involves gathering information from the Council's senior ICT staff. The PDR programme is based on a checklist that was issued to the Head of IT Applications in October 2001 and remains outstanding.
- 1.18 The PDR exercise will enable us to provide a high level summary of all ICT based systems utilised by the Council. This information will be used to inform and prioritise audits and highlight potential control or management weaknesses in ICT based application systems.

Audit Resources

- 2.1 Our letter of engagement, dated 20 September 2001, specifies the indicative fee for the audit as £171,000 (excluding the central charge). This is a provisional fee, which may be increased or decreased within a range of 10% with the agreement of the Chief Executive/Director of Finance. In determining the agreed fee, the following factors have been considered:
- the standard of the audited body's corporate governance arrangements, the control environment established by the body and the experience of its senior management
 - the results of the audited body's risk assessment procedures covering corporate and activity level objectives
 - changes in the framework of authorities and the audited body's response
 - the standard of internal controls in main financial systems and whether audit recommendations are promptly acted upon
 - the standard of internal audit and the reliance that can be placed on its work
 - the extent to which comprehensive schedules and working papers are to be provided in support of the financial statements
 - whether or not the audited body wishes us to undertake specific additional work (e.g. additional centrally directed study work or a specific locally determined study)
 - additional audit set-up time in the first year of an audit appointment
 - whether additional work will be undertaken for other auditors where systems are shared by bodies.
- 2.2 The fee agreed with the Director of Finance for 2001/02 is the indicative fee of £171,000, plus a central charge of £32,362 making a total fee £203,362.
- 2.3 In agreeing the fee, the co-operation of internal audit will be secured to prevent duplication of effort and to maximise the overall internal and external audit resources. The current internal audit function is in the process of change. The appointment of a private firm (KPMG) to work in partnership with the existing council staff has recently commenced. It is therefore likely that major changes in the Internal Audit Plan will be made and close consultation will have to take place between internal audit and external audit.
- 2.4 Should additional audit work require to be undertaken that has not been provided for in this initial plan, the agreed fee will be revised within the indicative range, in conjunction with the Local Authority.

2.5 The core audit team will consist of

Chief Auditor	David McConnell, CPFA
Senior Audit Manager	Asif Haseeb, ACMA, MBA
Audit Senior	Liz Maconachie, CPFA
Audit Senior	Mark Ferris, ACCA
Audit Senior	Stephen Boyle, CPFA
Audit Senior (ICT)	Craig McArthur, CPFA
Assistant Auditor	Bernadette Quinn

2.6 We plan to commence our fieldwork in January 2002 and this will encompass both systems and performance audit work. During the period July to September 2002, we will concentrate on the financial statements in order to meet Audit Scotland's prescribed sign-off date of 30 September. We will complete the audit of specified grant claims throughout the year to meet the required submission dates.

Audit Objectives and Testing

Audit Objectives

- 3.1 External audit is the activity statutorily superimposed upon an audited body's accountability which provides an independent and objective check on the stewardship function. Its overall purpose is to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable it to provide assurance to the public that those responsibilities have been reasonably discharged.
- 3.2 In general, an external auditor's objectives are to:
- (a) provide an opinion on, to the extent required by the relevant authorities, the audited body's financial statements and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board
 - (b) review and report, to the extent required by relevant legislation and the requirements of Audit Scotland's Code of Audit Practice, on
 - (i) the audited body's corporate governance arrangements as they relate to
 - the audited body's review of its system of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct, and prevention and detection of corruption
 - its financial position
 - (ii) aspects of the audited bodies arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and, (in relation to relevant local government bodies), the audited body's arrangements for preparing and publishing specified performance information, and the audited body's compliance with requirements in relation to Best Value.

