



Argyll and Bute Council

**Annual Audit Plan 2005 - 2006
April 2005**

INDEX

- Annual Audit Plan 2005- 2006 Chart.
- Scope & Objectives for areas outlined in the Audit Annual Plan 2005 – 2006.

1 **Scope and Objectives 2005 – 2006**

1.1 **2005 - 2006 Planned Objectives**

1.1.1 The following sections outline the broad scope and objectives for the reviews identified for 2005-2006.

1.2 **Budgetary Control**

1.2.1 The specific objectives of this review will assess whether:

- The responsibilities of Officers and Members for the setting and control of budgets are properly defined;
- Budgets are set in accordance with pre-determined approved policy objectives;
- Revenue expenditure and income is 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 Council's ability to demonstrate that resources are being used in an economical, effective and efficient way.

1.3 **Capital Accounting**

1.3.1 The specific objectives of this review will assess whether:

- Fixed assets are identified and classified in accordance with the Accounting Code of Practice (ACOP) and compliant with the Prudential Code;
- Fixed assets are correctly recorded in an asset register;
- Fixed assets are valued in accordance with CIPFA guidance and the Prudential Code;
- Appropriate Prudential Code indicators have been calculated and approved and regularly reviewed;
- Capital charges are made to service accounts in accordance with ACOP and the Prudential Code;
- Fixed assets and capital charges are correctly recorded in the financial ledger; and compliant with the Prudential Code; and
- The system contributes to the economic, effective and efficient management of the Council's assets.

1.4 Capital Contracts

1.4.1 The specific objectives of this review will assess whether:

- For major capital projects over £1m a proper business case and project appraisal procedure enables effective selection of appropriate projects;
- The design satisfies the original project criteria;
- The tendering process awards the contract to the most suitable contractor at the most advantageous price and is compliant with the Prudential Code with regard to affordability and financing;
- Work is properly project managed, supervised and executed to contract specifications;
- The system ensures the preparation of accurate interim valuations, final accounts and meets the Prudential Code sustainability criteria; and
- All relevant information on the project is collected, evaluated and used to improve future performance.

1.5 Cash and Income Banking

1.5.1 The specific objectives of this review will assess whether:

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

1.6 Contract Hire and Operating Leases

1.6.1 The specific objectives of this review will assess whether:

- Proper control procedures are being operated;
- E-Procurement is delivering the expected benefits;
- It is compliant with the Prudential Code;
- Arrangements are in place to assess that contracts and operating leases are compliant with contractual undertakings; and
- Department budgets are set with consideration of commitments.

1.7 Council Tax & Non Domestic Rates

1.7.1 The specific objectives of this review will assess whether:

Council Tax

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

Non-Domestic Rates

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

1.8 Creditor Payments

1.8.1 The specific objectives of this review will assess whether:

- Payments are made only for goods and services which were the subject of authorised orders;
- Procedures for adding to, and removing contractors 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; and
- Payments are correctly recorded in the financial ledger.

1.9 Debtor Accounts

1.9.1 The specific objectives of this review will assess whether:

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

1.10 Purchasing

1.10.1 The specific objectives of this review will assess whether:

- Only goods and services which are required for the audited body's business are ordered;
- Orders are placed only after costs have been ascertained;
- Orders are placed only with authorised suppliers;
- Invoices are passed for payment to the correct supplier and only for goods/services received;
- Invoices are correctly coded for posting to the financial ledger; and
- The roll out of e-Procurement throughout the Council is properly controlled.

1.11 Unified Benefits System

1.11.1 The specific objectives of this review will assess whether:

Council Tax

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

Housing Benefits

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

1.12 Housing Rents

1.12.1 In 2005 – 2006 a Housing Stock Transfer is scheduled to take place and therefore within the annual plan 20 days have been allocated to cover the following issues:

- Ensure that the Council has approved a business plan for delivery of the Scottish Housing Quality Standard and has procedures in place to adhere to the plan;
- Ensure that a process has been put in place to ensure that all relevant properties have been identified and their transfer agreed; and
- Any associated debts and prepayments are recognised and dealt with in accordance with Scottish Executive and Communities Scotland guidelines in co-operation with the new Housing Association.

