

APPENDIX 1

Argyll and Bute Council

Audit Planning Memorandum for the 2003/04 Audit January 2004

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Background

Audit Engagement

- 1.1 David McConnell, Chief Auditor, Audit Scotland was appointed auditor of Argyll & Bute Council for five years covering the financial years 2001/02 to 2005/06. 2003/04 represents the third year of this audit appointment.
- 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, Argyll and part of the old Dumbarton sub-regions of Strathclyde Regional Council. The Council serves a population of approximately 91,000 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. The Oban, Lorn and the Isles, and the Mid Argyll, Kintyre and Islay areas are larger than the whole area of most local authorities elsewhere in Scotland.

- 1.4 The Council’s headquarters are based in Kilmory Castle, Lochgilphead, Argyll, PA31 8RT.
- 1.5 The budgeted expenditure for 2003/04 is £175,499,996 and the key sources of income are:

- | | | |
|------------------------------|--------------|-------|
| • Aggregate External Finance | £138,746,000 | 79.2% |
| • Local Tax Requirement | £36,446,432 | 20.8% |

1.6 The key areas of expenditure are:

• Education	£72,650,364	41.4%
• Social Work Services	£33,418,532	19.1%
• Roads & Transport Services	£20,255,766	11.5%
• Environmental Services	£11,891,595	6.78%
• Joint Police Board	£8,152,000	4.7%
• Cultural & Related Services	£7,358,613	4.19%
• Joint Fire Board	£4,541,000	2.6%
• Housing Services	£4,092,103	2.3%
• Corporate & Democratic Core	£3,344,023	1.9%
• Planning & Development Services	£2,580,116	1.5%
• Central Services to the Public	£1,718,562	1.0%
• Asset Management Revenue Account	£1,320,590	0.8%
• Valuation Joint Board	£1,132,358	0.7%
• Unapportionable Central Overheads	£1,067,808	0.6%
• Trading Services	£1,016,789	0.6%
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	£174,565,219	

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 for the elderly, children and families, people with disabilities or mental ill health 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. The Department also assists with the provision of public and school transport.
- **Development and Environment Services:** to provide 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.
- **Economic Development and Business Advice:** to work with a wide variety of communities, groups, individuals, agencies and other partners, in Scotland and Europe, to help and enable projects and initiatives that boost the local economy.

1.8 The Council is a member of the Argyll & Bute Community Planning Partnership that 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:** 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.

Trading Accounts

1.10 In previous years the Council undertook a number of categories of work and defined activities in-house via Direct Labour Organisations or Direct Service Organisations (DLO/DSO). Under the Local Government, Planning and Land Act 1980 and the Local Government Act 1988 (the CCT legislation), local authorities were required to produce a separate annual report for each DLO/DSO, which were required to achieve the prescribed financial objective of breaking even each year.

1.11 Section 10 of the Local Government in Scotland Act 2003 repealed the CCT legislation instead setting a requirement for local authorities to maintain and disclose trading accounts for significant trading operations from 2003/04, and for them to break even over a rolling three-year period. In response to this, the Council has identified and agreed four significant trading operations.

Organisation and Committee Structure

Organisation Structure

1.12 The Council adopted a new structure of four directorates and a chief executive's unit, replacing the previous structure of six departments and six directors, during 2002/2003. The details of the Council's Management Team are as follows:

Chief Executive's Unit	Chief Executive	James McLellan
Service Departments	Community Services	Douglas Hendry
	Operational Services	Andy Law
	Development Services	George Harper
	Corporate Services	Nigel Stewart

Council Structure

1.13 Elections take place every four years, the most recent having been held in May 2003. The next elections will be held in May 2007. The current composition of the Council is:

<i>Party</i>	<i>No. of Members</i>
Labour	0
Liberal/Democrat	8
Conservative	3
SNP	3
Argyll & Bute Independents' Group	3
The Independent Councillors' Group	19
TOTAL	36

The Independent Councillors' Group currently forms the administration.