Statutory Duties in Relation to Local Government Bodies

- 3.3 The external auditor has specific statutory duties as contained principally within Part VII of the Local Government (Scotland) Act 1973. These duties are as follows:
- to audit the financial statements of the audited body and place a certificate on the statements to the effect that the audit has been conducted in accordance with Part VII of the Act.
 - to satisfy himself that the financial statements have been prepared in accordance with all statutory requirements applicable to them
 - to satisfy himself that proper accounting practices have been observed in the preparation of the financial statements
 - to satisfy himself that the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

- to satisfy himself that a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information
- to hear an interested person's objection to the financial statements
- to consider certain matters relating to legality
- to consider certain matters relating to loss and deficiency.

Additionally, under the Local Government Planning and Land Act 1980 and the Local Government Act 1988, the auditor is required to give a written opinion on the prescribed financial objectives applicable to a local authority's direct labour and direct service organisations.

- 3.4 The duties and responsibilities placed upon public sector auditors are wider in many respects than those of their private sector counterparts, stemming from the acknowledged public interest in the propriety and the economy, efficiency and effectiveness in the use of public funds. The wider responsibilities of the auditor are fully detailed in Audit Scotland's Code of Audit Practice. The attached plan has been prepared in accordance with the Code.
- 3.5 Our responsibilities also encompass the certification of grant claims, dealing with any formal complaints and drawing to the attention of the Controller of Audit any matters that could give rise to a statutory report.

Audit Approach

- 3.6 Our audit approach is outlined in the Audit Services' Audit Manual which is required to comply with the Code of Audit Practice. The approach will seek to gain assurance that:
- the body's system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of the authority's assets and interests
 - the body has adequate Corporate Governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an adequate means of preventing or detecting material mis-statement, error, fraud or corruption
 - transactions have been processed and recorded in accordance with statutory and management requirements
 - the financial statements are fairly presented/properly presented/true and fair
 - the body has made proper arrangements for securing value for money in its use of resources
 - the body has properly considered and acted upon all matters of legality

Corporate Governance Arrangements

3.7 The review of the body's Corporate Governance arrangements requires us to complete a standard checklist covering issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the authority's financial position.

Systems of Internal Control

- 3.8 The review of systems of internal control has a dual purpose in that they contribute to both
- the assessment of the audited body's corporate governance arrangements in so far as they relate to the systems of internal control
 - the process of arriving at an appropriate audit opinion on the financial statements by establishing the extent to which the information provided by the financial systems can be relied upon
- 3.9 It is not possible to review all the main financial systems in each audit year, although we would intend to review and have covered all main systems over the five-year appointment.
- 3.10 The final decision on work to be undertaken will depend on factors such as materiality, risk assessment with regard to the control environment and management concerns, and previous work undertaken.

Internal Audit

3.11 The main duty of Internal Audit is to provide an assurance to management on the accounting and internal control systems within the body. The procedures used to provide that assurance are broadly similar to those used by External Audit. As a result we may place reliance on the work of Internal Audit subject to examination of their files to confirm the adequacy of work for our purposes. The areas where we propose to place reliance on the work of Internal Audit in 2001/02 are listed in paragraph 5.5. As mentioned in paragraph 2.3 above the Internal Audit Plan may be subject to change following the appointment of KPMG, who will work in partnership with the existing section till 2005.

Performance Audit

- 3.12 The Performance Audit Division of Audit Scotland as advised that for 2001/02 there should be three strands to the performance audit element of our audit plans:
- appraisal of the authority's performance management and planning processes
 - undertaking field work on topics which form part of Audit Scotland's Performance Audit Directorate's VFM centrally directed studies programme
 - reviewing the body's arrangements for collecting, recording and publishing performance information

Legality Issues

- 3.13 We are required to keep under review the legality of significant transactions and events and have an awareness of the key requirements of relevant statutory provisions. The legality of items of account are considered by the:
- inclusion of all significant legal requirements in audit programmes and checklists used in the conduct of the audit
 - deployment of staff who have substantial experience of the public sector's legal framework.
 - assessment of the arrangements the audited body has in place to obtain advice on legal matters
 - review of minutes for items where staff have raised concerns to ensure that those are adequately followed-up and resolved.
 - provision of written confirmation by the audited body that staff are not aware of any possible non-compliance with the law or regulations which could have a material effect on the body's operation (i.e. SAS 120 letter).

