

REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE 10 JUNE 2002 **ITEM 1**
REPORT ON: AUDIT PLANNING MEMORANDUM
REPORT BY: EXTERNAL AUDIT
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2001/2002 Audit

Dundee City Council Audit Planning Memorandum

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Background

Audit engagement

- 1.1 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 all local authorities and joint boards and for considering and making recommendations on issues reported through the Controller of Audit.
- 1.2 Peter Tait, Chief Auditor, Audit Scotland (East Area Office) was appointed auditor of Dundee City Council for five years covering the financial years 2001/02 to 2005/06.
- 1.3 The respective responsibilities of the Council and the Chief Auditor are outlined in a *Statement of Responsibilities of Auditors and of Audited Bodies* which was approved by the Accounts Commission in July 2001 following consultation with a wide range of stakeholders.
- 1.4 An audited body's responsibilities are summarised in the Statement as to be:
"... responsible for the conduct of public business and the handling of public money and, as such, is fully accountable for the conduct of that business in accordance with the law and proper standards, ensuring that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Given this accountability to the public for the conduct of public business and stewardship of funds under its control, the audited body therefore has a responsibility to establish proper corporate governance arrangements, manage its affairs to secure economic, efficient and effective use of resources, maintain accounting records, prepare financial statements, safeguard assets and take reasonable steps for the prevention and detection of fraud and other irregularities".
- 1.5 The auditor's responsibilities are summarised as to:
"... form an independent and objective view of the discharge by the audited body of its stewardship responsibilities. In so doing, the auditor may wish to obtain representations from management, both orally and in writing, on important matters".

Facts and figures

- 1.6 The City of Dundee has an estimated population of 142,700 and covers an area of 26 square miles, geographically the smallest local authority in Scotland. The City acts as a regional centre for around 350,000 people in Tayside and North Fife.
- 1.7 The Council employs 6,977 full time equivalent staff and its administrative HQ is Tayside House, Crichton Street, Dundee.

- 1.8 The revenue budget for 2001/02 was agreed at the Finance Committee of 12 February 2001 and approved at the full Council meeting of 12 March 2001. The net amount of budgeted expenditure was £217m. The main sources of funding this expenditure were: £125m Revenue Support Grant; £44m NDRI; and £47m Council Tax.
- 1.9 Budgeted capital expenditure for 2001/02 totalled £22.335m. This is analysed between General Services and the Housing Revenue Account at £11.717m and £10.618m, respectively.
- 1.10 As at 31 March 2001 the Council had a total balance of £8.7m, the major elements of which are the Renewal and Repair Fund (£3.2m), the Insurance Fund (£2m) and the General Fund (£3m).
- 1.11 Further information on the Council's income and expenditure is contained in the audited Financial Report and Abstract of Accounts 2000/01 and in the Council's budget for 2001/02.

Functions of the Council

- 1.12 The key services provided by the Council are as follows:

- Leisure & Arts
- Economic Development
- Environmental & Consumer Protection
- Planning & Transportation
- Social Work
- Contract Services
- Education
- Neighbourhood Resources and Development
- Housing

- 1.13 The Council has links with four Joint Boards and a Joint Committee, those being:

- Tayside Contracts Joint Committee
- Tayside Joint Police Board
- Tay Road Bridge Joint Board
- Tayside Fire Joint Board
- Tayside Valuation Joint Board

- 1.14 Tayside Contracts provide the following DLO/DSO services for the Council:

- Catering
- Construction
- Cleaning
- Vehicle Maintenance

1.15 The Council's current Corporate Plan 1999/2002 identified its priorities as

- Providing Good and Efficient Services that are Best Value
- Encouraging Economic Growth and Tackling Population Change
- Promoting Social Inclusion
- Encouraging Active Citizenship

Organisation and Committee structure

1.16 The overall governance of the Council is the responsibility of elected members who are responsible for setting policy. Each public sector body is accountable for the way in which it discharges its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests with both members and officers of a public sector body.

