

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Customer Services
Executive Director: Douglas Hendry



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23 June 2011

SUPPLEMENTARY PACK 1

AUDIT COMMITTEE

**FRIDAY 24 JUNE 2011 AT 11.15 AM IN THE COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD**

I enclose herewith **Internal Audit reports to Audit Committee** which were marked to follow in the appendix attached to the report at item 12 of the above agenda.

I also enclose herewith item 13 (**External Audit Reports 2011**) which were marked to follow on the above agenda.

Douglas Hendry
Executive Director - Customer Services

TO FOLLOW ITEMS

12. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE

Report by Chief Internal Auditor (Pages 1 - 16)

13. INTERIM MANAGEMENT REPORT

(a) Interim Management Report - Report by Grant Thornton UK LLP, External Auditor (Pages 17 - 34)

(b) Review of Arrangements for International Financial Reporting Standards (IFRS) – Report by Grant Thornton UK LLP, External Auditor (Pages 35 - 48)

AUDIT COMMITTEE

Martin Caldwell
Councillor George Freeman
Councillor David Kinniburgh
Ian M M Ross

Councillor Gordon Chalmers
Councillor Daniel Kelly
Councillor James Robb

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Internal Audit Report

FINAL

Chief Executive's Unit

Review of Car Allowances
February 2011

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Car Allowances as part of the 2010/11 Internal Audit programme.

As Argyll & Bute Council is a rural authority there is a need for staff to incur high mileages in carrying out the duties required in their posts. Car users can be split into different categories i.e. Essential, Casual and Leased car users. It was decided that Internal Audit would review a number of staff travel claims.

The Council has 3 categories of car users, essential, casual and leased car users.

Details of individual employees' travel claims were provided by the Creditors Section. From this a sample of employees was selected.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- Travel and subsistence claims are being completed in accordance with Council policies and procedures and that they are in accordance with Argyll & Bute Council's Financial Regulations.
- Travel and subsistence claims are completed in full, signed by the employee and appropriately authorised in accordance with the Authorised Signatory list.
- Full use is made of pool cars where they are available.
- Staff are making use of car sharing.
- Full use is made of video and telephone conferencing facilities to hold meetings.
- Management is monitoring staff travel.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing (SBA), approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

5.1 Some members of staff are incurring high mileages in carrying out their duties.

5.2 The utilisation of pool cars retained in the areas varied from area to area.

5.3 Claim forms are not being completed on a consistent basis throughout the Council.

6 RECOMMENDATIONS

5 recommendations were identified as a result of the audit, 4 with high priority and 1 with medium priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to SMT and the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definition of each classification is set out below:

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on the findings we can conclude that although there are adequate procedures in place not all staff and managers follow these procedures. Additional Guidance and reminders should be issued to employees in order to achieve consistency throughout the Council.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale.

Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Creditors section staff and the Integrated Transport Manager's staff for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	<p>The total mileage claimed for 2009/10 was 4,123,000 miles. 73% of the mileage was claimed by 27% of the staff who claimed mileage.</p> <p>Approximately 1,800 employees submitted mileage claims throughout the year.</p> <p>The total cost to the Council in respect of staff travel was £2.28m.</p>	High	Corporate guidance should be developed to support arrangements for managing and controlling staff travel.	Head of Improvement & HR	29 July 2011
2	<p>The Council's Guide to Sustainable Travel encourages the use of pool cars, car sharing, and video and telephone conferencing. Greater use of these options would reduce the cost of travel both financially and in respect of staff time.</p>	High	Staff should be reminded of the guide and actively encouraged to use these options. This will result in savings both in financial terms and staff time.	Head of Improvement & HR	30 June 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	<p>There are presently 27 pool cars in use. The utilisation of these cars in 2009/10 ranged from 34.1% to 97.5%.</p> <p>(An online booking system for pool cars is to be introduced by Facility Services.)</p>	Medium	Information on the availability of pool cars should be relayed to employees and they should be encouraged to make greater use of them.	Head of Facility Services	30 September 2011
4	Not all departments are carrying out checks on employees' driving licences and insurance cover to ensure that they can use their own cars on council business.	High	<p>The Council should develop procedures to ensure that checks on driving licences and insurance cover are carried out on a regular basis.</p> <p>New employees should have these checks carried out when they take up their post.</p>	Head of Improvement & HR	31 August 2011
5	Not all employees are completing all sections of the travel claim forms. Some employees do not enter the time, purpose or destination of their	Medium	Guidance should be issued to employees and line managers regarding the completion and authorisation of travel claim forms. The guidance should	Head of Improvement & HR	29 July 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	journeys. Line Managers are still authorising the claims for payment despite them not being completed correctly.		also clarify the position regarding the deduction of normal home to work mileage and include indicative mileages that will be paid between various locations.	Head of Customer & Support Services	

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Internal Audit Report

Final

Community Services

Review of Short Term Contracts

April 2011

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Short Term Contracts within Community Services as part of the 2010/2011 Internal Audit programme.