Financial Statements

- 3.14 It is management's responsibility to ensure the preparation of financial statements by 30th June which present fairly the financial position of the audited body at the year-end and its income and expenditure for the year. Thereafter, External Audit are required to provide an independent opinion on the financial statements by 30th September. Standard Audit Services final accounts programmes will be used, tailored to meet the particular needs of the Council. Representations will be sought from management in respect of key judgements.
- 3.15 In addition, separate audit opinions are required for incorporation in the Annual Report prepared by the Contract Services Department.

Nature of Audit Testing

- 3.16 The Audit Services Audit Manual states that the most efficient and effective method of obtaining the assurances noted above is a risk based audit approach, which takes cognisance of the existence and efficacy of key internal controls and risk. As a result, the system reviews will be based on these key controls and any audit testing will be directed into ensuring their existence. We will use standard Audit Services documentation that shows the overall objective and the expected controls required to achieve these objectives. Audit work should then identify and appraise these key controls by using a selection of possible audit tests identified within the standard documentation.
- 3.17 Sample sizes for testing controls depends on the frequency with which the control is operated. Sample sizes for substantive tests of individual transactions are determined by the combination of the assessed levels of control risk and inherent risk.

- 3.18 As stated earlier the bulk of our work will be systems based and will take cognisance of the key controls. Due to time restrictions, and to make best use of audit resources (in any year), reliance will be placed on Internal Audit. This is done on an annual basis following both a discussion with the Chief Internal Auditor and consideration of his/her file.
- 3.19 Provided internal control is found to be operating satisfactorily, assurance can be taken for the purposes of the financial statements. Substantive procedures at the final accounts stage can then be reduced and all substantive assurance will be gained from analytical procedures. Analytical procedures systematically analyse and compare related figures, trends, ratios and other data with the aim of providing evidence to support the audit opinion.
- 3.20 Where possible, the use of CAATs (Computer Assisted Audit Techniques) will be incorporated into the audit tests as this will allow a more focused sample to be chosen; examples of CAATs may include overtime/bonus payments over a prescribed level, creditors invoices over a particular level.

Audit Reporting

- 4.1 Reports from the external auditor are the primary means by which the results of audit activity are brought to the attention of senior management of the audited body, elected members and other stakeholders, including the public. The target dates for the issue of planned audit outputs are listed in Appendix A but, in summary, the principal audit outputs are as follows.

Reports to Management

- 4.2 Matters arising from each audit exercise will be reported to management on a timely basis throughout the year and will include an agreed action plan with agreed deadlines for implementation of audit recommendations and details of the officers responsible for their implementation.

Auditor's Report

- 4.3 The Chief Auditor will provide a report to the audited body and the Accounts Commission and Scottish Parliament that the audit of the financial statements has been completed in accordance with applicable statutory requirements and including an opinion on those financial statements.

Report to Members

- 4.4 At the conclusion of each year's audit, a report addressed to the audited body and the Controller of Audit will provide a summary of the significant matters arising from the audit. This will be submitted to elected members for consideration as soon as possible after the formal completion of the audit of the financial statements.

Agreement and Submission

- 4.5 Draft reports will, in the main be discussed with the Director of Finance and/or appropriate Departmental Directors to confirm their factual accuracy, but there will be circumstances where clearance by certain technical officers may be necessary, and in such circumstances we will approach the relevant officers for their comments.
- 4.6 A courtesy copy of all formal reports submitted will be sent to the Chief Executive, Director of Finance, appropriate Directors and Internal Audit.
- 4.7 All formal reports, or a summary thereof, will be made available, to the Audit Committee for their consideration.