Organisation Structure

1.17 Senior officers at Dundee City Council are:

<i>Chief Executive's Office</i>	Chief Executive	Alex Stephen
<i>Service Departments</i>	Corporate Planning	Chris Ward
	Dundee Contract Services	Robert Jackson
	Economic Development	Douglas Grimmond
	Education	Anne Wilson
	Environmental & Consumer Protection	Ron Gabriel
	Housing	Elaine Zwirlein
	Leisure and Arts	Steve Grimmond
	Neighbourhood Resources & Development	Fraser Patrick
	Planning & Transportation	Mike Galloway
	Social Work	Alan Baird
<i>Support Departments</i>	Finance	David Dorward
	Information Technology	David White
	Personnel & Management Services	Jim Petrie
	Public Relations	Les Roy
	Support Services	Patricia McIlquham

Council/Committee Structure

- 1.18 Dundee City Council is comprised of 29 elected members, being 12 Labour, 11 SNP, 4 Conservative, 1 Liberal Democrat and 1 Independent Labour. Each member is a member of all Committees.
- 1.19 Councillor John Letford JP is the Lord Provost of the City and Councillor Julie Sturrock is the Leader of the Administration.
- 1.20 The conduct of Council proceedings is regulated by Standing Orders which also include a scheme of delegation to officers and financial regulations to ensure the proper administration of the Council's affairs.

Standing committees

1.21

<i>Committee</i>	<i>Convenor</i>
DSO	Lord Provost John Letford JP
Development Quality	Fiona M Grant JP
Economic Development	Mervyn J Rolfe CBE, JP, DL
Education and Leisure	George de Gernier JP
Environment and Consumer Protection	Neil Glen
Finance	George Regan
Housing	Jill Shimi JP
Leisure and Arts	Charles D P Farquhar OBE, JP, DL
Licensing	George Regan
Neighbourhood Resources & Development	Helen Wright JP
Personnel and Management Services	Lord Provost John Letford JP
Planning and Transportation	Robin Presswood
Policy and Resources	Julia M Sturrock
Social Work	Betty Ward

- 1.22 The Council has approved terms of reference and particular delegations of responsibility for all the Committees. These are included in the Council's Standing Orders which regulate the conduct of their proceedings.
- 1.23 The Financial Regulations provide a clear basis for accountability in relation to financial matters. The range of issues includes budgetary control, security of assets, payment of staff and purchasing. Separate tender procedures are also maintained.

- 1.24 The Council has a dedicated Audit and Risk Management Sub-Committee of the Finance Committee which has been established with audit committee principles. It comprises six members and invites officers as required. The Sub-Committee has responsibility to ensure good stewardship of the Council's resources to ensure absolute probity. The Sub-Committee also considers the operational effectiveness of Internal Audit, is responsible for overseeing internal controls to ensure best practice is achieved and contributes towards the Council, its Committees and Departments being more responsive to the audit function. The Sub-Committee also liaises with the external auditor and we would wish to take advantage of all regular contacts with the Sub-Committee and will actively seek the Sub-Committee's comments on audit plans and reports.

Main financial systems

- 1.25 An overall impression of the Council's ICT function was gathered by completion of a high level checklist known as a Pathfinder Diagnostic Review (PDR) which aided the planning process by providing a risk assessment of the various systems.
- 1.26 In addition, the Computer Services Review undertaken immediately following the PDR included a more in-depth investigation of some of the issues highlighted during the Diagnostic Review. A draft management report is in the process of being finalised.
- 1.27 The main financial services and the accompanying computer systems of the Council are:

System	Package
Council tax & Benefits	FIRST
Rates	FIRST
Financial ledger	POWERSOLVE
Housing rents	In house
Payroll	ISIS
Housing repairs	In house
Creditors	POWERSOLVE
Purchasing & Ordering	POWERSOLVE and in house
Debtors	POWERSOLVE
Property repairs(non housing)	In house
Superannuation records	CLASS
Superannuation investments	SHAREHOLDER II
Bank reconciliations	POWERSOLVE
Loans fund	LOGOTECH
Capital accounting	LOGOTECH

Audit resources

2.1 Our letter of engagement, dated 20 September 2001, specifies the indicative fee for the audit as £218,000. This is a provisional fee which may be increased or decreased within a range of 10% with the agreement of the Chief Executive/Director of 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 results of the audited body's risk assessment procedures covering 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 are to be 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)
- additional audit set-up time in the first year of an audit appointment.
- whether additional work will be undertaken for other auditors where systems are shared by bodies.

