



Argyll and Bute Council

Annual Audit Plan 2010 - 2011

25<sup>th</sup> February 2010

Draft for Audit Committee Approval



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## **1. Foreword**

The audit plan for 2010 – 2011 details year 3 of the strategic audit plan approved by the Audit Committee on 27 March 2008 and ensures that Internal Audit resources are effectively planned and controlled. It should be seen as a flexible management tool, which provides the following:

- A clear view of the workload of the internal audit team;
- A base for assessment of the adequacy and future deployment of internal audit resources;
- A yardstick against which progress and performance can be measured;
- Authority to act once it is approved by the Audit Committee; and
- A permanent record of the factors considered and judgements made.

The 2010 – 2011 audit plan has been compiled in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ('the Code'). This requires the Internal Audit section to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control system. This strategic audit plan also takes into account the Internal Audit Mission Statement and Terms of Reference both of which have previously been approved by the Audit Committee. The plan has been discussed with Council's external auditors Grant Thornton UK LLP

The annual audit plan has 2 categories, core financial and non financial audits. The timing of audits will be discussed with management.

## **2. Internal Audit Resource Days 2010 – 2011**

There are 4 elements to Table 1:

- The Number of Days Available to Internal Audit
- Total Working Days Available;
- Total Days for Non-Direct Audit Support Work; and
- Total Days Available for Direct Audit Work.

The total number of resource days available to Internal Audit is 1,597. The total number of working days available for 2010 – 2011 after deductions for Public Holidays, Annual Leave and Sickness Provision is 1,380.

The total number of days allocated to non direct audit work for 2010 – 2011 is 233. The non-direct audit day allocation covers tasks such as internal audit management, preparing committee papers, training and development and general administration issues.

The balance of 1,147 direct audit working days represents 83% of the total number of days available. Direct audit work days are those allocated to both core and non-financial audits.

**Table 1: Internal Audit Resources 2010 – 2011**

	<b>Audit Manager</b>	<b>Audit Manager</b>	<b>Trainee Accountant</b>	<b>Trainee Accountant</b>	<b>Senior Audit Assistant</b>	<b>Computer Audit</b>	<b>Contract Auditors</b>	<b>Total</b>
Number of Days in full year	261	261	261	261	261	28	264	<b>1, 597</b>
Less: Public Holidays	8	8	8	8	8	-		40
Annual Leave	32	32	32	24	32	-		152
Sickness Provision	5	5	5	5	5	-		25
<b>Total Working Days Available</b>	<b>216</b>	<b>216</b>	<b>216</b>	<b>224</b>	<b>216</b>	<b>28</b>	<b>264</b>	<b>1,380</b>
<b>Non-Direct Audit Work</b>								
IA Management	30	15	-	-	-	-	-	45
Planning and Reporting	25	15	-	-	-	-	-	40
Training and Development	10	10	30	30	10	-	-	90
Audit Internal Meetings	10	10	6	6	6	-	-	38
Advisory	10	10	-	-	-	-	-	20
<b>Total Days for Non-Direct Audit Support Work</b>	<b>85</b>	<b>60</b>	<b>36</b>	<b>36</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>233</b>
<b>Total Days Available for Direct Audit Work</b>	<b>131</b>	<b>156</b>	<b>180</b>	<b>188</b>	<b>200</b>	<b>28</b>	<b>264</b>	<b>1,147</b>

### **3. Assessment of Core Financial Audit Days 2010 – 2011**

In order to provide an opinion on the Council's internal controls, Internal Audit is required to take cognisance of the Council's main financial systems and their support systems. The main financial systems are as follows:

- Payroll Systems;
- Council Tax and Non-Domestic Rates;
- Main Accounting Systems;
- Creditor Payments Systems;
- Debtors;
- Treasury Management;
- Capital;
- Budgetary Preparation and Control;
- Unified Benefits; and
- Asset Management.

Internal Audit has a responsibility to evaluate and test financial and management information systems in order to provide an opinion as to the adequacy of control within the Council. As a result of this work departmental management receive audit reports with recommendations offering advice to enable rectification of system weaknesses, improve compliance and control and reduce risk.