Community Services (Education and Social Work) have occasion to employ staff on a short term basis which enables them to continue to deliver their service.

The audit will focus on 2 distinct areas

- Use of Agency Workers (including Self Employed Contractors) within Social Work
- Use of Temporary Staff within Education

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to:

- Review current arrangements in respect of defining and arranging short term contracts;
- Evaluate the effectiveness of existing systems and procedures;
- Determine whether new systems or procedures are required; and
- Review the process for monitoring outcomes

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The areas identified are;

SR 16 – Failure to have a robust internal control process and system.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

Social Work – Agency Workers (Employment Agency Staff and Self Employed Contractors)

- Agency workers are engaged in circumstances where the Service has been unable, following numerous attempts, to recruit to a particular post. An agency worker can either be Employment Agency Staff or a Self Employed Contractor;
- Employment Agency Staff have a contract with an employment agency and they provide their services to the Council through that agency. The agency invoices the Council for the services provided and will charge commission in addition to this. There may also be a fee payable to the agency should the person subsequently become an employee of the Council;
- Self Employed Contractors directly invoice Community Services – Social Work for supplied services. There are no additional commission charges and no fees payable if the person subsequently becomes an employee of the Council;
- An HR guidance note in relation to agency workers has been issued by Human Resources. The guidance given in the note is not routinely being followed;
- Agency workers agreements are generally negotiated locally with no involvement of the Commissioning Team within Customer Services. The original contract documents are generally held locally and are not routinely forwarded to the Commissioning Team;
- The contracts in place do not routinely outline the travel and subsistence costs that can be reclaimed from the Council by the agency worker;
- No standard system is used by agency workers to reclaim travelling and subsistence expenditure;
- No central register of all agency workers engaged is held and maintained by the Council; and
- Invoices in relation to agency workers are not always accompanied by supporting documentation.

Education – Temporary Staff

There is a standard process in place for the recruitment and appointment of both teaching and non teaching temporary staff within Education. As employees of the Council they are issued with a standard Council temporary contract of employment. Payment to temporary staff is through Payroll and controls are in place to prevent temporary staff being paid beyond the end of their contract.

Summary

Following the issue of the initial draft report and discussions with relevant officers it was agreed that the issues raised in this report are relevant across the Council and as such the recommendations made in the report are not restricted solely to the Community Services Department.

6 RECOMMENDATIONS

One recommendation was identified as a result of the audit. This recommendation is High priority. The recommendation is are shown in the Action Plan attached at Appendix 2 and have been compiled with the co-operation and agreement of the appropriate Heads of Service and 3rd tier Managers.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

The current system in place for engaging agency workers within Social Work is unsatisfactory and leaves both the Council and the agency worker in a vulnerable position. The Commissioning Team within Customer Services should check all contracts to ensure that they meet the Council's requirements.

The arrangements between the Council and some of the agency workers in relation to travel and subsistence expenses should be standardised throughout the Council in order to prevent any uncertainty regarding the Council's responsibilities and the agency workers' entitlements.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the following people for their co-operation and assistance during the Audit and the preparation of the report and action plan:

Commissioning Team Officers
Customer and Support Services Officers
HR Officers
Social Work Officers
Strategic Finance Officers

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There are no standard procedures in place for the engagement, management and payment of agency workers and self employed contractors. There is a guidance note issued by HR in relation to Agency Workers, however, this does not cover all the issues identified in the report and the guidance given is not routinely followed.	High	The HR guidance note should be replaced by a standard procedure for the engagement, management and payment of agency workers and self employed contractors. Appendix 3 provides an Action List which identifies the issues which must be addressed.	Head of Improvement & HR linking with all Executive Directors and Procurement/Commissioning Team	30 May 2011



Grant Thornton

Argyll and Bute Council

Interim Management Report

June 2011

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Appendices

- A Action plan**

1 Executive Summary

1.1 Introduction

Argyll and Bute Council (the Council) is required to have arrangements in place to ensure propriety, regularity and best value in its stewardship of public funds. It is the responsibility of management to establish adequate systems of internal control to ensure that resources are applied to the activities intended, fraud is prevented and detected, and resources used economically, efficiently and effectively.

As part of our interim audit, we have reviewed the effectiveness of the Council's core financial systems and financial management and budgetary control arrangements. In addition, we followed up the Council's progress in implementing recommendations agreed in our prior year interim report.

1.2 Findings

Core financial systems

Our review of the core financial systems did not identify any significant control weaknesses that require reporting. This outcome confirms our assessment that the Council operates sound systems of internal financial control.