2.2 The fee agreed with the Chief Executive/Director of Finance for 2001/02 is £218,000.

2.3 In agreeing the fee, the co-operation of internal audit has been secured to prevent duplication of effort and to maximise the overall internal and external audit resources.

2.4 In the event that additional work is required that was not provided for in the audit plan (for example, where working papers do not meet the required standard or Internal Audit fail to complete work in areas where it was agreed reliance would be placed on their work) the agreed fee may require to be revised, within the specified fee range, during the year. All amendments will be notified to and agreed with the Council. The prior agreement of Audit Scotland is required for any adjustment outwith the specified 10% flexibility.

- 2.5 In some cases, additional work requires the deployment of staff with particular experience or special skills (e.g. audit work related to a Public Private Partnership project) and a separate fee based on grade related rates (specified in the letter of appointment) will be negotiated with the Director of Finance.
- 2.6 A key feature of the public sector audit regime is that auditors are paid by Audit Scotland for the work undertaken, not the audited body. Audit Scotland, in turn, levies charges on the audited bodies to cover the auditor's remuneration **and** an appropriate share of Audit Scotland's other costs. Audit Scotland have levied a 'central charge' of £57,117 on Dundee City Council for 2001/02 which is 'fixed' and does not vary in accordance with the direct element. The charge covers a range of Audit Scotland central costs and administrative overheads, including auditors' travel and subsistence costs which are pooled to ensure that no organisation is disadvantaged due to the location of their appointed auditors.
- 2.7 In total, therefore, the Council will be charged £275,117 by Audit Scotland for the 2001/02 audit.
- 2.8 It is a condition of engagement that a combined total of not less than 15% of total input on all aspects of the audit must be undertaken by audit staff of Audit Manager grade and above. The input by other professionally qualified and specialist staff is at the discretion of each certifying auditor. We intend that over 65% of the audit will be undertaken by professionally qualified or specialist staff.
- 2.9 The core audit team will consist of:
- | | |
|----------------------|------------------------------------|
| Chief Auditor | Peter Tait CPFA |
| Senior Audit Manager | John Philp CPFA/Iain Black FCCA |
| Audit Seniors | Helen Boath BA, CPFA, MBA,
FRSA |
| | Owen Smith LL.B, CPFA |
| Audit Senior (ICT) | David Berrie MBCS |
| Assistant Auditors | Reg O'Neil |
| | Ron Ostrowski |
- 2.10 The size of the audit means that the audit team will have a continuous presence on site. Systems audits and performance audit work will be undertaken during the period December 2001 to June 2002. During the period July to September 2002, we will concentrate on the financial statements in order to meet Audit Scotland's prescribed sign-off date of 30 September. 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 give an assurance to the public that those responsibilities have been reasonably discharged.

3.2 In general, an external auditor's responsibilities are to:

- provide an opinion on (to the extent required by the relevant authorities) the audited body's financial statements
- review and report on, to the extent required by relevant legislation and the Code of Audit Practice, the audited body's corporate governance arrangements as they relate to:
 - ◆ the system of internal control
 - ◆ the prevention and detection of fraud and irregularity
 - ◆ standards of conduct, and prevention and detection of corruption
 - ◆ its financial position
- review and report on, to the extent required by relevant legislation and the Code of Audit Practice, aspects of an audited body's arrangements to manage its performance and secure economy, efficiency and effectiveness in the use of resources.

3.3 In many respects, the duties and responsibilities placed on public sector auditors are wider than those of their private sector counterparts, stemming from the acknowledged public interest in both the propriety and the economic, efficient and effective use of public funds. Key features of the public sector audit regime in Scotland include:

- a statutory basis for the audit
- the independence of public sector auditors from the organisation being audited
- the wider scope of the audit as outlined in the Code of Audit Practice
- the ability to report in public and to elected representatives

Statutory duties

- 3.4 The auditor has certain statutory responsibilities which are contained principally within the local Government (Scotland) Act 1973. These responsibilities include:
- satisfying himself that the accounts have been prepared in accordance with statutory requirements
 - satisfying himself that proper accounting practices have been observed in the preparation of the accounts
 - satisfying himself that the authority has made proper arrangements for securing value for money in the use of resources
 - satisfying himself that the authority has made adequate arrangements for collecting, recording and publishing prescribed performance data
 - hearing any interested person's objection to the accounts
 - placing a certificate on the accounts to the effect that the audit has been conducted in accordance with Part VII of the 1973 Act
- 3.5 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 (DLO and DSOs).

