



**Argyll and Bute Council**

**Annual Audit Plan 2004 - 2005**  
**April 2004**

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- Annual Audit Plan 2004- 2005 Chart.
- Scope & Objectives for areas outlined in the Audit Annual Plan 2004 – 2005.



# 1 **Scope and Objectives 2004 – 2005**

## 1.1 **2004 - 2005 Planned Objectives**

1.1.1 The following sections outline the broad scope and objectives for the reviews identified for 2004-2005.

## 1.2 **Budgetary Control - Education**

1.2.1 The Community Services Department will be audited and the following areas reviewed:

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

## 1.3 **Debtor Accounts**

1.3.1 The 2002/03 internal audit concentrated on debtor procedures in the departments with the most sundry debtors. These were Transportation & Property Services, Development & Environment Services, & Housing & Social Work). The 2003/04 audit examined the collection and follow up procedures in force in the Debtors Section. Invoicing and debt recognition procedures in place in Community Services will be reviewed in 2004/05. The specific objectives of this review will be to assess whether:

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

## 1.4 **Government Grants**

1.4.1 The audit for 2004/05 will concentrate on Education and Grant Funding. Various grants claims and other grants are received by the Council from the Scottish Executive and cover housing, social work, education and benefit subsidies.

1.4.2 The specific objectives of this review will be to assess whether:

- Education Grants are identified and applications made in accordance with grant requirements;
- Grants are only applied to the purposes provided;
- Amounts receivable / received are complete;

- The use of Government Grants is planned and controlled; and
- Adequate monitoring and reporting mechanisms are in place for management information.

## 1.5 **Stocktaking 2003/04 & 2004/05**

1.5.1 The specific objectives of this review will assess whether:

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

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

1.5.3 A check will be carried out on WiP and stock certificates for reasonability as to accuracy.

## 1.6 **Cash and Income Banking**

1.6.1 The audit for 2004 – 2005 will concentrate in particular on Kilbowie House to ensure compliance has been achieved with agreed guidelines:

- Officers receiving cash are unable to misappropriate funds without detection;
- Cash is promptly and fully banked;
- Payments received are promptly processed and correctly recorded in the financial ledger;
- Security for non-banked cash is adequate;
- Income arrears procedures are properly controlled; and
- To ensure that proper controls are in place for reconciliation on a weekly and/or monthly basis.

## 1.7 **Housing Rents**

The collection and control of rents of properties within the Housing Revenue Account is carried out within the Housing Management Division of the Community Services Department. The functions carried out include rent collection, arrears control and void control.

Argyll and Bute Council has approximately 6500 houses in its Housing Revenue Account with a gross debit of about £13.5 million. The responsibilities for the management of these houses are de-centralised to 7 Area offices and 3 Sub offices throughout the Council area.

1.7.1 An audit of Housing Rents was carried in 2002/2003 and a number of objectives were reviewed and recommendations made. This year the audit will concentrate on the following objectives which are set out below:

- Relevant properties are identified and included on the rent roll;
- Payments received are promptly processed and correctly posted to tenants' accounts; and
- Rebates, refunds and voids are properly controlled.

## 1.8 **Capital Accounting & Treasury Management**

This audit area and Treasury Management at 1.14 below are likely to have a combined focus for 2004/2005. Internal audit will spend time on following up issues outlined in both internal and external audit reports with regard to Asset Management and the review of how the Prudential Code is introduced with reference to the Council.

## 1.9 **Council Tax & Non-Domestic Rates - Campbeltown**

The audit of Council Tax & Non Domestic Rates has been significantly covered by both external and internal audit however the audit for this year will concentrate on following up previous audit comments with testing.

## 1.10 **e-Procurement**

1.10.1 This review will concentrate on the implementation phase of e-Procurement as it is rolled out in Phase 1. In specific terms the audit will concentrate on the system and overall development of the management and operational controls:

- That there is a back up system for payments to be made if the e-procurement system develops operational problems.
- Procedures for adding to and removing contractors to/from the standing list, and for selecting tenderers, are properly controlled;
- Payments are made only to valid creditors;
- Payments are correctly recorded in the financial ledger; and
- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

## 1.11 **Purchases of Equipment and Materials**

1.11.1 This audit and Purchase Ordering & Certification 1.17 are two audit areas that in previous years have been combined due to their similarity. For operational reasons it was thought best for a department to have their full process reviewed as any recommendations covered both audit areas. For the audit in 2004/2005 there is a requirement for a review to be carried out across all departments.

1.11.2 The objectives of this review will assess whether:

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

## 1.12 Unified Benefits System

In 2004/05 within Core Financial Systems it is intended to devote audit days above a normal allocation for the Unified Benefits System and Payroll audits. For the Unified Benefits System a total of 51 days have been assigned. The days are divided as follows:

- 21 days for the Housing Benefit Grant Claim for Audit Scotland
- 25 days for a Housing Benefits Systems Audit, and
- 5 days for a Follow up Review of the audit work done in 2003/04.

