
Argyll & Bute Council–2002/03

Management Report Regularity & Governance (3)

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1. Executive Summary

Introduction

- 1.1 We conduct our audit in accordance with Audit Scotland’s Code of Practice. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.
- 1.2 Interim audit activity, is largely concerned with undertaking reviews of selected systems. Our approach in 2002/2003 sought to obtain assurance, by systems review and testing, together with discussion with officers, as to the existence and effectiveness of a number of controls considered essential to ensure that reliance could be placed on the operation of the identified systems.
- 1.3 This report summarises the findings from our audit work and, where appropriate, makes recommendations to strengthen existing controls or otherwise address any identified weaknesses. It should be noted that the weaknesses recorded are only those which came to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses that may exist.
- 1.4 Our review covered the Council’s regularity and governance arrangements including DLO/DSO income, non-domestic rates, departmental debtors, payroll and internal audit.
- 1.5 This is our 3rd and final regularity and governance report of 2002/2003.

Summary of Main Findings

- 1.6 **DLO/ DSO Income.** Three DLO/DSOs were identified with significantly unusual income streams occurring at the year-end. These were Property Maintenance, Vehicle Maintenance and Road Maintenance. Both the Property Maintenance and Road Maintenance DLOs had significant increases in income processed in periods 12 and 13. This pattern of income indicates that the DLOs have a significant backlog in the processing of jobs to completion until an annual purge in March and this may create inherent difficulties in budgeting for their income streams, as budget monitoring and forecasting becomes less reliable due the degree of uncertainty attached to year-end transactions.
- 1.7 Within the Property Maintenance DLO, charges of £22,171 of the balances due were over six months old. The most significant of these being the 6.5% uplift on invoices dating from November 2001.

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- 1.8 There is a significant variance between estimated values provided on works orders from the Housing client and the actual income chargeable identified by the Property Maintenance DLO on invoices. These differences are likely to delay client authorisation. Amounts were consistently underestimated (by between 7.5% and 138%). The total underestimation in the sample examined was £100,000 or 65%. The methodology for estimating the cost of works orders appears to be inaccurate this does not provide a sound basis for introducing commitment accounting in order to increase the accuracy of budget forecasting.
- 1.9 Lack of access to the original contract prevented audit activity verifying whether the basis of a penalty to the Vehicle Maintenance DSO, due to the general condition of the fleet, was appropriate. Two vehicle rates used by the DSO in determining its charge to the client were found to be incorrect resulting in an error of £39,000.
- 1.10 **Non-Domestic Rates Billing.** The NDR system has sufficient internal controls and is operating as intended, with the exception of validation checks on applications for empty property relief. Evidence was not available to support the validity of applications and officers indicated that this was due to cost and the geographic nature of the Council.
- 1.11 In addition, we also identified that the documentation of the existing interface process would help to provide business continuity during staff absence or turnover.
- 1.12 **Departmental Billing.** We identified that the Council has clear policies and instructions to staff identifying which services should be charged and the rates to be applied. Departments are encouraged to ensure value for money by obtaining payment at the point of service where amounts are less than £20.
- 1.13 Only one minor issue has been identified relating to the miscoding for VAT purposes of burial income, which may have an effect, though probably immaterial, on the annual assessment of partial exemption by the Council's VAT advisers.
- 1.14 **Payroll.** The absence of a comprehensive and reliable list of authorised signatories is a significant weakness within the system for processing pay. The Council is at risk of processing unauthorised alterations to the payroll. This could potentially enable "ghost" employees to be added to the payroll and incorrect rates of pay or hours worked to be processed.
- 1.15 Revised written procedures should be developed following the introduction a new system incorporating both personnel and payroll records.
- 1.16 **Internal Audit.** We have been able to place reliance on the work of the internal auditor in a number of areas and commend the co-operation afforded to external audit staff by our internal audit colleagues. A minor issue has been identified concerning the clarity of conclusions detailed within working files, but improvements in this area are being considered by the Internal Audit Manager.
- 1.17 Although this report includes a number of specific recommendations to strengthen internal controls, it is the responsibility of management to decide the extent of the internal control system appropriate to the Council. We would stress, however, that an

effective internal control system is an essential part of the efficient management of any organisation.