Audit approach

- 3.6 Our audit approach complies in all material respects with the Code of Audit Practice and the Audit Services Directorate's Audit Manual and will seek to gain assurance that:
- the system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of the Council's assets and interests
 - there are 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 miss-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 Council has made proper arrangements for securing value for money in its use of resources
 - the Council has properly considered and acted upon all matters of legality

Corporate Governance arrangements

- 3.7 Our review of the Council's corporate governance arrangements will include completion of 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.
- 3.8 Our work on corporate governance will also include a review of the Council's risk assessment and management procedures. In addition, the Council's risk assessment will be used to inform our own audit plan.

Systems of internal control

- 3.9 Reviews of systems of internal control have a dual purpose in that they contribute to both:
- the assessment of the Council's corporate governance arrangements in respect of systems of internal control and arrangements for the prevention and detection of fraud and corruption
 - 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
- 3.10 Due to resource constraints, it is not possible (or cost effective) to review all main financial systems every year. We would, however, intend to review all main financial systems over the term of a five year appointment.
- 3.11 The final decision on work to be undertaken in any one year will depend on factors such as materiality, risk (based on an assessment of the control environment and management concerns) and the results of previous audit work undertaken.

Internal Audit

- 3.12 The Council's Internal Audit service is provided by an in-house team, headed by an Chief Internal Auditor and with six members of staff. The Chief Internal Auditor reports to the Director of Finance and presents reports to the Audit and Risk Management Sub-Committee.
- 3.13 The main duty of internal audit is to provide an assurance to management on the accounting and internal control systems within the organisation. The procedures used to provide that assurance are broadly similar to those used by external audit in a number of areas of our work. As a result, we attempt to place as much reliance as possible on internal audit both to reduce our input and avoid unnecessary duplication of audit effort.

3.14 If we are to place reliance on work done by internal audit to review main financial systems or other areas of key external audit activity we require to:

- be satisfied with the adequacy of internal audit in terms of quality of work, coverage, independence and effectiveness
- undertake a detailed review of the work done on the particular system on which reliance on internal audit is to be placed

3.15 A copy of our Audit Manual and standard programmes for the review of financial systems will be supplied to Internal Audit.

Performance audit

3.16 Our review of an authority's arrangements to secure value for money from the use of resources includes four main activities:

- appraisal of the authority's performance management and planning processes
- undertaking local fieldwork on topics which form part of Audit Scotland's Performance Audit Directorate's centrally directed studies programme
- local projects to review value for money which are developed in agreement with management
- reviewing arrangements for collecting, recording and publishing directed performance information

Legality issues

3.17 We are required to keep under review the legality of significant transaction 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 Council has in place to ensure compliance with, and obtain advice on, legal matters
- consideration of the impact of new legislation and guidance when planning the audit
- review of minutes, making further enquiries where necessary
- provision of written confirmation by the Council that staff are not aware of any possible non-compliance with the law or regulations which could have a material effect on the organisation's operations

- 3.18 We are also required to submit annual fraud returns to Audit Scotland's Directorate of Audit Strategy and will liaise with the authority to ensure that appropriate systems are in place to supply us with the required information.

Financial statements

- 3.19 Management are responsible for ensuring the preparation of financial statements by 30 June which present fairly the financial position of the Council at the year end and its income and expenditure for the year. Thereafter, the appointed auditor is required to provide an independent opinion on the financial statements by 30 September.
- 3.20 In addition, a separate audit opinion is required on the statements prepared for each DLO and DSO on whether or not the prescribed financial objective has been achieved.
- 3.21 Standard Audit Services' final accounts programmes will be used during the audit, tailored to meet the particular needs of the Council. A summary list of the working papers and supporting schedules needed to enable the audit of the financial statements to be completed will be supplied to each audited body in March. Audit work on the financial statements will not commence until the financial statements, and supporting working papers, have been completed.