The specific objectives of this review will assess whether:

### *Council tax*

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

### *Housing benefits*

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

## 1.13 General Ledger Operations

1.13.1 An audit of this area has been carried out over the last two years and has concentrated on the main operations within the finance function however for 2004/2005 the audit will concentrate on a feeder system such as the Roads Costing System to the general ledger operations.

1.13.2 The specific objectives of this review will assess whether:

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

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

## 1.14 Treasury Management

- 1.14.1 The audit will be focused on the implementation of the Prudential Code and its financial implications for the Council. This could be the subject of a joint audit with Capital Accounting audit set out in 1.8 above.

## 1.15 Car Allowances – Development Services

- 1.15.1 As part of the 3-year audit plan we have endeavoured to audit the key areas where Car Allowances are significant. Up to and including 2003 – 2004 we have looked at Transport & Property Services and Social Work and this year we will look at Development Services. In particular we will look at whether:

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

## 1.16 HR Payroll

- 1.16.1 The focus of the HR Payroll review is the continued roll out for year one of the strategic HR Payroll to ensure that progress is being made against target across all departments and to establish that errors are being reported and dealt with in a timely basis. The specific objectives of the HR Payroll review will assess whether:

- New starter and change errors have been reduced to a minimum with authorised action having taken place;
- Critical path analysis has been adhered to with explanations for variances;
- Data (particularly standing data) is accurate and complete;
- Pays are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc; and
- The system contributes to the body's ability to demonstrate that data transfer is now more economical, effective and efficient.

## 1.17 Purchasing, Ordering and Certification

- This audit will support the roll out of the e-procurement system and will be combined with the Purchasing of Equipment and Materials audit above at 1.11.

## 1.18 Tendering Procedures

- 1.18.1 An audit was carried out on Tendering within the 2003-2004 annual audit plan. It is therefore required that a follow up review is carried out to clarify the position in relation to implementation of report recommendations. The audit should also look at Health & Safety



and its role with Constructionline and the Council's own standing list. The specific objectives of this review will assess whether:

- The new Council Standing Orders reflect the required changes for effective control;
- Procedures for adding to and removing contractors from the standing list, and for selecting tenderers, are properly controlled with both Constructionline and Council list;
- The Council list up to £25,000 are compliant with Council Standing Orders;
- Valid submitted tenders are recorded and held securely prior to formal opening;
- Tender opening procedures are properly controlled;
- Tenders comply with European Journal regulations where necessary;
- Only authorised alterations are made to tenders after the opening process; and
- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

## 1.19 **Capital Contracts – Capital Programme**

1.19.1 A review was carried out in 2003 – 2004 to evaluate the controls in operation with regard to the commencement of the Campbelltown project. This resulted in a report and recommendations some of which were pertinent to other projects. The audit for this year will be to look at other capital contracts to review the following:

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

## 1.20 **Direct Transport – Fleet Management**

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

- Verify that the authorisation process used by Fleet Management with user departments are sound in respect of formal procedures;
- Report on compliance with Standing Orders;
- Identify whether sufficient budget provision exists within either the Fleet Management or user departmental budgets to cover additional vehicle lease costs.

## 1.21 **Following the Public Pound**

1.21.1 The Council committed over £1.4 million of financial support to arms-length organisations. External audit identified a need for the Council to design and implement an appropriate control mechanism to ensure that funding is used for the purpose intended.

1.21.2 The specific objectives of this review will be to assess whether:

- There is a record of the names of members or officers who sit on the boards and committees of external bodies;
- Applications are made in accordance with requirements;
- Funding to external organisations is specific and clearly stated, and
- A monitoring procedure is in place to ensure that available performance measures are collected and reported.

## **Non-Financial Audits**

### **1.22 Council wide - Performance Indicators, Council PI's**

- 1.22.1 The Council is required to collect, record and publish performance indicators to allow benchmarking with other local authorities and against the Council's own past performance. It needs to ensure its systems and processes are robust and operating efficiently and effectively to capture and report such information.
- 1.22.2 The broad objectives of this review will be to review the processes for reporting key performance indicators. Internal audit will select PI's for review in two ways, the first on variance from previous years figures of more than 2 % and secondly where PI's are in a Transitional, Change or New status. The remainder will be the subject of a desktop review. Departments and PI co-ordinators were advised of the requirement to maintain notes on variances so that back up is available for the auditor to check.

### **1.23 Corporate Governance Compliance / Risk Management**

- 1.23.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) together published '*Corporate Governance in Local Government – A Keystone for Community Governance*'. This is a guidance note to assist Councils in achieving good practice corporate governance. As per last year an IFCS statement will be produced by internal audit identifying areas of significance along with Directors IFCS recognising that action has to be taken to resolve these issues.
- 1.23.2 The broad objective of this review will be to assess the arrangements put in place by the Council to implement the good practice guidance.