We carried out a review of the controls over IT systems and applications. Three medium risk recommendations were made to improve the security of access to the network.

The National Fraud Initiative (NFI)

We considered the Council progress in improving their participation in the NFI exercise and implementation of prior year action plan points. We noted that the Council's procedures in place for NFI have improved significantly, and at this stage, a large proportion of the matches have now been processed. We were also pleased to note that regular updates on NFI are provided to the audit committee and SMT.

We have asked the Council to consider participating in the next round of NFI process which includes the matching of electrical register data to council tax data to identify potential frauds in the claiming of single person discount for council tax purposes.

Contract management

The Council have made progress in implementing agreed action plan points in relation to our prior year reports on contract management.

There was two outstanding recommendations at the time of our audit in relation to the Argyll Air Services project, implementation of which has been delayed by the failure of the previous PSO operator, Highland Airways. The draft business plan is due to be approved at the June meeting of the Executive.

Internal audit

During our audit, we considered the extent to which the Council meets the requirements of CIPFA guidance on the role of the Head of Internal Audit. Our review found that the Council's constitution, terms of reference for the internal audit department and the internal audit manual require updating to take account of the recent changes in the internal audit department, and this is currently being actioned.

We have raised concerns that the vacancy in the audit manager position will impact on the department's ability to meet the 2011-12 audit plan. However we are aware that the Council intends to use contractors and partnership resources to meet the deficit in audit resource. We have recommended that the Council review the staffing resources available to internal audit to ensure it can meet its obligations as set out in the plan, and that there is sufficient qualified and experienced staff.

1.3 Way Forward

The findings and recommendations from our review are summarised in an Action Plan that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

This report includes some specific recommendations to strengthen internal controls. It is the responsibility of management to decide the extent of the internal control system appropriate to the Council.

1.4 Acknowledgements

We would like to take this opportunity to thank Council staff who have been involved in this review for their assistance and co-operation.

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

Grant Thornton UK LLP
June 2011

2 Financial systems

2.1 Introduction

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. As set out in our Audit Approach Memorandum, we are required to review the financial systems and controls over IT systems and applications at the Council in order to gain sufficient assurance to support our opinion on the financial statements.

2.2 Financial systems

Background

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements. As set out in our Audit Approach Memorandum, the higher risk areas we have identified for 2010-11 are:

- creditor payments
- payroll
- council tax and non-domestic rates
- fixed assets.

Findings

Our review did not highlight any performance issues with the systems covered by our control review.

2.3 IT Systems and Applications

Background

The Council's key operations rely on information technology for processing, recording and reporting transactions. Information technology is, therefore critical to the ability of the Council to operate effectively and deliver high quality services to the public. As a result, adequate controls should be in place to ensure the availability, confidentiality and integrity of data. In addition, the Council is required to comply with the provisions of the Data Protection Act 1998 to ensure the safety and security of personal data.

As part of our 2008-09 audit, we have reviewed the design and operational effectiveness of general controls over IT systems and applications in the Council. We focused our review on the operation of the Oracle Financial Management System, the Council Tax system (iworld) and the Non Domestic Rates system (Orbis). We also reviewed the progress of implementation of the agreed action plan points from our 2009-10 audit of IT systems and applications.

Findings

Our overall conclusion is that the controls over IT systems and applications continue to operate effectively. We made four new recommendations from our audit of which three are classed as medium risk:

- the access rights of leavers should be disabled in a more timely manner
- network password settings should be encrypted to improve security and reduce the risk of unauthorised access to the network
- Oracle access rights should only be granted after being authorised by a member of staff included in the list of designated approvers.

Summary and conclusions

Financial systems continue to operate within a sound framework of financial control. There is some scope for improvement in the internal controls operating over IT systems and applications, but we have no priority 1 findings to report.

3 Governance

3.1 Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The Council's Audit Committee should have a role in monitoring these arrangements.

As part of our audit, we identified four specific areas risk areas relevant to governance arrangements. The work we carried out and our conclusions are documented below.

3.2 National Fraud Initiative

The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI covers a two year cycle and for the latest cycle, 2008-09, Audit Scotland's national report has identified total cumulative frauds in the Scottish public sector of £58 million. The role of external audit in NFI is to review the Council's procedures for managing the exercise and the progress in pursuing potential frauds highlighted by the data matching exercise.

In our 2009-10 audit, we identified a number of improvements in order for the Council to improve its participation and benefit fully from the Initiative. In particular we recommended that:

- the Council should prioritise the review and processing of the highest quality data matches and ensure these are processed in a timely manner
- staff in relevant departments should be assigned responsibility to review and process the NFI matches
- the Council should consider submitting creditors data for the next NFI exercise
- the key contact should review the required access to the NFI system for the 2010-11 exercise and ensure only appropriate staff have been given access.