1.13 General Ledger Operations

1.13.1 The specific objectives of this review will assess whether:

- Prior year balances are correctly brought forward;
- All data input to the system is properly authorised;
- Data from feeder systems is correctly 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 Council's assets.

1.14 Government & European Grants

1.14.1 Various grants are received by the Council from the Scottish Executive and cover Housing, Social Work, Education and Benefit Subsidies.

1.14.2 The specific objectives of this review will assess whether:

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

1.15 Payroll

1.15.1 The focus for the payroll review for year one of the strategic plans will be to assess the continued roll out of HR Payroll and to ensure that progress is being made against target across all departments. In years 2 & 3 we will look at specific issues regarding operation of the Payroll. The specific objectives of these reviews will be to assess whether:

- Payments are made only to valid employees;
- Payroll budgets are set in accordance with pre-determined approved policy objectives;
- Data (particularly standing data) is accurate and complete;
- Payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc; and
- The system contributes to the Council's ability to demonstrate that resources are being used in an economical, effective and efficient way.

1.16 Treasury Management

1.16.1 The specific objectives of this review will assess whether:

- Borrowing and lending transactions are in accordance with statutory powers, approved policy and strategy;
- Appropriate Prudential Code indicators have been calculated and approved and regularly reviewed;
- The following meet the requirements of the CIPFA Code of Treasury Management in Local Authorities;
 1. Annual borrowing requirements and daily balances are properly estimated;
 2. Borrowing and lending transactions are properly controlled;
 3. Loan repayments and interest are paid on the due dates and in respect of valid loans;
 4. Deposits and interest are recalled/repaid on the due dates; and
 5. Borrowing and lending transactions are correctly recorded in bank accounts, the financial ledger, and other subsidiary records (e.g. registers).

1.17 Tendering

1.17.1 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 Council's standing lists are properly controlled and make effective use of Constructionline services;
- Procedures for selecting tenderers are in accordance with the Council's Financial Regulations;
- 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 opening process; and
- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

1.18 Payments to Voluntary Bodies

1.18.1 The specific objectives of this review will assess whether:

- Grants are classified according to materiality and any monitoring arrangements determined and carried out according to the Council's assessment of risk;
- All grant payments are identified in a register of funding;
- 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 grant requirements;
- Funding to external organisations is specific and clearly stated;
- Amounts receivable/received are complete, planned and controlled; and
- A monitoring procedure is in place to ensure that available performance measures are collected and reported.

1.19 Stock Taking

1.19.1 The specific objectives of this review will assess whether:

- Systems are in place for maintaining accurate stock records;
- Stock is held in a secure environment;
- Adequate procedures are in place for management to count stock at year-end; and
- External Audit requirements have changed in respect of stock testing.

Assessment of Audit Days: 2005-2008

	Risk ranking	Last audited	2005-06
<i>Core financial systems</i>			
Budgetary preparation and control	1	2003	20
Capital accounting	1	2005	20
Capital contracts	1	2005	20
Cash income and banking	2	2004	30
Contract hire and operating leases	2	2003	20
Council tax and non-domestic rates	2	2003	30
Creditor payments	2	2004	25
Debtor accounts	2	2004	20
Purchasing	2	2004	25
Unified benefits system	2	2004	30
Housing rents	2	2005	20
General ledger operations	2	2005	25
Government & European Grants	1	2003	30
Payroll	2	2004	30
Treasury management	2	2004	20
Tendering procedures	1	2004	30
Payments to voluntary bodies (following the public pound)	2	2004	20
Stock taking	2	2004	25
<i>Subtotal core financial systems</i>			440