Grant claims

- 3.22 Each year we require to certify a number of grant claims/returns made by local authorities to government departments and other bodies. The most significant of these is the claim for housing benefit and council tax benefit subsidy. Most claims/returns have prescribed dates by which the unaudited and audited versions should be submitted.

Nature of audit testing

- 3.23 The most efficient and effective method of obtaining the assurances outlined at paragraph 3.2 is a risk based audit approach which takes account of the existence and efficacy of key internal controls. As a result, reviews of financial systems will be controls focused and involve:
- identification of control objectives and the controls expected to achieve those objectives
 - identification and assessment of the design of actual controls in place
 - testing of the operation of those controls and substantive testing of the underlying transactions if controls are absent or ineffective
 - recording and reporting on the overall standard of internal control in the system
- 3.24 To assist in the process we will utilise standard Audit Services' documentation outlining control objectives, expected controls and suggested tests for a range of main financial systems.

- 3.25 As highlighted at paragraph 3.13, we will attempt to place as much reliance as possible on internal audit both to reduce our input and avoid unnecessary duplication of audit effort.
- 3.26 Provided internal control in a particular system is found to be operating satisfactorily, assurance will be taken for the audit of the financial statements. Substantive procedures at the final accounts stage can then be reduced and 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.
- 3.27 Where possible, the use of CAATs (computer assisted audit techniques) will be incorporated into audit tests to allow a more focused sample to be selected. Examples of CAATs may include overtime/bonus payments over a prescribed level or creditors invoices over a certain level.

Audit reporting

- 4.1 Reports from the auditor are the primary means by which the results of audit activity are brought to the attention of elected members, senior management, and other stakeholders (including the Accounts Commission, the Scottish Parliament and the public).
- 4.2 The main products from the audit will be:
- the auditor's report on the financial statements (and the auditor's opinion on DLO/DSOs' achievement of the prescribed financial objective) to be supplied by 30 September
 - the annual Report to Members
 - Reports to Management

Annual Report to Members

- 4.3 The Annual Report to Members is addressed to both Members and the Controller of Audit and will include issues concerning the financial accounts, significant deficiencies in internal control arrangements and findings from value for money work which are considered sufficiently important to be brought to the notice of Members and the Controller. The report also provides a summary of the audit work undertaken during the year.
- 4.4 The Report to Members will include an action plan of substantive issues on which management action is required. The action plan will summarise the remedial action agreed with management or the reasons why agreement has not been reached. Implementation of the action plan will be monitored and progress reports submitted to Audit Scotland's Directorate of Audit Review.
- 4.5 Best practice requires the Report to Members to be submitted to the Council and the Controller of Audit with the certified copy of the financial statements.

Management Reports

- 4.6 Reports to Management will be prepared and submitted within one month of the completion of each substantial area of audit work. Reports will include an action plan which summarises audit recommendations, details management's comments, outlines the officer responsible for implementation of the recommendation and the timescale for implementation. Each action plan recommendation will be rated as being of high, medium or low priority to the system under review. Action plans will be followed up in subsequent audit years to ensure that agreed recommendations have been implemented or satisfactorily progressed.

- 4.7 Draft Reports to Management will be discussed with relevant officers to confirm factual accuracy, and obtain a response to the action plan, prior to formal submission. We request that the Council ensure that this process is completed within one month of the submission of the draft.
- 4.8 Final versions of Reports to Management will be submitted to the Director of Finance and relevant Head of Department, where appropriate. A courtesy copy of all formal reports submitted will be sent to the Chief Executive, Director of Finance, appropriate Directors and Internal Audit.
- 4.9 All formal reports, or a summary thereof, will be made available to the Audit and Risk Management Sub-Committee for their consideration.

Audit plans

5.1 In summary, planning is the process of identifying what should be done, by whom, and in what timescale and should assist in ensuring that audit effort is appropriately resourced, focused, prioritised, directed and controlled.

