

Public Document Pack

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate and Legal Services
Director: Nigel Stewart



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13 February 2003

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 21 FEBRUARY 2003** at **2:15 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate and Legal Services

BUSINESS

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- 2. DECLARATIONS OF INTEREST**
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AUDIT COMMITTEE

Vincent Bradbury (Chairman)
Councillor Robert Macintyre
Councillor James McQueen
Councillor John Stirling (Chairman)

Councillor Alistair MacDougall
Councillor Gordon McKinven
Graham Michie

Contact: Ruby Campbell 01546 604331

ARGYLL AND BUTE COUNCIL**MINUTES of MEETING of AUDIT COMMITTEE held in THE COUNCIL
CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY 8 NOVEMBER
2002****Present:**

Councillor John Stirling (In the Chair)

Councillor Gordon McKinven
Councillor James McQueenCouncillor Robert MacIntyre
Mr Graham Michie**Attending:**Stewart McGregor, Director of Finance
Charles Reppke, Head of Democratic & Community Services
Gerry Wilson, Head of I.T. Infrastructure
Alistair Bovaird, Head of Corporate Policy
Ian Nisbet, Audit Manager
Kevin Anderson, Education Finance Team
Asif Haseeb, Audit Scotland
Steve Clark, KPMG
Steve Keightley, KPMG**Apologies:**Councillor Alistair MacDougall
Mr Vincent Bradbury**1. MINUTES**

The Committee approved the Minutes of the Audit Committee of 26 July 2002 as a correct record.

2. EDUCATION FINANCIAL POSITION

The progress, for the period to 30 August 2002, on the improvements to financial control within Education was reported on by the Education Finance Team.

Decision

To note the progress made by the Education Finance Team.

(Ref. Report by Education Finance Control Monitoring Group dated 11 September 2002, submitted.)

3. EXTERNAL AUDIT REPORTS TO COUNCIL FROM 1999/00 TO PRESENT – PROGRESS REPORT

A review regarding the progress made by management in the implementation of External Audit from Pricewaterhouse Coopers has been undertaken and was reported on by the Internal Audit Manager.

Decision

To note the contents of the Internal Audit Manager's report and that it be followed up by Internal Audit.

(Ref. Report by Internal Audit Manager dated 8 November 2002, submitted.)

3 (a) SECOND INTERIM MANAGEMENT LETTER 200/01 – I.T. UPDATE

The Head of I.T. Infrastructure provided an update on the outstanding items on the second interim management letter 2000/01.

Decision

- 1 To note the explanations offered by the I.T. department and to request a further report to the next meeting on progress on compliance in the content of the KPMG review of the I.T. service and the departments success or otherwise in attracting the extra resources necessary to ensure compliance.
- 2 That a follow up report from Internal Audit on I.T. update be submitted to the Strategic Policy Committee.

(Ref. Report by Head of I.T. Infrastructure dated 30 October 2002, submitted.)

3 (b) CORPORATE POLICY UPDATE ON STATUTORY PERFORMANCE INDICATORS

The Head of Corporate Policy submitted a report on Statutory Performance Indicators which was presented to the Strategic Policy Committee on 3 October 2002

Decision

Agreed to note the present position and to continue to monitor progress.

(Ref. Report by the Head of Corporate Policy dated 8 November 2002, submitted, Report by Head of Corporate Policy dated 3 October 2002, submitted.)

4. EXTERNAL AUDIT REPORTS TO COUNCIL FROM 2001/02

The Internal Audit Manager outlined the progress made by management in the implementation of recommendations made by Audit Scotland, the Council's new External Auditors.

Decision

Agreed to note the contents of the report

(Ref. Report by Internal Audit Manager dated 8 November 2002, submitted.)