1.20 Non-Financial Audits

- 1.20.1 The non-financial section of the strategic audit plan recognises activities that require to be reviewed on an annual basis. These include corporate governance and statutory performance indicators. The significance of Information Technology (IT) for controlling Council activities and the provision of management information, means that Internal Audit is required to review general IT controls and the Council's IT security strategy. This area of audit will be co-ordinated with our internal audit partner.
- 1.20.2 Internal Audit in complying with the CIPFA Code of Practice for Internal Audit, has prepared this section of the report incorporating high risk areas identified by Heads of Service in a recent operational risk exercise carried out between the Corporate Services Department - Governance & Risk section, Internal Audit and its partner.

1.21 Best Value Audit

- 1.21.1 Audit Scotland is to undertake a Best Value review of the Council's activities commencing in the summer of 2005. They will prepare a report of their findings and after discussion with the Council agree an action plan for the Council to implement. This action plan is expected to be agreed in the autumn of 2005.
- Internal Audit will monitor the implementation of its 2004 - 2005 Best Value report action plans agreed by management in December 2004 and thereby monitor progress in preparation for the Audit Scotland Best Value Audit visit.
 - Internal Audit will also allocate resources to discuss and monitor the implementation plan by management of the agreed Best Value action plan probably towards the end of 2005. This will most probably include challenging service reviews which were reported on by Internal Audit in 2004 – 2005.

1.22 Corporate Services – ICT Security

- 1.22.1 This non financial audit area was identified within the strategic audit plan and was derived from a Heads of Service risk evaluation exercise carried out at the end of January 2005. The exercise highlighted a number of key operational risks that could potentially lead to a problem for the Council, in particular unauthorised access to IT systems resulting in a breach of confidentiality, disruption and lack of system integrity. Discussions will take place with the Head of ICT & Financial Services and responsible manager to determine how best to approach the audit.

1.23 Community Services – Care Services

- 1.23.1 The Accounts Commission - Audit Scotland issued a national report towards the end of August 2004 entitled, "Adapting to the future". This is a national report and contains the findings of a recent study of Local Authorities and NHS bodies in Scotland.
- 1.23.2 The national report is for guidance to Council management across Scotland and listed 21 recommendations. As there were no implementation dates assigned to the recommendations contained in the report, Community Services Department management have prepared a position paper so that, it can be determined where this

Council is in terms of compliance with the recommendations outlined in the national report.

- 1.23.3 Internal Audit in 2005 - 2006 will follow up the audit report findings of 2003/2004 to establish what progress has been made by a joint future working group to examine issues raised in the report.

1.24 Community Services – Education NPDO

- 1.23.1 Internal Audit resources will be allocated to contract monitoring of the Council Education NPDO. Consideration will be given to the policy and objectives set, the processes and procedures in place for contract management.

1.25 Development Services – Transport & Infrastructure Grant Funding

- 1.25.1 As a result of a Heads of Service risk evaluation exercise carried out at the end of January 2005 the above area was identified as a high risk area. In particular it related to the following risk; the potential consequences if there were a failure to obtain transportation improvements through grant funding to Regional Transportation Partnership 2006 – 2009. It identified that there were few controls, if any in this area of activity. Discussions will take place with the Head of Service to determine how best to approach the audit of this area.

1.26 All Services – Common Areas

- 1.26.1 Set out below are a number of non financial audits identified from a recent Heads of Service risk evaluation exercise carried out at the end of January 2005. The exercise highlighted a number of key operational risks that needed to be included within the plan. In particular it was noted that Heads of Service identified a number of risks common to them all. Internal Audit intends to address each of these risk areas across all departments. Resources have been allocated within the annual audit plan and discussions will take place with the Heads of Service as to the best way to address their particular issues. The risk areas are:

- Partnership Working;
- Strategic Asset Management;
- Property Asset Management;
- Recruitment & Retention of Staff;
- Business Continuity Planning and
- New Legislation.