Planning considerations

5.2 When planning the audit the following matters are taken into account:

- statutory and professional requirements
- factors which are external to the audited body
- local considerations

Statutory and professional requirements

5.3 One of the main purposes of the audit plan is to enable us to discharge our statutory duties in accordance with best professional practice. The plan is, therefore, prepared in accordance with:

- all relevant legislation
- the Code of Audit Practice
- the letter of engagement

5.4 We also take account of guidance issued by Audit Scotland, such as:

- guidance issued by the Director of Audit Strategy in, for example, the annual letter requesting submission of the audit plan
- Technical Bulletins and other guidance issued by our Technical Services Unit
- information from the Performance Audit Division on local contributions to national value for money studies

External environment

5.5 Prior to the preparation of the plan, audit staff familiarise themselves with the external environment in which the Council operates:

- relationships with other organisations, including funding relationships
- parliamentary and public interest, and the political environment
- the legal and regulatory framework. Particular attention is paid to the impact of new legislation

Local considerations

- 5.6 The consideration of local matters involves audit staff gaining an understanding of the Council to assist in the identification of events, transactions and practices which could have a significant effect on the audit process. This is achieved through:
- an overall review of organisational structure, including recent or proposed changes in key personnel, systems and organisation
 - an overview of corporate governance arrangements, including the control environment and risk assessment processes
 - analytical review to establish trends and compare the Council to other authorities
 - an overview of the Internal Audit function to enable a decision to be taken as to how much reliance can be placed on their work
 - an assessment of information and communications technology (ICT) arrangements to form an early opinion on the areas of audit concern
 - discussing the concerns and expectations of management
- 5.7 A number of standard checklists and programmes are completed during the planning process and the findings reported to management:
- *Overview of Corporate Governance Arrangements* – this checklist covers structures and processes for decision making; risk management and systems of internal control; processes for the prevention and detection of fraud and irregularities; standards of conduct, integrity and openness; reporting arrangements; and the authority's financial position
 - *Overview of the Adequacy of Internal Audit* – this checklist covers the status of Internal Audit; the staffing complement and structure; audit planning procedures; operating procedures; and the method and manner of reporting and securing remedial action
 - *Fraud and Corruption Assessment of Arrangements* – this checklist covers the existence of policies and procedures for preventing and investigating fraud and corruption; the history of fraud and corruption within the organisation; checks undertaken prior to the recruitment of staff; and coverage by internal audit of systems with a high fraud and corruption risk
 - *ICT Pathfinder Diagnostic Review* – this programme requires to be completed by the Council's IT staff and covers six key risk factors for each ICT based system (accountability, acquisition, service management, project and change management, inventory control, and risk and security). This process provides a high-level summary of ICT based systems and is used by ICT audit staff to inform and prioritise the audit planning process
- 5.8 All aspects of the planning process are intended to assist in the identification of areas of audit risk. The planning process obviously involves more work in the first year of an audit appointment and this may be reflected in the audit fee.

Long term plan

- 5.9 We prepare a long term plan from which our annual plan is drawn. The long term plan has been developed using a risk based approach and has been influenced by factors such as new systems to be introduced. This plan, however, is not fixed and will be reassessed each year in the light of actual audit work undertaken, major new developments and changing priorities.

2001/02 annual audit plan

Review of systems

- 5.10 Follow up audits will be undertaken to ensure that recommendations made by Henderson Loggie in 2000/01 on the Loans Fund, Members Services, Superannuation Investments and Housing Income Collection systems have been implemented. Each follow up review will involve meetings with relevant staff to assess progress against the agreed action plans and collation/testing of supporting evidence. In view of the agreed timescales for the DLO report, this will not be followed up until next year after which time all recommendations should have been implemented.

- 5.11 In accordance with our long term plan, we will evaluate the key systems in place within the Council and, to the extent that this evaluation allows, place reliance on the internal controls within those systems. The areas chosen for a full systems review in 2001/02 are:

- main accounting system
- payroll
- housing and council tax benefits

- 5.12 The main accounting system records all financial transactions of the Council and provides basic information for the preparation of management accounts, final accounts and financial returns. The effectiveness of this system is, therefore, fundamental to the efficiency of the Council. Our review will cover:

- passwords, access controls and system security;
- maintenance of accounting codes;
- validation and authorisation of input, including consolidation and interface of feeder systems;
- exception reporting, format and timing of system output and clearance of suspense accounts.