5. UPDATE REPORT ON INTERNAL AUDIT RESOURCES 2002/03

The Internal Audit Manager updated the Committee on the review which was carried out in order to ascertain the position of Internal Audit in relation to resources and time available against the objectives set out in the Annual Audit Plan for 2002/03

Decision

Agreed to note the contents of the report.

(Ref. Report by Internal Audit Manager dated 8 November 2002, submitted.)

6. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2002/03

The progress on the Audit work performed by Internal Audit during the second quarter of 2002/03 was reported on by the Internal Audit Manager.

Decision

- 1 To note the progress made with the Annual Audit Plan 2002/03.
- 2 That further progress reports be presented to future meetings of the Committee.

(Ref. Report by Internal Audit Manager dated 8 November 2002, submitted.)

7. LOCAL CODE OF CORPORATE GOVERNANCE

The Director of Corporate & Legal Services submitted a report which had previously been before the Standards Committee, on 31 October 2002.

Decision

- 1 Agreed to note the appendix action points.
- 2 Agreed that a report on Risk Management be presented to the next meeting.

(Ref. Report by the Director of Corporate & Legal Services dated October/November 2002, submitted.)

*** 8 FUTURE ARRANGEMENTS FOR THE AUDIT COMMITTEE**

The Director of Corporate & Legal Services submitted a report detailing the need to look forward to the period up to and beyond the Council Elections in May 2003.

Decision

- 1 Agreed to add in wording 'ceased to be a Councillor on or since the day of the preceding ordinary Elections' as stated in 3.7 (1) & (2) of the report.
- 2 Agreed to endorse the Standards Committee approach regarding continuation of Independent Members serving no more than two consecutive terms and that a person should not be appointed as an Independent Member who is a relative or a close friend of a current Councillor of this Council.
- 3 Agreed to recommend the foregoing to the Council.

(Ref. Report by Director of Corporate & Legal Services dated 8 November 2002, submitted.)

9. DATE OF NEXT MEETING

The next meeting of the Audit Committee will be held on 21 February 2003.

ARGYLL AND BUTE COUNCIL
CORPORATE & LEGAL SERVICES

MANAGEMENT TEAM
3 FEBRUARY 2003
AUDIT COMMITTEE
21 FEBRUARY 2003

CORPORATE GOVERNANCE/RISK MANAGEMENT

1. SUMMARY

- 1.1 A formal assessment of business risks is required to be undertaken by the Council in accordance with Corporate Governance arrangements. The services of our public liability insurers and claims handlers – Risk Management Partners and Gallagher Bassett will be used to facilitate this exercise and create a formal Risk Register.

2. RECOMMENDATION

- 2.1 The Audit Committee note the arrangements in place to train staff with regard to strategic and operational risks; the creation of a Risk Register and the ongoing monitoring and updating of the Register.

3. DETAIL

- 3.1 An essential part of Council business is to ensure that major business risks are identified and covered as far as possible. A process has to be undertaken whereby such risks are identified by Management and Members with appropriate officers tasked to monitor such risks with pre-agreed timescales. This process is an essential part of Corporate Governance.
- 3.2 In order to facilitate an exercise of formally identifying business risks and preparing a Risk Register the Strategic Policy Committee, on 12 December 2002, agreed to utilise the services of Risk Management Partners and Gallagher and Bassett who are our public liability insurers and claims handlers respectively. The following proposal, which sets out a framework to assist the Council with the carrying out of risk audits within Services, the development of risk profiles and the compilation of a Risk Register, has been agreed -
- 3.2.1 30 January - Presentation to all Members following Strategic Policy Committee.
- 3.2.2 3 and 24 February - Half day training sessions for Management Team; Heads of Service and Members of the Risk Management Group.