Internal Audit in agreement with Grant Thornton UK LLP in 2008 – 2009 adopted the CIPFA systems based audit (SBA) control matrices. This is a methodology developed by CIPFA for identifying weaknesses and risks in systems and evaluating the controls management have established, and for testing the controls to check they are working effectively in order to provide assurance to management. The introduction of the CIPFA control matrices has provided a wider audit focus than purely financial control.

The SBA control matrices cover the main financial systems. The adoption of the CIPFA control matrices has helped the section further develop its quality standards, compliance with the Code and enable departments to gain from participating in the audit methodology. The introduction and use of CIPFA SBAs enables self assessment and assists with the Council's drive for continuous improvement.

The core financial audits set out below in Table 2 are those detailed for year 3 of the strategic audit plan, and were selected using an Audit Needs Assessment methodology of risk ranking. These audits will enable Internal Audit over the next financial year to provide an assurance statement on the Council's overall control framework. Section 7 of this report provides the scope and objectives for the proposed audits outlined in Table 2.

**Table 2 – Assessment of Audit Days: 2010 – 2011**

<b><i>Core financial systems</i></b>	<b>Risk ranking</b>	<b>Last audited</b>	<b>2010-11</b>
Budgetary preparation and control	1	2009/10	15
Cash income and banking	2	2009/10	15
Car Allowances	2	2009/10	15
Council tax and non-domestic rates	2	2009/10	15
Creditor payments & purchasing	2	2009/10	40
Debtor accounts	2	2009/10	25
General ledger operations	2	2009/10	15
Government & European Grants including (LEADER programme)	1	2009/10	25
Payments to voluntary bodies (following the public pound)	2	2009/10	15
Payroll	2	2009/10	15
Stock taking / Work in Progress	2	2009/10	15
Tendering procedures	1	2009/10	25
Unified benefits system	2	2009/10	25
Major capital audit*	1	2009/10	115
<b><i>Subtotal core financial systems</i></b>	<b>-</b>	<b>-</b>	<b>375</b>

\* Major capital audit will include: Treasury Management, Capital Accounting, Capital Contracts Contract Hire and Operating Leases and Asset Management.



#### **4. Assessment of Non Financial Audit Days: 2010 – 2011**

The Code requires that Internal Audit not only reviews financial systems controls but also other systems of management control used to ensure the Council's objectives are being properly managed. The Code also requires internal audit to ensure that control arrangements have been established and operate within the Council thus ensuring that the Council's core values are being addressed.

Internal Audit, in complying with the Code, has prepared this section of the report incorporating gross high risk areas extracted from the Council Risk Register. These will be reviewed in order to provide assurance to management that control is extant. The audit plan has also taken into account the objectives set out in the Council Corporate Plan.

The significance of Information Computer Technology (ICT) for controlling Council activities and the provision of management information is recognised in the audit plan. Internal Audit is required to review general ICT controls as well as the Council's ICT Security Strategy.

The non-financial section of the strategic audit plan also recognises activities that require to be reviewed on an annual basis. These include corporate governance, computer audit, risk management, business continuity and statutory performance indicators. CIPFA has developed a number of systems based audit (SBA) control matrices for non financial control areas, and these will continue to be adopted in 2010 - 2011.

Presently, the Council is involved in a modernisation programme of the management arrangements of the Council. The restructuring exercise will lead to a reduction in both Director and Head of Service posts. Therefore pressure will be placed on the new management team to maintain delivery and set out their service improvement plans. Direct audit days have therefore been included in that annual plan in support of this initiative as set out in Table 3 below. Discussions will be held with the newly appointed management team to further direct this part of the audit plan.

**Table 3 – Assessment of Audit Days: 2010 - 2011**

<b><i>Non financial audits*</i></b>	<b>Risk ranking</b>	<b>Last audited</b>	<b>2010-11</b>
<b>Planning Performance Management Framework (PPMF)</b>			
Planning and Performance Management	1	2009/10	75
Risk Management	1	2009/10	25
<b>Best Value 2</b>			
Partnerships	1	-	22
HR activities	1	2009/10	50
ICT systems	2	2009/10	50
Community engagement	1	2009/10	20
Sustainability	2	2009/10	15
Equality	1	2009/10	20
Procurement	1	2009/10	50
<b>Public Service Improvement Framework (PSIF)</b>	1	2009/10	110
<b>Public Performance Reporting (PPR) and Statutory Performance Indicators/SOA</b>	1	2009/10	80
<b>Corporate Governance Statement</b>	1	2009/10	30
New Legislation	1	2009/10	20
Business Continuity Plan Testing	1	2009/10	20
<b><i>Subtotal non financial audits</i></b>	<b>-</b>	<b>-</b>	<b>587</b>

\* The detailed scope and objectives for the above audit areas will be developed in discussion with the new Strategic Management Team (SMT).