The key objectives of this audit are to confirm that:

- prior year balances are correctly brought forward
- data input to the system is properly authorised
- data from feeder systems is correctly 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

5.13 Payroll costs, after the payments to the Joint Boards are excluded, amount to 52% of the Council's budgeted gross expenditure for 2001/02. It is the single biggest category of cost by a significant factor. The effectiveness of this system is, therefore, fundamental to the efficiency of the Council. It is planned that various aspects of the payroll systems in operation will be reviewed each year during our term of appointment. Our review this year will concentrate on central support APT&C personnel and will cover:

- recording and processing of transactions
- examination of the internal controls in operation
- testing of the controls
- reliance that can be placed on the payroll system
- computer interrogations

The key objectives of this audit are to confirm that:

- 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
- payroll costs are correctly recorded in the financial ledger

5.14 The housing and council tax benefit system is complex, involves a high volume of transactions and is susceptible to claimant fraud. In June 1999 the Council were the subject of a report from the Benefits Fraud Inspectorate which highlighted several areas where improvements could be made. The findings of that report, together with progress made in implementing remedial action identified as necessary, will be considered during our review whose aim will be to ensure that:

- benefit can only be awarded to valid applicants
- claims are accurately assessed and benefit calculated in accordance with regulations
- claims are processed and determinations made within the timescale required by regulations

- benefits are correctly recorded in the benefits system, the rent accounting system, the council tax system and the financial ledger
- adequate steps are taken to prevent and detect fraud
- overpayments are recovered (where appropriate)
- the annual subsidy claim is accurate and complete

Reliance on internal audit

5.15 We undertake an annual overview of Internal Audit. Reliance will also be placed on audit work undertaken by Internal Audit, where appropriate.

ICT audit

5.16 In addition to the Pathfinder Diagnostic Review, the 2001/02 plan includes:

- a computer services overview to give assurance on the overall arrangements for managing ICT within the Council. This review will assist in the identification of key areas of risk for detailed review in future years
- ICT audit input to the reviews of the main accounting, payroll and housing benefits systems

Performance audit

5.17 The 2001/02 performance audit will cover:

- performance management and planning
- local fieldwork on centrally directed studies: trading standards and pre-school education
- performance information

5.18 The purpose of Best Value is to ensure that Councils provide services that meet the needs of their customers and citizens and provide value for money. Councils must also demonstrate that they are accountable and delivering continuous improvement. Performance management and planning (PMP) is a means to help achieve these objectives by establishing clear standards and targets for all activities, identifying where and how improvements can be made, and reporting on performance.

5.19 The objectives of the audit are to:

- provide independent external assurance that the Council is making progress in implementing PMP frameworks
- identify good practice and areas of concern
- ensure that services are planning for improvement

5.20 The audit will include:

- follow up of progress made towards implementing improvement actions identified by the corporate PMP review undertaken in 2000/01
- follow up of progress made towards implementing improvement actions identified by the services covered in previous audits (Contract Services, Social Work, Neighbourhood Resources, Architectural Services, Planning & Transportation and Housing)
- a service level audit of progress in developing a PMP framework within the Finance Department and the Environmental & Consumer Protection Department

5.21 In 2001/02 Audit Scotland is piloting a 'tailored performance audit' approach across all Scottish Councils' trading standards services. The audit is based around a self-assessment process covering three main strands:

- service profiles and activity analysis – drawing on data already being gathered nationally
- management arrangements – covering performance management and planning issues
- operational review – including a series of good practice guides covering individual elements of trading standards work

5.22 It is intended that the audit will provide the Council with:

- access to national service information
- a means of assessing the management arrangements in place to support the provision of trading standards services
- a set of service standards covering core trading standards work
- independent validation of performance by the external auditor working in partnership with a senior trading standards officer from another Council

5.23 The central study on pre-school education has a mandatory and a discretionary element:

- a mandatory review of contractual and grant arrangements. This part of the audit will focus on the Council's contractual relationship with partners, the arrangements in place for pre-school grant disbursement and audit of the grant
- a discretionary review of pre-school provision. This part of the audit is based on an evaluation framework contained in the Audit Scotland report *A good start*:

managing pre-school education designed to assist Councils to assess whether they are achieving best value

5.24 We intend to undertake both elements of the study in order to enable the Council to:

- ensure they have robust arrangements in place to manage contracts with partners
- to report progress against targets to expand the provision of pre-school education
- consider the opportunities for cost-effective commissioning of places in the private and voluntary sectors

5.25 In accordance with our statutory duty, we will also review the Council's arrangements to collect, record and publish the performance indicators required by the Accounts Commission's annual direction and give an opinion on the reliability of the indicators.