2010-11 Exercise

The Head of Internal Audit, as the key contact, has introduced a number of changes to the Council's procedures for participation in the Initiative, which have led to significant improvements in the ensuring the data matches are reviewed and processed in a timely manner, and also strengthening the participation of other Council departments.

One of the main improvements in the Council's participation in this year's exercise is the methodology adopted for reviewing the data matches to ensure all high quality matches are processed in a timely manner. Table 1 below highlights the Council's progress to date in processing the matches.

Table 1: Progress of NFI matches as at 18 May 2011

Area	Matches	Processed	Progress
Housing Benefit	260	77	Scheduled for completion by the end of May.
Creditors	190	212	Completed - some duplicates identified that were previously identified
Payroll	21	16	Scheduled for completion by the end of May.
Residential Care Homes	87	87	Completed- no issues noted.
Blue Badges	121	121	Completed- no issues noted.
Insurance	7	7	Completed- no issues noted.
	686	520	

Source: NFI Report to the SMT, 18 May 2011

The results of the exercise are reported to the Senior Management Team on a monthly basis. Table 1 above demonstrates that the Council has made good progress in processing matches, and expects to complete the exercise by the end of May 2011. This represents a significant improvement in the Council's level of participation in the NFI compared to prior years.

Council Tax- Single Person Discount

In May 2011, Audit Scotland wrote to all local authority chief executives to request participation in the next stage of NFI which involves matching the electoral register to council tax data to identify potential fraudulent single person discount awards. Audit Scotland is using its statutory powers as stated in Part 2A of the Public Finance and Accountability (Scotland) Act 2000 to request the electoral register from all local authorities in Scotland.

The Council already reviews potential frauds in single person discounts through a contract arrangement with a data security firm. However, the experience of the Audit Commission in England and Wales indicates that participating in the NFI exercise can lead to matches that are not otherwise identified from other means.

Action plan point 5

3.3 Contract management

Our 2009-10 audit found that the Council had made significant improvements to its contract management procedures since our original audit review in 2007-08. In particular, we noted that the Gateway process has now been implemented and embedded into the Council's working practices. In this audit year, we followed up the Council's progress in implementing the remaining recommendations from our contract management

Follow up of prior year recommendations

Table 1: Position of outstanding recommendations as at May 2011

Original report	Original recommendations outstanding	As at May 2011			
		Implemented	Not Implemented	Partially Implemented	Ongoing/Not yet due
Contract management report 2009-10	2	1	1	-	-
Contract management report 2007-08	2	1	-	-	1

We previously noted there was no formal requirement for a post completion review of significant projects under the Gateway process. The Council has now implemented this action plan point and has intergrated the requirement for post completion reviews into the Gateway process.

At the time of our audit, there was two recommendations relating to the Argyll Air Services project, which require further management action to fully implement:

- completing a post completion review of the project
- finalising the draft business plan.

We are aware that the draft business plan is due to be finalised in June 2011.

3.4 Internal audit

Background

We reviewed the Council's internal audit department against the requirements of The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA as part of our 2007-08 audit. In addition, our 2008-09 audit, recommended that the Council carry out a review of the future strategic direction of internal audit and consider the best way of providing the service.

In June 2010, the Council appointed a 'Head of Internal Audit' (HIA) to lead the department, and this addresses one of the main areas of previous non-compliance with the Code. As part of the 2010-11 audit, we have assessed the extent to which the Council meets the requirements of CIPFA guidance on the role of the HIA

We reviewed the Council's arrangements against the 5 principles in the CIPFA guidance.

1. championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments
2. giving an objective and evidence based opinion on all aspects of governance, risk management and internal control
3. must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee
4. must lead and direct an internal audit service that is resourced to be fit for purpose
5. must be professionally qualified and suitably experienced.

We noted the following observations from our audit:

Principles 1 and 2

The appointment of the HIA addresses one of the of the most significant areas of previous non compliance with the Code of Practice for Internal Audit. Following the appointment of the HIA, the Council will be required to update its documented procedures, in particular:

- the terms of reference for internal audit
- the internal audit manual
- the Council constitution.

We are aware that the HIA is currently progressing the updating of these documents. Once completed, this will ensure the Principles outlined in the CIPFA guidance are enshrined in the Council's practices.