Audit Plans

Long Term Plan

- 5.1 We prepare a long term plan from which our annual plan is drawn. It has been developed using a risk based approach and has been influenced by factors such as the new systems to be introduced. However, it is emphasised that the long term plan is not immutable and will be reassessed in the light of actual coverage, major new developments and changing priorities.

2001/02 Annual Audit Plan

- 5.2 In devising the current annual audit plan, the following factors were taken into consideration:
- (a) Work undertaken in previous years
 - (b) Meetings held with the Director of Finance and the Management Team to discuss any potential problem areas and areas of audit interest.
 - (c) Meeting held with PricewaterhouseCoopers (outgoing external auditors).
 - (d) Discussions held with the Chief Internal Auditor to assess the nature and type of work undertaken and to make an initial assessment of its impact on our proposed work plan. Regular meetings will be held with internal audit during the course of the audit.

Follow Up Audits from Previous Years

- 5.3 Follow up audits will be undertaken to determine whether previous recommendations have been implemented. We shall concentrate on ensuring that the matters noted in the report to members are addressed and this will involve meetings with relevant authority staff to assess progress against the agreed action plans and collating appropriate supporting evidence.

Review of Systems

- 5.4 In accordance with our 5-year audit plan we will evaluate the key systems in place and to the extent this evaluation allows, place reliance on the internal controls within those systems. The following are the areas chosen for audit review in 2001/02:

(1) Budgetary Control

The authority has budgetary control issues, which have been highlighted in previous audit reports. KPMG have been asked to undertake a review of the education department, where there are budgetary control issues. This has become a high profile issue following a recent statutory report on another council. We have, therefore, planned to undertake a full systems audit of the budgetary control system in year 1 of our appointment. The audit will be carried out using our standard systems audit methodology and will include both compliance and substantive testing, as appropriate.

The key objectives of this audit are to confirm that:

- 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
- Significant variances are promptly identified, reported and acted upon
- The system contributes to the body's ability to demonstrate that resources are being used in an economical, effective and efficient way.

(2) Main Accounting System

The main accounting system is crucial to the production of management accounts and financial reporting. External audit also rely on the completeness and accuracy of output from the main accounting system for the audit of the annual accounts. We have, therefore, planned to undertake a full systems audit of the main accounting system in year 1 of our appointment. The audit will be carried out using our standard systems audit methodology and will include both compliance and substantive testing, as appropriate.

The key objectives of this audit are to confirm that:

- 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

(3) Payroll

Payroll is a main financial system in any authority and we have, therefore, planned to undertake a full systems audit of the payroll system in year 1 of our appointment. The audit will be carried out using our standard systems audit methodology and will include both compliance and substantive testing, as appropriate.

- Payments are made only to valid employees
- All data input to the system is properly authorised

- 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
- Payroll costs are correctly recorded in the financial ledger.

(4) Payment of Creditors

We have assessed the system for the payment of creditors as high risk and have planned to undertake a comprehensive review of the internal control environment of the system. We also plan to test system controls across the main spending departments.

The key objectives of this audit are to confirm that:

- payments are made for only goods and services which were the subject of authorised orders
- payments are made only for goods and services received
- 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

(5) Housing Benefits/Council Tax Benefits

Benefits are deemed to be a high risk because of the large volume of claims and the potential for fraudulent activity. We plan to carry out a full system audit of the benefits system using our SAM methodology in year 1 of our audit appointment and will draw on previous audit work carried out by the outgoing auditors. We also anticipate that this work will also help with our audit of the HB/CTB subsidy claim.

The key objectives of this audit are to confirm that:

- benefits (council tax benefit, housing rent rebates 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, the council tax debtor system and financial ledger
- overpayments are recovered where appropriate
- the annual subsidy claim is accurate and complete
- adequate steps are taken to prevent and detect fraud.