## 5. Assessment of Contingency Audit Days: 2010 - 2011

Audit days have been included within the annual 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.

Clearly, the extent to which any contingency requirement will arise depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity.

<b><i>Contingency days</i></b>	<b>2010-11</b>
Special investigations contingency	90
Follow-up external & internal audit management letter points	75
Risk assessment, strategic plan, annual plans	20
<b>Sub Total</b>	<b>185</b>

## 6. Total Direct Audit Day: 2010 - 2011

The table below, details the available direct audit days available by audit category.

<b><i>Direct audit days analysis</i></b>	<b>2010-11</b>
Core financial audits	375
Non financial audits	587
Contingency	185
<b>Total</b>	<b>1147</b>

## **7. Scope & Objectives – Core Financial Audits 2010 - 11**

The following is a guide to the broad scope and objectives within the core financial systems audits to be covered in 2010 - 11.

### **Budgetary preparation and control - 15 audit days**

#### ***Objectives***

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

- A sign off procedure has been introduced, whereby the Head of Service will sign off payments processed within a budget monitoring month;
- Management review the budget variance reporting trigger mechanism in line with timescale alongside reviewing budget monitoring within the Best Value review of Strategic Finance.
- Budget variance pro-forma is being used consistently by departments. A record of discussions with budget holders regarding variances should be kept with the variance report.

### **Cash income and banking - 15 audit days**

#### ***Objectives***

The specific objectives of this review will be to 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.

### **Car allowances – 15 audit days**

#### ***Objectives***

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

- Classification of different types of car users is appropriate;
- Usage of pool cars is maximised; and
- Record keeping for pool cars is suitable for monitoring their usage.

## **Council tax & non domestic rates - 15 days**

### ***Objectives***

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

- Barcodes are working in the live version of Comino.
- Council Tax system's passwords were set to expire after 90 days.
- Non-Domestic Rates system's passwords were set to expire after 60 days.
- There are proactive measures being used to encourage payment by direct debit.

## **Creditor payments and purchasing - 40 audit days**

### ***Objectives***

The specific objectives of this review will be to assess the following system processes:

- Procurement and the PECOS system testing;
- 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.

## **Debtor accounts - 25 audit days**

### ***Objectives***

The specific objectives of this review will be to 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.

## **General Ledger Operations - 15 audit days**

### ***Objectives***

The specific objectives of this review will be to review new systems developments in services:

- 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; and
- Output is produced in accordance with a prescribed timetable and in a format which contributes to the financial management of the body.

### **Government & European Grants including LEADER programme - 25 audit days**

#### ***Objectives***

The specific objectives of this review will be to 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.

### **Payments to Voluntary Bodies - 15 audit days**

#### ***Objectives***

The specific objectives of this review will be to 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;
- A monitoring procedure is in place to ensure that available performance measures are collected and reported.

### **Payroll - 15 audit days**

#### ***Objectives***

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

- Payments are made only to valid employees;
- Payments are properly authorised; and
- Payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc.

## **Stock Taking - 15 audit days**

### ***Objectives***

The specific objectives of this review will be to 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 during the year and at year-end.

## **Tendering procedures - 25 audit days**

### ***Objectives***

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.

## **Unified benefits system - 25 audit days**

### ***Objectives***

The specific objectives of this review will be to ensure that:

#### ***Council Tax Benefits***

- 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.

## **Major Capital Audit - 115 audit days**

### ***Objectives***

The specific objective of this review will be to carry out audit work in the following areas:

- Asset Management;
- Capital Accounting;
- Capital Contracts;
- Contract Hire and Operating Leases; and
- Treasury Management.