Principle 4

Our audit concluded that the staffing compliment of the internal audit department may not be sufficient to allow the HIA to deliver the 2011-12 plan as agreed at the March audit committee. The Table below shows the internal audit staffing position for 2011-12 as reported in the plan presented to the audit committee in March 2011:

	Direct audit days
Head of Internal Audit	123
Audit Manager	168
Senior Audit Assistant	190
Accountant	200
Trainee Accountant	184

	Direct audit days
Contract Auditors	220
TOTAL	1,085
Required days in the 2011-12 Audit Plan	1,085

Currently the Audit Manager role is vacant. The HIA plans to recruit contractor staff to fill this role in the short term. We note that the lack of an audit manager role will present operational issues for the department, mainly:

- the lack of a an officer with sufficient qualifications and experience to deputise for the HIA in their absence
- the lack of a permanent fully qualified auditor with sufficient experience to undertake the more complex areas of the plan, albeit the use of contractor staff and the partnership with KPMG will provide some cover for this area.

Management consider there to be sufficient financial resources allocated to internal audit, and we are aware that staffing levels will be reviewed in October 2011, following the completion of a review of the service.

We have noted in prior years that internal audit have not always achieved the original outturn of expected audit days per the plan. For example in the year to 31 March 2010, internal audit delivered total days of 990 versus the plan of 1,131- a variance of 141 days (12%).

We recommend that the Council reviews the operational capacity of internal audit to complete the work plan agreed by the audit committee for 2011-12 and future years.

Action plan point 6

A Action plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
IT Systems and Applications					
1	<p>Network access</p> <p>We selected a sample of 10 individuals that have left the Council since 1 April 2010. We noted that the network account for one of these leavers was still active. We understand that this leaver was not reported to the Service Desk.</p> <p>Additionally, we noted that three former members of staff have user accounts in the Northgate (payroll) application. Their access rights allow them to process payrolls in the Northgate application. One of these three leavers has an active user account on the network.</p> <p>There is a risk that the user accounts of these former members of staff could be used to gain unauthorised access to data.</p>	Medium	<p>Line Managers should be reminded about their responsibility for reporting leavers to the Service Desk.</p> <p>The Council should implement a monthly review of inactive network accounts. User accounts that have not been used for a period of time should be disabled.</p> <p>The leavers detailed in this point should have their network and application accounts disabled.</p>	<p>In the Northgate system, the system automatically disables a user if they have not been in the system for 30 days. The users IDs concerned had all been disabled in ResourceLink system but have now been end dated as well. All leavers are notified to the IT service desk via reports of leavers from the ResourceLink payroll/HR system. This is much more comprehensive than relying on notification from individual line managers. In addition, we will regularly disable network accounts which have not been used in the last 3 months. This will include people off on long term sick as well as leavers.</p>	N/A

No	Finding	Risk	Recommendation	Management Response	Implementation Date
2	<p>Password encryption</p> <p>We noted that network passwords are not stored in encrypted format. This is due to the "Store passwords using reversible encryption" setting being enabled in the password policy on the Windows network.</p> <p>There is a risk that the whole list of network passwords could be compromised in the event of a hacking attack. This could lead to unauthorised access to data or disruption in IT operations.</p>	<p>Medium</p>	<p>We recommend disabling the "Store passwords using reversible encryption" setting in the password policy of the Network.</p> <p>An impact analysis should be performed before disabling this setting to validate that it does not affect the performance or operation of any of the Council applications. Adequate testing should be carried out as part of this impact analysis.</p>	<p>We will, in consultation with our advisers, Exactive, attempt this change by the end of April. The change will be done out of hours to minimise disruption.</p> <p>Unfortunately it is not possible to fully test it in advance. If there are problems, then the change will be reversed.</p>	<p>End of April 2011</p>

No	Finding	Risk	Recommendation	Management Response	Implementation Date
3	<p>Access to the Oracle FMS application</p> <p>There is a list of designated members of staff that are the only ones that can authorise the grant of access rights to the Oracle FMS application.</p> <p>We selected a sample of 10 new users in the Oracle FMS application. It was noted that the access request for one new user was not approved by an authorised member of staff. This approval was retrospectively granted when brought to management attention.</p> <p>There is a risk that unauthorised access to the Oracle FMS application could be granted.</p>	Medium	Oracle access rights should only be granted after being authorised by a member of staff that is included in the list of designated approvers.	The setting up of a new user in Oracle with incorrect authorisation was an oversight on the part of the system administrator and this was rectified. Procedures already require appropriate authorisation and this will be adhered to.	N/A