1.14 The table below details the current post holders:

Council Leader	Councillor Allan Macaskill (Group of Independent Councillors)
Council Depute Leader	Councillor Robin Banks (Group of Independent Councillors)
Convenor	William Petrie (Group of Independent Councillors)
Vice-Convenor	Donnie MacMillan (Group of Independent Councillors)

Standing Committees

1.15 The table below details the current convenors of standing committees:

<i>Committee</i>	<i>Convenor</i>	<i>No. of Members</i>
Strategic Policy	Allan Macaskill	11
Strategic Policy (Education)	Allan Macaskill	11
Public Service and Licensing	Gordon McKinven	10
Audit	Gary Mulvaney	7 ¹
Standards	Dr G F Doughty	7
Commercial Operations Board	Bruce Robertson	5

1.16 The Council has approved terms of reference and a scheme of delegation of responsibility for all the committees and these are included in the Standing Orders which regulate the conduct of their proceedings.

¹ Including two independent co-opted members

- 1.17 The Financial Regulations provide a clear basis for accountability in relation to financial matters. The range of issues identified includes budgetary control, security of assets, payment of staff and purchasing. The Financial Regulations are updated annually.
- 1.18 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 management letters and final reports.
 - Discuss any issues with external auditors.
 - Review any changes or revisions to Standing Orders, Financial Regulations and the Scheme of Administration and Delegation.

Main Financial Systems

- 1.19 On the basis of the planning information obtained at the current time, the main financial systems have been identified as:
- Payroll Systems. For pay purposes staff are grouped into three categories: manual workers; APT&C and Teachers. Manual workers tend to be paid on a weekly basis, whilst other staff are salaried and paid monthly.
 - Council Tax and Non-Domestic Rates. In 2003/2004 the Council aims to collect over £36m from council tax and nearly £29m from non domestic rates.
 - Main Financial Systems. The Council uses the Oracle Financials system for its financial ledger. It is also used for budget monitoring, the production of the annual accounts and is interfaced with a number of other systems.
 - Creditor Payments Systems. The creditor payment module of the Oracle Financials system is used. The Council uses a batch processing method of invoice payment.
 - Housing and Councils Tax Benefits. The Council awarded housing and council tax benefit amounting to approximately £20.5m in 2002/2003. A unified benefits system (SX3) has been in operation for over two years following the merger of the housing benefit and council tax benefit systems.
 - Fixed Assets. Following the introduction of the Prudential Code, management of the Council's assets and capital expenditure is an area which will be increasingly important.

Audit Resources

- 2.1 The indicative audit fee notified for 2003/2004 is £160,000 (excluding the fixed charge). This is a provisional fee, which may be increased or decreased within a range of 10% with the agreement of the Chief Executive/Head of Strategic 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 development of management risk assessment procedures covering all of the Authority's 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 were 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); and
 - Whether additional work will be undertaken for other auditors where systems are shared by bodies.
- 2.2 In particular we have identified the following planning issues in relation to the Council for 2003/2004:
- Continuing audit activity to confirm improvements in Education budgetary control and Property Maintenance;
 - Introduction of the Prudential Code and Trading Accounts;
 - Implementation of a computerised purchase order processing system;
 - PPP/PFI projects review. Including a review of the project management arrangements, procurement and, as required, comment on the organisation's accounting treatment.
 - Recognition of the good standard of final accounts working papers presented in 2002/2003; and
 - Ongoing improvements and developments in the internal audit function. Including the development of closer working arrangements between external and internal audit and the increasing quality of work undertaken.
- 2.3 The indicative fee agreed with the Head of Strategic Finance for 2003/2004 is £168,000, plus a fixed charge of £66,500. The fixed charge is notified directly to the audited body by Audit Scotland centrally, and is not subject to local discussion. The direct audit fee agreed is 5% above the indicative fee, but represents a reduction in fee, compared to last year, of 5%.
- 2.4 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.

2.5 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 Council.