### **1.24 Best Value Audit Interim & Performance Management Planning (PMP)**

- 1.24.1 A Best Value interim audit has just been carried out by external audit and time needs to be spent on how to develop an approach for taking the reports findings forward. This will be done in co-operation with Policy & Strategy staff. Additional to this a report by internal audit was produced in 2003 – 2004, which set out where the Council was in terms of the new best value approach. The recommendations from this report have to be reviewed regarding implementation status. This included annual performance plans setting out achievements and targets.
- 1.24.2 The specific objectives for the input from internal audit to best value include:
- Assessing and advising on the processes in place to manage best value;
  - Advise on (or participate in) best value reviews as a source of internal challenge; and
  - Help the Council to assess whether the principles of best value – challenge, comparison, consultation and competition are being addressed.
  - The best value review carried out by internal audit reviewed and listed the number of Strategic Reviews undertaken and their stage of implementation. This should be further reviewed as to progress and reported accordingly.
  - Internal audit will be involved in providing challenge and advice on the above reviews as well as reviewing the framework for managing and controlling best value. Additional to

the above reviews Service Management will be involved in efficiency reviews within their own services.

- PMP was designed to assist local authorities establish clear targets and standards for all areas of activity. This is closely aligned to the performance indicator reporting noted above. The Council is required to implement a framework for PMP. This has largely happened and internal audit is in the process of monitoring the remaining implementation of those agreed with external audit by local management. The emphasis is again to maintain progress in this area.

## 1.25 Operational Services – Roads Project

1.25.1 An audit review will be carried out in support of a Project under consideration regarding Ferry Services. Consideration will be given to the policy and objectives set by Operational Services with regard to the Project. Additional consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

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

## 1.26 Significant Trading Operations

Section 10 of the Local Government in Scotland Act 2003 requires authorities to maintain and publish Statutory Trading Accounts in respect of all “Significant Trading Operations”, with effect from 1<sup>st</sup> April 2003. This legislation extends to cover all services provided by local authorities and is not merely restricted to those covered by the previous CCT legislation. The Roads Maintenance function was identified as a Significant Trading Operation. Argyll & Bute Council has chosen to prepare additional voluntary trading accounts in respect of certain trading operations. These are to be grouped for consolidated disclosure in order to reflect the way in which the services are managed. The service groups have been approved by the Strategic Policy Committee and are noted as follows.

- ◆ Roads and Lighting;
- ◆ Catering and Cleaning and Janitors;
- ◆ Refuse Collection and Street Sweeping;
- ◆ Leisure Operations.

1.26.1 The focus of the review will therefore be to ensure:

- The treatment of Building Services as a “non-significant” operation should be reviewed;
- Officers should ensure adequate monitoring arrangements for trading account operations are introduced;
- The Security and Financial Regulations should be amended to incorporate changes arising from the introduction of Trading Accounts Legislation.
- 3 year rolling targets are approved for the trading activities; and
- Officers should determine the form and content of Trading Accounts and the accompanying Annual Reports, ensuring they comply with the minimum guidance requirements.

## **1.27 Catering & Cleaning**

- 1.27.1 Resources will be allocated to review operations and activities for the catering & cleaning operation. Consideration will be given to the policy and objectives set, the processes and procedures in place for achieving these and specific areas of development or change in particular its preparedness for the Education NPDO. Additionally, consideration will be given to areas where management believe an independent review and additional value for money can be achieved.

## **1.28 Community Services - Transport**

- 1.28.1 Internal Audit in 2004/2005 will follow up the audit report findings of 2003/2004 to establish what progress has been made by a joint working group to examine issues raised in the report.

## **1.29 Community Services**

An audit will be most likely carried out for either Housing/Social Work. However this will be better defined after further consultation with management nearer the scheduled audit date.

## **1.30 Development Services – e-Planning**

- 1.30.1 The focus of the review will be to look at the developments taking place within the Planning Service. In particular the review will evaluate:

- The approach to putting planning and building control services on line;
- How proposals will affect the 4 area teams;
- The present system of manual applications through area teams.

### 1.31 **Corporate Services**

An audit will be identified after further consultation with management, which will be an IT audit based on Disaster Recovery.

### **Special Investigations / Risk Assessment / Follow-up**

#### 1.32 **Special Investigation**

1.32.1 The management of the Council may from time to time request that Internal Audit carry out special investigations. To report on issues identified by Council Management requiring input from Internal Audit.

#### 1.33 **Risk Assessment / Strategic Plan / Annual Plans**

1.33.1 Internal Audit will devote time to assessment of risk matters that could affect the audit plan. To develop the audit plan as issues identified by Council Management require input from Internal Audit.

#### 1.34 **Follow-up of External Audit Recommendations**

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

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

#### 1.35 **Follow-up of Internal Audit Recommendations**

1.35.1 The broad objectives of the review are to:

- Identify outstanding recommendations made at previous audits; and
- Confirm progress and secure action dates from Council management where necessary.