- 1.18 The factual content of the report has been agreed in discussion with appropriate officers from the Council.
- 1.19 The Action Plan which sets out the agreed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.
- 1.20 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

2. Action Plan

No	Recommendation	Responsible Officer	Action	Date	Update as at 26/01/04
	DLO/DSO Income				
1	Property Maintenance: The reasons for a March income pattern representing four times the normal monthly income are to be investigated and solutions identified which would spread the income pattern more evenly over the year. <i>Priority: High</i>	Neil Leckie, Maintenance Manager	The income pattern will be reviewed by the end of March 2004	March 2004	Ongoing
2	Property Maintenance: DLO/DSO Income balances over six months old are to be periodically reviewed and cleared. <i>Priority: Low</i>	Neil Leckie, Maintenance Manager	Will review all invoices over 6 months old by the end of February 2004.	February 2004	Ongoing
3	Property Maintenance: A simplification of the Schedule of Rates pricing is to be considered, perhaps based on a few fixed rates. This would simplify estimation and invoicing and may prevent some of the delays in authorisation. <i>Priority Medium</i>	Neil Leckie, Maintenance Manager	Will review best value of introducing fixed prices by the end of March 2004.	March 2004	Ongoing
4	Vehicle Maintenance: Any agreement to apply payment penalties is to be agreed and evidenced. <i>Priority: Low</i>	Peter Robinson, Fleet Manager	Will be carried out in accordance with maintenance contract conditions.	October 2003	Complete
5	Vehicle Maintenance: The charging rates of the vehicle types are to be reviewed and corrected in the two cases identified. <i>Priority Medium</i>	Peter Robinson, Fleet Manager	Rates were corrected and review completed of other rates.	October 2003	Complete

No	Recommendation	Responsible Officer	Action	Date	Update as at 26/01/04
6	<p>Roads Maintenance: The reasons for a high March income level are to be investigated and solutions identified which would spread the income pattern more evenly over the year. <i>Priority: High</i></p>	Alan MacDonald, Head of Roads	<p>Works program to be set with workload spread as evenly as possible throughout the year. All measurements for works to be finalised as soon as possible after works completed. <i>However, the unknown cost of winter maintenance year on year may still lead to large balance of income being spent in late March.</i></p>	March 2004 onwards	Ongoing
	Non Domestic Rates - Billing				
7	<p>The procedures required to interface Valuation Roll data to the Anite NDR2 system are to be formalised and documented. <i>Priority: Medium</i></p>	Judy Orr, Head of ICT & Finance	The instructions for Running Roll update from the Assessor have been updated.	August 2003	Complete
8	<p>A sample of applications for NDR empty property relief are to be verified and future procedures based on the identified risk. <i>Priority: High</i></p>	Judy Orr, Head of ICT & Finance	A sample of NDR empty property claims will be checked by debt recovery staff as a basis of identifying that potential error rates are not significant.	March 2004	Ongoing
	Debtors				
9	<p>Relevant staff are to be reminded of the appropriate rules for VAT coding income from cemeteries. <i>Priority: Low</i></p>	Murray MacFarlane, Senior Accountant	All users have been issued with an updated copy of the procedures manual. See paragraph 2.3.6	October 2003	Complete

No	Recommendation	Responsible Officer	Action	Date	Update as at 26/01/04
	Payroll				
10	Written procedural instructions are to be prepared for the new payroll/personnel system. <i>Priority: Medium</i>	Judy Orr, Head of ICT & Finance	The project team has devised and agreed a set of procedures for each of the tasks within the Resource Link system.	October 2003	Complete
11	An up-to-date authorised signatory list is to be prepared for payroll transactions ensuring appropriate segregation of duties. <i>Priority: High</i>	Judy Orr, Head of ICT & Finance	Update of list is almost complete. Segregation between authorisation of input and actual input, thus the access rights should differ from the authorisation lists. Matter will be raised again at next HR project team meeting.	Ongoing	Ongoing
	Internal Audit				
12	Internal Audit working files are to include a summary of matters arising cross-referenced to individual working papers. <i>Priority: Low</i>	Ian Nisbet & Alex Colligan, Internal Audit Managers	This has been implemented.	December 2003	Complete