2.6 The core audit team will consist of

Chief Auditor	David McConnell, CPFA
Senior Audit Manager	Brian Howarth, ACMA
Audit Senior	Ian Bell, CPFA
Audit Senior	Neil Cameron, CPFA
Assistant Auditor	Laurence Slavin, IIA
Audit Senior (ICT)	Marius Rautenbach
Assistant Auditor - Graduate	Keira Shepperson

2.7 We commenced our fieldwork in December 2003, including both systems and performance audit work. During the period July to September 2004, we will concentrate on the financial statements in order to meet Audit Scotland's prescribed sign-off date of 30 September 2004. 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.
 - 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 Internal audit is provided by the Council's in-house Internal Audit section, supported by KPMG. 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 2003/04 are listed in paragraph 5.6.

Performance Audit

3.12 The Performance Audit Division of Audit Scotland has advised that for 2003/04 there are two strands to the performance audit element of our audit plans:

- Undertaking field work on topics which form part of Audit Scotland's Performance Audit Directorate's centrally directed studies programme (detailed in section 5); and
- 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 440 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.

Nature of Audit Testing

3.15 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.

3.16 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.

3.17 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 discussions with the Audit Manager.

- 3.18 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.
- 3.19 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 Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements and including an opinion on those financial statements and on the Council's Statement of Internal Financial Control.

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 Council members for consideration by the Audit Committee 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 Head of Strategic 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, Head of Strategic Finance, appropriate Directors and Internal Audit.
- 4.7 All formal reports, or a summary thereof, will be made available, to the Audit Committee for its 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.

2003/04 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 senior officers including the Head of Strategic Finance to discuss any potential problem areas and areas of audit interest; and
 - (c) Discussions held with the 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 as part of the 2003/04 audit 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. We shall determine the extent of reliance which can be placed on existing follow-up reporting systems.

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 2003/04:

(1) Payroll

Payroll is a main financial system and we plan to undertake an annual coverage of this area. In this, our third year of the audit appointment, we plan to undertake audit work focussing on the processing and payment of manual workers. It is planned to perform this work in April 2004.

The objectives of this audit are to confirm:

- 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; and

- Payroll costs are correctly recorded in the financial ledger.

(2) Ordering & Certification

We plan to undertake a comprehensive review of the ordering and certification process. It is proposed that this work be performed in February 2004.

The objectives of this audit are to confirm:

- Only goods and services that 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.

We shall be flexible in our approach to this area to ensure that we take into cognisance the introduction of the computerised Purchase Order Processing System.

(3) Cash Income & Banking

We plan to undertake audit testing at the TP&S Cash Office in Helensburgh and the Rothesay Cash Office. An approach has been agreed with Internal Audit which ensures maximum coverage of the cash office locations.

The objectives of these audits are to confirm:

- 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; and
- Security for unbanked cash is adequate.

(4) Council Tax Billing & Collection

As an important income system we intend to review the council tax billing and collection cycles. It is planned to perform this work in March 2004.

The objectives of this audit are to confirm:

- 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; and
- Arrears follow up procedures are properly controlled.

(5) Capital Accounting

Internal Audit are planning to perform a review of the Council's property holdings in December 2003 / January 2004 to ensure that progress is being made the creation of an Asset Management Plan (AMP).

Through discussion with internal audit we have agreed that this will be a joint review. The focus of this review is on the completeness and accuracy of the Estates managed asset register and the Finance managed asset ledger and to ensure that all Council properties are recorded in accordance with guidelines and are being managed and accounted for properly by the Council.

In addition we will fulfil the following audit objectives:

- Fixed assets are identified and classified in accordance with the Capital Asset Accounting Manual;
- Fixed asset are correctly recorded in the asset register;
- Fixed assets are valued in accordance with Manual;
- Fixed assets and capital charges are correctly recorded in the financial ledger; and
- Capital charges are made to service accounts in accordance with the Manual.

(6) Trading Accounts

Section 10 of the 2003 Act requires local authorities to maintain and disclose trading accounts for significant trading operations from 2003/04, and for these accounts to break-even over a rolling three-year period.

We will assess the arrangements that the Council have in place to identify its trading operations and to consider the extent to which they are significant.