Reliance on Internal Audit

- 5.5 In addition to an annual overview of Internal Audit, reliance is placed on systems audit work undertaken by Internal Audit. However as mentioned earlier the present Internal Audit structure is being altered with the appointment of a private firm to work in partnership with the current establishment. There will therefore be minimal reliance placed on the work of Internal Audit for the first year of our appointment, restricting our reliance to the audit of Performance Indicators. It is anticipated that in subsequent years, when the new partnership has been in operation reliance will be placed on other aspects of the work undertaken by Internal Audit.

Compulsory Competitive Tendering

- 5.6 The objective of this audit is to ensure the authority continues to comply with inherited contracts won under compulsory competitive tendering. Client payments to the DLO/DSOs will be checked on a sample basis against contracts and to ensure that proper authorisation for the payment was given by the client officers.

ICT Audit

- 5.7 Two exercises will be undertaken this year:
- Computer Services Review
 - Pathfinder Diagnostic Review

Performance Audit

Centrally directed studies - Follow-ups

- 5.8 Follow up audits will be carried out for value for money studies undertaken in previous years. Where appropriate, progress in implementing recommendations will be determined following discussion with appropriate officers and collection of supporting evidence. Where necessary, revised action plans will be agreed with officers for future implementation. Follow ups will be carried out with regard to the following studies:
- Community Safety
 - Commissioning pre-school education
 - Internal Audit

Performance Management and Planning

- 5.9 The purpose of Best Value is to ensure that councils provide services that meet the needs of their customers and citizens and provide value for money. They must also demonstrate that they are accountable and delivering continuous improvement. Performance management and planning (PMP) is a means to help achieve these objectives by establishing clear standards and targets for all activities, identifying where and how improvements can be made, and reporting on performance.

- 5.10 The objectives of the audit are to provide independent external assurance that councils are making progress in implementing PMP frameworks, to identify good practice and areas of concern and to ensure that services are planning for improvement. The audit will examine the following areas: consultation with stakeholders, service planning, financial and performance reporting, benchmarking and service review.
- 5.11 For 2001/02 there will be three components to the PMP audit, as outlined below:
- a service level PMP 3 audit to be carried out in the two services –Community Care (Social Work) and Transportation– which were selected in consultation with the Chief Executive
 - a follow-up audit of the corporate and service level audits carried out in 2000/01 (PMP2)
 - further follow-up as necessary of the 1999/00 audit (PMP1)
- 5.12 We have scheduled our work to enable us to finalise PMP3 service reports by the end of April 2002. We will also provide a summary report to the Chief Executive which will include corporate issues arising from the PMP3 service level audits, PMP2 and PMP1 follow up audits.

Centrally Directed Studies

- 5.13 Under the administration of Audit Scotland's Performance Audit Division a programme of national studies has been prepared for 2001/02 as follows:

(1) Performance audit of trading standards:

This audit is piloting 'a tailored performance audit' approach with trading standards services across all Scottish councils during 2001/02. The performance audit model will enable trading standards services to self-assess their performance against identified good practice and, where necessary, take action to improve.

The audit has two complementary objectives:

- to pilot the development of a new performance audit model, tailored to trading standards, and
- to use that model to assess the performance of trading standards services in all Scottish Councils.

The performance audit approach also has a number of benefits and provides councils with:

- access to national service information, not previously available to them, in an interactive way (COMPARE software)
- a means of assessing their management arrangements in place to support the provision of trading standards services
- a set of service standards covering core trading standards work, enabling them to assess current performance and implement improvement actions where needed

- independent validation of their performance, undertaken by their external auditor and a senior trading standards officer from another council.

(2) Managing pre-school education

This audit has two complementary objectives:

- to focus on councils' contractual arrangements with partners, the arrangements in place for grant disbursements and the audit of the grant (mandatory)
- To review councils' arrangements for service delivery after 2002, when the specific grant will be replaced by an allocation in the block grant (discretionary).