Grant claims

5.26 Audit certification is required on the following specified grant claims and returns:

- Housing and Council tax Benefit Subsidy
- European Regional Development Fund Projects
- NHS – unfunded elements of Superannuation Benefits
- Certificate of Housing Capital Payments and Receipts
- Certificate of Non-Housing Capital Payments and Receipts
- Non-Domestic Rates Income Return
- Social Work Services Criminal Justice Services
- Social Inclusion Partnership Fund
- Information and Communications Technology Training for Schools Grant
- Hypothecation of Fixed Penalty Notices
- European Social Fund
- Capital Modernisation Fund Grants

Appendix: Fee proposal

A	Output	Fee	Issue date
1	Audit Planning Memorandum	14,100	May 2002
2	Reviewing Minutes/Guidance	5,700	Ongoing
3	Meetings with Management/Audit Committee	7,000	Ongoing
4	Other related tasks	7,100	Ongoing
5	Auditor's Report on the Financial Statements/	41,300	Oct 2002
6	Annual Report to Members	6,100	
7	Auditor's Opinion (DSO/ DLOs Prescribed Financial Objective)	8,500	Sep 2002
8	Certification of Grant Claims and Returns	27,300	Ongoing
Reports to Management – Systems of Internal Control			
9	Corporate Governance Overview	1,500	Jun 2002
10	Arrangements for Prevention and Detection of Fraud and Corruption	3,200	Jun 2002
11	Overview of Internal Audit	1,500	Jun 2002
12	Main Accounting System	7,700	Jun 2002
13	Payroll	8,500	Jul 2002
14	Housing and Council Tax Benefits	9,600	Jul 2002
15	Rates Assessment/Valuation Rolls comparison	800	Apr 2002
16	Financial Systems Progress Update (Loans Fund, Members Services, Superannuation Investments and Housing Income Collection)	7,700	Apr 2002
17	Computer Services Review/Pathfinder Analysis	10,300	May 2002
Reports to Management – Performance Audit			
18	Trading Standards	7,900	Aug 2002
19	Pre-School Education	7,900	Jun 2002
20	Citizen's Charter – Performance Information, Arrangements for Collection & Publication	8,700	Aug 2002
21	School Property Risk Management follow-up	2,600	Jun 2002
22	Internal Audit follow-up	2,600	Sep 2002

A	Output	Fee	Issue date
	<i>Performance Management and Planning:</i>		
23	• Finance Department Review	5,800	Jun 2002
24	• Environmental & Consumer Protection Review	5,800	Jun 2002
25	• Contract Services Progress Update	1,200	May 2002
26	• Social Work Progress Update	1,200	May 2002
27	• Neighbourhood Resources Progress Update	1,200	May 2002
28	• Architectural Services Progress Update	1,200	May 2002
29	• Planning & Transportation Progress Update	1,200	May 2002
30	• Housing Progress Update	1,200	May 2002
31	• Corporate Progress Update and Summary Report	1,600	Jun 2002
	<i>Central returns as required by Audit Scotland, including the following returns to the Directorate of Performance Audit:</i>		
32	Trading Standards Audit Templates	Incl at 18	Mar 2002
33	Pre-School Education Audit Templates	Incl at 19	Jun 2002
34	Performance Indicators – Assessment of Reliability	Incl at 20	Sep 2002
35	Performance Management and Planning Audit Templates	Incl at 23- 31	May 2002
		£218,000	
B	<i>Analysis of Proposed Fee by Professional Grade</i>		
	Chief Auditor		13,500
	Senior Audit Manager		56,200
	Audit Senior		96,600
	Assistant Auditor		51,700
			£218,000
C	<i>Indicative Fee Range</i>		
	Minimum		196,200
	Midpoint (indicative fee)		218,000
	Maximum		239,800