Computer audit and e-Government Preparedness

- 5.5 We will maintain focus on the changes being implemented as part of the Modernising Government agenda. The Modernising Government initiative resulted in a number of high profile projects, in terms of funding, timescales, and impact on both service providers and service receivers. We will review the ongoing implementation and monitoring of changes relating to ICT within the Council. The ICT review is planned during the latter half of the 2004 calendar year, providing the Council with the opportunity to bed down changes resulting from the ongoing reorganisation.

Reliance on Internal Audit

5.6 In addition to an annual overview of Internal Audit, reliance will be placed on systems audit work undertaken by Internal Audit. Reliance will be placed, in varying degrees, on systems audit work undertaken by Internal Audit in the following areas:

- Budgetary control;
- Payment of creditors;
- Debtors' accounts;
- Unified benefits;
- Non-domestic rates; and
- General ledger operations.

We will undertake reviews of the reports and files completed by Internal Audit, as part of the process of relying on their work. We also intend to examine the process by which the Internal Auditor has ascertained and reported progress against previous audit recommendations to the Audit Committee.

Performance Audit

Centrally directed studies

5.7 In August 2001, the Accounts Commission report '*A job worth doing – raising the standard of internal audit in Scottish councils*' examined the internal audit arrangements in Scottish councils. Council performance was assessed against the CIPFA Code of Practice for Internal Audit in Local Government and councils were placed in one of four performance bands depending on the extent to which they were assessed to have complied with the Code. A follow up audit will be carried out of the August 2001 review with the objectives to:

- Measure the progress made by councils as a whole for particular areas of concern, e.g. risk assessment and follow-up of audit recommendations; and
- Measure the progress made by individual councils.

A national follow-up report on a named council basis will be prepared and we will prepare a follow-up report specific to the council.

Best Value

5.8 The commencement of the Local Government in Scotland Act 2003 has introduced new responsibilities for the Accounts Commission in relation to auditing Best Value (BV). Full audits will take place on a cyclical basis, at present expected to be once every three years. Only a limited number of councils will be subjected to a full BV audit in year one. All other councils will be involved in transitional audit work.

5.9 Transitional arrangements will involve auditors producing a report on a selection of key issues relating to council's statutory duties as a result of the Local Government of Scotland Act. This will provide valuable information for the full BV audit and also provide the councils with an opportunity to prepare material that is likely to contribute toward their submissions to the full BV audit.

5.10 The full scope and objectives of the transitional audit are not yet finalised however examples of the areas likely to be involved are:

- Summary description of council's performance management system.

- Description as to how elected members scrutinise performance.
- Summary report on performance of each council service.
- Description of what council did during 2003 on public performance reporting.
- Description of current arrangements for community planning.

HMI Inspectorate of Education

- 5.11 As a result of the Standards in Scotland's Schools Act 2000, a five-year programme of inspections of the education functions in councils was established. Inspections are carried out jointly by HM Inspectorate of Education and auditors, in accordance with a Memorandum of Understanding.
- 5.12 No decisions have been made yet as to which councils are to be inspected as part of the 2003/04 programme. Argyll & Bute Council has not been subjected to an INEA (Inspection of Education Authorities) inspection yet and is aware that this could result in selection during 2003/2004.
- 5.13 The framework for the inspection process is described in the guide - "Quality Management in Education" (2000) – copies of which are available from the HMIE website or from Audit Scotland. A member of Audit Scotland staff will be assigned to the inspection team, if the inspection proceeds, and provision for this has been included with the audit plan.

The Prudential Code

- 5.14 The Prudential Code for Capital Finance in Local Authorities is being developed by CIPFA to support the new system of controls on local authority capital investment in England, Wales and Scotland. This will replace the present regulatory frameworks governing local authority capital expenditure (e.g. 'section 94' in Scotland) and be implemented from the financial year 2004/05.
- 5.15 In practice this will mean the requirements of the Prudential Code having to be taken into account in the process for setting 2004/05 budgets, i.e. during 2003/04.
- 5.16 During 2003/04 Audit Scotland will perform a review to confirm that the Council are taking appropriate steps to prepare for the implementation of the Prudential Code.