The performance audit approach also has a number of benefits and provides councils with:

- the help to ensure that they have robust arrangements to manage contracts with their partners. These arrangements should ensure that the grant paid for pre-school education places has been used to provide the specified places to the required standards
- the opportunity to report progress against targets to expand the provision of high quality pre school education, and to show that the development grant has been used to bring on stream necessary, additional places.

Performance Information

5.14 Councils have a statutory duty to ensure that they have arrangements in place for collecting, recording, and publishing performance indicators. The '2000 Direction' issued by the Accounts Commission in December 2000 relates to financial year 2001/02. Performance information facilitates the making of appropriate comparison by reference to the criteria of cost, economy, efficiency and effectiveness between

- the standards of performance achieved by different authorities in that financial year, and
- the standards of performance achieved by authorities in different financial years

Our statutory duty is to be satisfied that the authority has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything is accurate and complete.

Grant Claims

5.15 Audit certification is required on the following specified grant claims and other Scottish Executive returns:

- Social work - Criminal Justice Services
- Housing and Council Tax Benefit Subsidy Claim
- Non-Domestic Rates Income Return
- Certificate of Housing Capital Payments and Receipts

- Certificate of Non-Housing Capital Payments and Receipts
- Grants to promote Home Energy Conservation Act 1996
- Information Technology and Communications training grant for schools
- Transfer of functions to the NHS – unfunded elements of Superannuation Benefits
- Social Inclusion Partnership
- ERDF Grants

Outputs and Fee

SUMMARY OF AUDIT OUTPUTS TO BE DELIVERED IN 2001/02

The agreed fee of £203,362 is based on the following pieces of work that have been identified in the 2001/02 annual audit plan for completion within the specified timescales.

OUTPUTS	TIMESCALE
PERFORMANCE AUDIT	
<ul style="list-style-type: none"> • Community Care PMP 3 • Transportation PMP 3 • PMP2 Follow up: Personnel Services • PMP2 Follow up: Transport Services • PMP 2 Follow up: Registration Services • Corporate PMP 2 Follow up • PMP 1 Follow up: Sheltered Housing • PMP1 Follow up: Non-Domestic Rates • PMP 1 Follow up: Estates-Rents • Trading Standards • Pre-School Administration – Selected Aspects • Performance Indicators 	<p>30 April 2002 30 April 2002 30 April 2002 30 April 2002 30 April 2002 30 April 2002 30 April 2002 30 April 2002 30 April 2002 30 April 2002 31 August 2002 30 June 2002 30 Sept. 2002</p>
PROBITY AND REGULARITY	
<ul style="list-style-type: none"> • Final Report to Members and the Controller of Audit • Computer Services Review • Governance & Internal Control Report 1* • Governance & Internal Control Report 2 * <p>(* covering all systems reviews, arrangements for the prevention of fraud, review of internal audit and governance issues)</p>	<p>30 November 2002 31 August 2002 30 April 2002 31 October 2002</p>

<p>AUDIT OPINION ON THE FINANCIAL STATEMENTS</p>	<p>30 Sept 2002</p>
<p>AUDIT OPINION ON THE DLO/DSO FINANCIAL STATEMENTS</p>	<p>30 Sept 2002</p>
<p>AUDIT OPINIONS ON GRANT CLAIMS AND OTHER RETURNS:</p> <ul style="list-style-type: none"> • Social work - Criminal Justice Services • Housing and Council Tax Benefit Subsidy Claim • Non-Domestic Rates Income Return • Certificate of Housing Capital Payments and Receipts • Certificate of Non-Housing Capital Payments and Receipts • Grants to promote Home Energy Conservation Act 1996 • Information Technology and Communications training grant for schools • Transfer of functions to the NHS – unfunded elements of Superannuation Benefits • Social Inclusion Partnership • ERDF Grants 	<p>All within 3 months of receiving certified claim and full supporting schedules</p>

Conclusion

I consider that, within the requirements of the letter of appointment, the agreed fee allows me to deliver the audit outputs necessary to meet my responsibilities set out in the Code of Audit Practice.