No	Finding	Risk	Recommendation	Management Response	Implementation Date
4	<p>Software logs</p> <p>We noted that there is a software package (GFI Events Manager) that generates daily security reports for the network. However, these reports were not being checked at the time of our visit due to IT staff constraints.</p> <p>There is a risk that unauthorised activity on the network might go undetected.</p>	Low	We recommend implementing a process whereby the reports generated by the "GFI Events Manager" software tool are checked on a regular basis.	This has now been added to the daily schedule of tasks.	Immediate
NFI					
5	Audit Scotland have request that local authorities provide them with the electoral register in order to provide matches against Council Tax payments for single person discount.	Medium	The Council should consider complying with Audit Scotland's request as a part of enhancing fraud detection procedures over and above those already in place.	The electoral register will be supplied.	In line with the date supplied by Audit Scotland
Internal Audit					
6	<p>Current staffing levels in the internal audit department may not be sufficient to complete the 2011-12 audit plan, which was agreed by the audit committee.</p> <p>The Council may be able to fill some of the staffing resource gap with contractors and partnership resources. However, there</p>	(Short Term: Medium) (Long term: High)	The Council should consider if there are enough staffing resources in the internal audit department to achieve the annual plan.	The sections staffing levels have not prevented the delivery of the audit plan in previous years. The 2011 – 2012 plan will be delivered as in previous years by experienced qualified staff through close management.	Is reviewed on a monthly basis.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
	is a higher risk in the longer term that there is not enough suitably qualified and experienced internal audit staff to effectively deliver internal audit services to the Council.				



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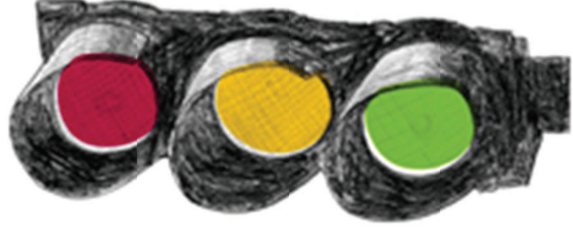
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Argyll and Bute Council

Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

April 2011



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Introduction and background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009-10 accounts and full published IFRS accounts for 2010-11.

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010-11 final accounts audit.

The arrangement review is primarily focused on 1 April 2009 restated balance sheet values, which will be required to report the 1 April 2010 opening balances for 2010-11. This work has been undertaken as part of our planning for the 2010-11 financial statements audit.



Adequacy of arrangements

Basis of assessment

This report details the findings of our review. For each significant balance sheet items we have considered the effectiveness of the Council's arrangements in each of the following key areas:

- identification and reporting of accounting policies
- identification and reporting of adjusted UK GAAP values at 1 April 2009
- support and advice to report asset valuations required under IFRS
- restatement of notes to the balance sheet
- quality of supporting working papers

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green (RAG) rating using the following definitions:

Green	Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.
Amber	Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. Evidence that the Council is taking forward areas whether arrangements need to be strengthened. Further audit evidence required to support the underlying figures.
Red	The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Our findings are detailed on pages 3 and 4 of this report. Where items and areas have been assessed as amber or red we have discussed these with officers and as appropriate made recommendations on page 5.

Summary of findings

Assets							
Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment	
Property, plant & equipment							
Investment properties							
Intangible assets							
Non-current investments							
Non-current trade & other receivables							
Non-current other assets							
Inventories							
Trade & other receivables							
Investments							
Other current assets							
Cash & cash equivalents							
Assets held for sale							

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Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables						
Bank overdraft						
Current borrowings						
Current financial liabilities						
Current provisions						
Other current liabilities						
Non-current trade & other payables						
Non-current borrowings						
Non-current financial liabilities						
Non-current provisions						
Non-current other liabilities						
Taxpayers equity						

Other areas

Area	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Group accounts						

Detailed findings on red and amber ratings

Reclassification of fixed assets

Property, Plant and Equipment (PPE)

The Code requires authorities to account for PPE in accordance with IAS 16 *Property, plant and equipment*. PPE is defined in the Code as tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

The main areas of adjustment for the Council are noted below.

Investment Properties

The Code requires authorities to account for investment properties in accordance with IAS 40 *Investment properties*. The Code interprets IAS 40 by defining investment properties as those held solely to earn rentals and/or for capital appreciation, and not used to deliver services or for administrative purposes. This is a separate category from PPE, and is a tighter definition than the SORP.

In the restatement exercise, the Council has identified that it holds £1 million of investment properties, with reclassifications of £5.8 million of previously identified investment properties under UK GAAP. We have requested details on a sample of assets held for sale to ensure they comply with the requirements for classification in the Code.

Assets held for Sale

The Code requires authorities to account for assets held for sale in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. As a new requirement from 2010/11, the Code requires assets to be classified as held for sale if their carrying amount will be recovered principally through a sale rather than their continued use. This is a separate category from PPE. There are a number of differences between the Code's requirements for assets held for sale and the broadly equivalent category of surplus assets under the SORP (which now is a sub-classification of PPE).