1.27 Corporate Governance Compliance / Risk Management

- 1.27.1 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.
- 1.27.2 The broad objective of this review will be to assess the arrangements put in place by the Council to implement the good practice guidance.

1.28 Council wide - Performance Indicators, Council PI's

- 1.28.1 The Council is required to collect record and publish performance indicators to allow benchmarking with other local authorities and against the Council's own past performance. It needs to ensure its systems and processes are robust and operating efficiently and effectively to capture and report such information.
- 1.28.2 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 three ways, the first on variance from previous year's figures of more than 2 %, secondly where PI's are in a Transitional, Change or New status and thirdly those PI's that failed last year will be reviewed again to assess compliance. The remainder will be the subject of a desktop review. Departments and PI co-ordinators have been advised of the requirement to maintain notes on variances so that back up is available for the auditor to check.

Assessment of Audit Days: 2005-2008

	Risk ranking	Last audited	2005-06
<i>Non-financial audits</i>			
Chief Executives			
Policy & Strategy – Best Value	1	2004	30
Corporate Services			
ICT – Security	2	-	25
Community Services			
Care Services	2	-	30
NPDO – Contract Monitoring	1	2003	30
Development Services			
Transport & Infrastructure Grant Funding	1	-	30
All Departments			
Partnership Working	1	2004	30
Strategic Asset Management	1	2004	30
Property Asset Management	1	-	30
Recruitment & Retention of Staff	2	-	25
Business Continuity Planning	1	-	30
New Legislation	1	-	30
Corporate Governance	1	2004	30
Performance Indicators	1	2004	60
<i>Subtotal non-financial</i>			410

1.29 Contingency Days 2005 – 2008

1.29.1 Audit days have been included within the strategic audit plan for contingency. This is audit time for unforeseen events which, by their nature, cannot be planned for, e.g.:

- notification of frauds, significant weaknesses or loss;
- consideration of controls for new or amended systems; and
- reviews of significant breakdown of internal control that cannot be accommodated within planned audits.

1.30 Special Investigation

1.30.1 The management of the Council may from time to time request that Internal Audit carry out special investigations on particular issues identified by Council management.

1.31 Risk Assessment / Strategic Plan / Annual Plans

1.31.1 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. In addition Internal Audit will:

- Closely work with Corporate Services – Risk Management Group ; and
- Ensuring that the strategic audit plan and annual plans reflect all necessary changes.

1.32 Follow-up of Internal & External Audit Recommendations

1.32.1 The specific objectives of this review will be to assess and report to the Audit Committee on:

- Progress made by management to address the recommendations made by both internal and external audit and agreed by management.

Assessment of Audit Days: 2005-2008

	2005-06
<i>Contingency days</i>	
Special investigations contingency	80
Follow-up external & internal audit management letter points	60
Risk assessment, strategic plan, annual plans	20
Sub Total	160

1.33 Internal Audit Resource Days 2005 - 2006

	Audit Manager	Audit Manager	Accountant	Accountant	Senior Audit Assistant	Audit Assistant	Partner	Contract Auditor	Total
Number of Days in full year	260	260	176	208	260	197	53	90	1,504
Less:									
Public Holidays	12	12	12	12	12	12	-		72
Annual Leave	25	28	20	20	28	20	-		141
Sickness Allowance	5	5	5	5	5	5	-		30
Working Days Available	218	215	139	171	215	160	53	90	1,261
Non-Direct Audit Work									
IA Management	30	15	5	5	-	-	28	-	83
Planning and Reporting	25	15	-	-	-	-	-	-	40
Training, Development & Seminars	10	10	10	10	10	10	-	-	60
Audit Internal Meetings	10	10	6	6	6	6	-	-	44
Advisory	10	10	2	2	-	-	-	-	24
Total for Non-Direct Audit Support Work	85	60	23	23	16	16	28	-	251
Time Available for Direct Audit Work	133	155	116	148	199	144	25	90	1,010