Performance Information

- 5.17 Councils have a statutory duty to ensure that they have arrangements in place for collecting, recording, and publishing performance indicators. The "2002 Direction" issued by the Accounts Commission in November 2002 relates to the financial year 2003/04. 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.
- 5.18 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.

Local Studies – PPP/PFI Projects

- 5.19 As part of our audit work in 2003/2004 we will be considering the PPP/PFI projects for the Council. Our role in the review of the PFI/PPP process will involve a review of the project management arrangements, including procurement and, separately from Performance Audit work, as required, comment on the organisation's accounting treatment
- 5.20 It is expected that we will be able to give a preliminary view on the proposed accounting aspects of the PFI proposals and raise any early concerns regarding the proposed accounting treatment.

Grant Claims

- 5.21 Audit certification is required on the following specified grant claims and other Scottish Executive returns:
- Housing and Council Tax Benefit Subsidy Claim
 - Supporting People
 - Discretionary Housing Payments
 - Non-Domestic Rates Income Return
 - Certificate of Housing Capital Payments and Receipts
 - Certificate of Non-Housing Capital Payments and Receipts
 - ERDF Grants
 - Social Inclusion Partnership

Audit Fee & Output Summary

6.1 The agreed audit fee has been appropriately set above the indicative level, that is:

Auditor Remuneration	£168,000
Fixed Charge	£66,500
Total Proposed Fee	£234,500

6.2 As stated in the Code of Audit Practice our objectives are to:

- Provide and opinion on (to the extent required by the relevant authorities) the Board's financial statements and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board.
- Review and report on, to the extent required by relevant legislation and the Code of Audit Practice, the Board's corporate governance arrangements as they relate to:
 - The review of the systems of internal control;
 - the prevention and detection of fraud and irregularity;
 - standards of conduct and prevention and detection of corruption; and
 - the financial position
- Review and report on, to the extent required by relevant legislation and the Code of Audit Practice, aspects of the Board's arrangements to manage its performance as they relate to economy, efficiency and effectiveness in the use of resources.

6.3 The work to be undertaken for 2003/2004 includes systems reviews of Payroll, Ordering & Certification, Cash Income & Banking, Council Tax and specific testing of Capital Accounting and Trading Accounts. We will also review the improvements introduced in budgetary control and review the system of follow-up of audit recommendations undertaken by the internal auditor. The existence and adequacy of key financial controls, will be examined, as disclosed in the statement of internal control at the year-end.

6.4 Computer audit activity will focus on changes being implemented as part of the Modernising Government Agenda.

6.5 Performance audit will cover the follow-up review of Internal Audit Services, examination of management arrangements for the introduction of the Prudential Code, transitional Best Value Arrangements, PPP/PFI management arrangements, Statutory Performance Indicators and commitment to the HMI inspection team.

6.6 Grant claims will be certified as they arise.

6.7 The annual financial statements will be subjected to audit review and relevant audit report (certificate) provided on those accounts.

6.8 In meeting these objectives in 2003/2004, we intend to deliver the following outputs:

OUTPUT	TIMESCALES
<i>Audit Reports (opinions)</i>	
Audit opinion on the financial statements and on the statement of internal financial controls	30 September 2004
Performance Indicators	31 August 2004
Audit opinions on grant claims and other returns:	All within 3 months of receiving certified claim and full supporting schedules
<i>Management Reports</i>	
Probity and Regularity - Regularity and Governance Report	Three reports between February and September 2004
Probity and Regularity - Computer Audit Report	30 September 2004
Performance Audit - Follow up: 'A Job Worth Doing'	31 August 2004
Performance Audit - Best Value Transitional Audit	31 July 2004
Performance Audit - Local Study – Arrangements for the Introduction of the Prudential Code	31 March 2004
Performance Audit - Local Study – Arrangements for the Education PPP/PFI	31 October 2004
Probity and Regularity - Final Report to Members and the Accounts Commission	30 November 2004