In the restatement exercise, the Council has identified that it holds £8.6 million of assets held for sale. We have requested details on a sample of assets held for sale to ensure they comply with the following requirements for classification in the Code:

- the asset must be available for immediate sale in its present condition
- the sale must be highly probable, which means management must be committed to a plan of sale, and an active programme to locate a buyer and complete the plan must have been initiated
- the asset must be actively marketed at a reasonable price
- the sale should be expected to be completed within one year of the classification.

Surplus Assets

Assets classified as surplus assets under the SORP may also be classified as surplus assets within property, plant and equipment under the Code. This will arise where an asset does not meet the criteria to be classified as either held for sale or as an investment property for example where the asset is no longer used for service delivery but the authority has not, at the balance sheet date, decided whether to sell the asset or develop it. The asset requires to be valued at existing use rather than market value and CIPFA guidance recommends that the asset's last use in providing services should be used for this purpose.

Total surplus assets as at 1 April 2008 was £6.5 million. Our review noted the following significant surplus assets held by the Council following the restatement exercise:

- Toward Castle Outdoor School (£2.15 million)
- Ardentiny Outdoor Centre (£0.9 million)
- Lochgilphead Primary School (£1.5 million)
- Rockfield Primary School (£1.1 million).

We have requested supporting documentation for these assets to confirm they are correctly classified as surplus assets within the Property Plant and Equipment asset category.

We also noted that all surplus assets, with the exception of the two primary schools noted above, are valued at open market value and not existing use value. The Council's valuer has carried out a review of material assets within the surplus asset category and identified that only two assets (the outdoor centres) will have a significantly different value under an existing use valuation. As such an adjustment will be required for the opening balance for these assets, the Toward Castle Outdoor School will be transferred to assets held for sale in 2010-11.

Asset Register

The Council is currently updating its asset register to incorporate the requirements of IFRS.

At the final accounts visit, we will review reconciliations of the opening balances, and 31 March 2010 figures to the asset register to ensure they are properly recorded within the ledger.

Componentisation

Componentisation refers to the practice of separately identifying and depreciating two or more components of an asset. The Code requires that authorities define components that require to be depreciated separately in the context of those having a 'cost that is significant in relation to the total cost of the asset. This requirement takes effect from 1 April 2010.

The Council has not maintained records of asset components in previous years. Going forward, the Council plans to componentise assets in excess of £1 million. A threshold will be used whereby only components in excess of 20% of the value of the overall asset will be recognised. The Council will identify significant components by reviewing capital expenditure over £200,000 for specific projects. We have accepted this proposal as reasonable.

Trade and other payables**Holiday pay accrual**

A new requirement under the Code relates to the treatment of short-term accumulating compensated absences that can be carried forward where the current entitlement is not used e.g. annual leave and flexitime balances, as authorities are required to recognise a liability for the untaken element at the year end. Authorities are required to measure the additional amount that they expect to pay as a result of unused entitlement that has accumulated at the balance sheet date. This is required even where employees are not entitled to a cash payment for unused entitlement on

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leaving. Authorities are required to gather information on the number of days of untaken leave as at 31 March to allow them to identify the liability. The liability should represent the proportion of the annual salary which relates to the number of days of untaken leave.

The presentation of the group accounts under IFRS is different from the accounts produced under UK GAAP. The Council are currently producing a draft set of group accounts, and we will review these in our final accounts visit in July 2011.

Like many other authorities, the Council has found practical difficulties in obtaining the information required to calculate an accurate holiday pay accrual, mainly due to a lack of central computerised records for all grades of staff. Accordingly the Council has adopted a methodology using a sample of 5% of employees. The sample is selected across a wide range of employees to ensure it includes all relevant grades and geographical locations. Additional work has been completed on teacher's holiday pay, and on staff groups where holiday balances are likely to be significant (eg those staff on maternity leave).

We have considered the methodology and found it to be sufficient for the purposes of calculating the holiday pay accruals. We intend to review the sample chosen by the Council to confirm the accuracy of the calculation as part of our financial statements audit.

Group Accounts

The Code requires authorities to prepare group accounts in accordance with IFRS 3 *Business combination*, IAS 27 *Consolidated and separate financial statements*, IAS 28 *Investments in associates*, and IAS 31 *Interests in joint ventures*.

The Council has interests in five associates: Strathclyde Police Joint Board, Strathclyde Fire and Rescue Joint Board, Dunbartonshire and Argyll and Bute Valuation Joint Committee, Strathclyde Partnership for Transport, and Strathclyde Concessionary Fares Joint Committee.

The move to IFRS does change the basis on which an authority should recognise a subsidiary, associate or jointly controlled entity. The Council should perform a review to ensure it captures any other bodies that would fall within its group boundaries.

Other findings

Accounting policies

We have reviewed the Council's proposed IFRS accounting policies. The proposed accounting policies comply with the requirements of the Code, and are in line with our expectations based on our knowledge of the Council.