- 3.2.3 5 and 6 March - Strategic Interviews with at least two Heads of Service per department, carried out by loss control consultant firm Gallagher Bassett and the Council's Risk and Insurance Manager.
- 3.2.4 7 – 20 March - Preparation of draft Report and Risk Register - carried out by loss control consultant firm Gallagher Bassett in association with the Council's Risk and Insurance Manager and Heads of Service.
- 3.2.5 3 April - Presentation of Report and draft Risk Register to Strategic Policy Committee.
- 3.2.6 May/June - Chief Executive/Leader of the Council to “sign off” an appropriate control statement for 2002/03 to include statement on procedures in place in terms of identification of risks.
- 3.2.7 May to July - Four training seminars for operational managers to be held in Helensburgh; Dunoon; Oban and Lochgilphead.
- 3.2.8 July to September - Four workshops for operational managers on identification and assessment of operational risks to be held in Helensburgh; Dunoon; Oban and Lochgilphead.
- 3.2.9 Thereafter - the Risk Management Group to determine ongoing monitoring of identified risks; identification of new risks and updating of Register; post Council restructuring. It is anticipated that this will be achieved via discussions with Heads of Service who will be asked to confirm how they are managing risks and identifying new risks.
- 3.2.10 Risk Register to be in place by end of financial year 2003/04.
- 3.2.11 Annual report to Audit Committee including updated Risk Register from April 2004 onwards.

Susan Mair
Head of Legal Services
27 January 2003

For further information contact: Verona MacDonald, Risk & Insurance Manager,
Tel: 01546 604229

**ARGYLL & BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
21st FEBRUARY 2003**

**PROGRESS REPORT on EXTERNAL AUDIT REPORTS FROM
PRICEWATERHOUSECOOPERS (PwC) TO THE COUNCIL FOR 2000/2001**

1. SUMMARY

Internal Audit has prepared a list of all external audit management letters where recommendations still remain outstanding. (See Appendix 1). Management progress regarding the implementation of these recommendations has been reviewed by Internal Audit the results of which are detailed below.

2. RECOMMENDATIONS

2.1 The contents of this report are to be noted and followed up by Internal Audit.

3. DETAILS

3.1 A review by Internal Audit as at the 9th January 2003 indicated that only one recommendation from the Interim Management Letter 2000/2001 remains to be implemented. This has a long-term implementation date of March 2003 but we can report that good progress is being made. (See Appendix 2).

3.2 A review by Internal Audit as at the 9th January 2003 indicates that there are now only 2 recommendations still to be implemented by the IT department from the Second Interim Management Letter 2000/2001. The IT Head of Service, Mr Gerry Wilson, has submitted a report covering progress for review by the Audit Committee. (See Appendix 3).

3.3 A review by Internal Audit as at the 9th January 2003 indicates that there are 2 recommendations yet to be fully implemented from the Audit Management Letter 2000/2001. Both recommendations are inter related with the completion of (9.02) dependent on the completion of (9.01) where external agencies have been appointed but have still to complete their assignment. (See Appendix 4).

3.4 With regard to the above management letters, Internal Audit has carried out testing in order to confirm the assurances obtained from management.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit as part of the annual audit plan. Those action points remaining to be implemented have been reported to committee with reports provided by the appropriate officials.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager21Feb2003.
21febprogreport21feb

APPENDIX 1**EXTERNAL AUDIT REPORTS**

PwC Report Name	Comments Obtained from Respondents Y/N	Recommendations Outstanding
Interim Management Letter 2000/2001	Y	1
Second Interim Management Letter 2000/2001	Y	2
Audit Management Letter 2000/2001	Y	2

ARGYLL & BUTE COUNCIL
INTERIM MANAGEMENT LETTER 2000/01
SEPTEMBER 2001 (Updated 9 JANUARY 2003)