We note that there is no specific policy in place for financial assets. As the Council holds loans and receivables of £25 million as at 31 March 2010, we recommend that a policy on financial assets be included. The Council has agreed to review the need for including a policy for financial assets.

Segmental Reporting

The Code requires authorities to comply with IFRS 8 *Operating segments* (as adapted by Code paragraph 3.4.1.6) and this is a new requirement from 2010/11. Reportable segments should be based on an authority's internal management reporting. A segment requires to be reported where: its expenditure is 10% or more of the gross expenditure within the net cost of services; or its income is 10% or more of the gross income. Disclosure of operating segments is in addition to the requirement to present the comprehensive income and expenditure statement on BVACOP basis.

A key issue for the Council in producing segmental reporting disclosures is that the significant restructuring of the management structure in 2009-10 will impact on the ability of the Council to provide comparative figures for operating segments. We have considered this approach and concluded it is reasonable based on the way the Council's ledger operates.

Common Good Funds

The Council continues to administer the seven common good funds for the former burghs within the Argyll and Bute area. Whereas the SORP required authorities to disclose details of the nature and amount of these funds, there is no similar Code requirement. However the Council should continue to comply with LAASAC guidance note, Accounting for the Common Good Fund: A guidance note for practitioners.

The Oban Common Good Fund is also a registered charity under the Charities and Trustee Investment (Scotland) Act 2005. As such, separate statutory accounts are prepared for this Fund under the requirements of the Charities Accounts (Scotland) Regulations 2006, which requires the Fund to comply with the Charities SORP.

We recommend that the Council include a disclosure in the Common Good Funds note indicating the accounting basis for each Fund.

In addition, the Council should review the potential requirement and impact of IFRS adjustments for those Funds which are not registered charities in relation to consolidation for the group accounts.

Embedded leases

The Council has established plans to carry out a review of expenditure items as part of the process to identify any embedded lease contracts. This will include a full review of all service level agreements held by the Council. We will review the outcome of this review at our final accounts visit.

Overall conclusions and recommendations

The results of our work indicate that the Council's overall arrangements for IFRS restatement have been adequately planned, focusing its resources on the key risk areas.

Overall at this stage we are content that the processes undertaken by the Council have enabled management to highlight the accounting, explanatory, and presentational adjustments required for restatement to IFRS. Understandably there is more work to do and we will be working closely with the Finance team in their preparation of fully IFRS accounts for 2010/11.

	Finding	Recommendation	Management Response
1	<p>Employee benefits</p> <p>The Council's current systems for recording flexitime and holidays do not allow real time capture of relevant balances on an individual employee basis at the balance sheet date.</p>	<p>The Council should consider improvements to the systems for recording employee flexitime and holidays to improve the accuracy of the year end employee benefits accrual.</p> <p>We are aware that upgrades to the Resourcelink system may allow such a functionality to be available in future years.</p>	<p>The upgrade to Resourcelink should allow the Council to calculate the flexitime and holiday pay accrual accurately in the future.</p>
2	<p>Group accounts</p> <p>The Council has produced group accounts for 2009-10 under IFRS, but has not yet finalised the layout of the group accounts within the financial statements.</p> <p>The changes in the Code increase the risk that bodies that fall within the group</p>	<p>The layout of the group accounts should be finalised and presented for review.</p> <p>The Council should ensure a full review is completed that identifies any other bodies that fall within the group boundary.</p>	<p>Layout finalised and presented for review.</p> <p>No further bodies have been identified which fall within the group boundary.</p>

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	Finding	Recommendation	Management Response
3	<p>boundary are not consolidated.</p> <p>Common Good Funds The Council has seven Common Good Funds in the area, of which one is a registered charity and separate accounts prepared under the Charities SORP.</p>	<p>The Council should consider disclosure requirements for the Common Good Funds in the 2011 IFRS financial statements.</p> <p>The Council consider if there is a need for any IFRS adjustments for the Funds in order to facilitate consolidation into the Group accounts.</p>	<p>This will be considered when the group accounts are being prepared.</p>
4	<p>Surplus assets The Code requires surplus assets held within PPE to be valued at existing use (at the time the asset was last operational). The current valuation method for these assets in the asset register is market value. The Council has identified significant asset values for review to ensure there is no material difference in the valuation methods.</p>	<p>The value of surplus assets in PPE should be assessed to determine they are compliant with the Code.</p> <p>Surplus assets should be valued at existing use, any material differences to the value should be processed through the opening balance sheet and the balance sheet as at 31 March 2010.</p>	<p>A review has been performed and it has been ascertained that in the majority of instances there is not a material difference between market value and existing use value.</p> <p>Where material differences have occurred the difference in value has been processed through the opening balance sheet at 1st April 2009.</p>



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