DETAILED RECOMMENDATIONS

Findings	Recommendation	Management Comment	Responsible Officer	Update as at 18/03/02	Update as at 20/06/02	Update as at 11/10/02	Update as at 09/01/03
<p>2.02 Education budget has not been appropriately phased</p> <p>Our review of the Education monthly budget monitoring reports highlighted that a number of material variance had arisen because the budget had not been phased appropriately throughout the year.</p> <p>The budget does not therefore reflect the income and expenditure fluctuations throughout the year. This increases the complexity of departmental monitoring and variance reporting and carries a risk of misinterpretation.</p>	<p>The department should review income and expenditure patterns across the major lines of service to ensure that effective profiling of budgets can be carried out to provide a realistic reflection of departmental income and expenditure activity.</p>	<p>Finance and Education staff have undertaken a major exercise jointly. The cause of many of the phasing issues had been the expansion of new projects within the Excellence Fund and the provision of funding direct to Head teachers.</p> <p>Considerable scope existed for budget holders to decide upon the spend, eg, staffing, materials or repairs. In addition, some projects required consultation with partners before plans were implemented. As the programmes become more stable, the issue will diminish. Finally, a review will be undertaken on the</p>	<p>Joseph McGeer (Now the responsibility of the Finance Team, Dunoan and future reports will reflect this)</p>	<p>Ongoing In process, but Director of Finance is directly responsible</p>	<p>An action plan has been prepared to address the improvements required in financial control within Education. This is a much wider issue than that identified by PWC. The action plan is currently being progressed by an augmented finance team for Education. A monitoring group of members and senior officials has been established to review progress against the action plan. The Group is reporting progress to the Strategic Policy</p>	<p>An action plan has been prepared to address the improvements required in financial control within Education. This is a much wider issue than that identified by PWC. The action plan is currently being progressed by an augmented finance team for Education. A monitoring group of members and senior officials has been established to review progress against the action plan. The Group is reporting progress to the Strategic Policy</p>	<p>Progress is being made and the action plan continues until March 2003</p>

APPENDIX 2

Findings	Recommendation	Management Comment	Responsible Officer	Update as at 18/03/02	Update as at 20/06/02	Update as at 11/10/02	Update as at 09/01/03
		timing of the invoices from other departments of the Council.			Committee. The action plan continues until March 2003.	Committee. The action plan continues until March 2003	

**ARGYLL AND BUTE COUNCIL
REPORT BY HEAD OF I.T. INFRASTRUCTURE****AUDIT COMMITTEE**

SECOND INTERIM MANAGEMENT LETTER 2000/01 – I.T. UPDATE

This report updates members on the outstanding items from the Second Interim Management Letter 2000/01. At the time of the last report in October 2002, five items remained outstanding. My update to the Audit Committee outlined the pressures and resource difficulties faced by the IT department and the Committee agreed on a plan of action for the five remaining items. Despite those pressures, I am pleased to report that three of the 5 items have now been concluded with the remaining two proceeding as agreed at the last meeting.

The two remaining items are as follows:

1. Key Performance Indicators

An analysis of the most appropriate indicators has been concluded and a report submitted to the Management Team on 3 Feb 2003 for consideration. The report suggests applying the national Society of Information Technology Managers (Socitm) internal indicators to the service and these will be measured and reported on an ongoing basis.

2. Disaster Recovery

An initial contingency planning exercise has been completed and a decision taken to employ external assistance to progress the project. Newell and Budge are now working with IT staff to prepare a report on the options available to the Council to ensure Unix and Microsoft Exchange services face minimal disruption in the event of a disaster. The report will outline weaknesses in current server rooms and backup procedures, highlight the various commercial options available to the Council, including the delivery and configuration of replacement servers, prioritise services based on input from the IT management and senior officers of the Council, and suggest ways in which a recurring contingency planning exercise can be introduced to the Council's standard procedures. A request for funding has been included in the forthcoming budget process and the report will be submitted to the Management Team in March 2003.

Gerry Wilson
Head of I.T. Infrastructure
29 January 2003

ARGYLL & BUTE COUNCIL

SECOND INTERIM MANAGEMENT LETTER 2000/01

JULY 2001 (Updated 29 January 2003)

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Reference No.	Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 11/10/02	Update as at 29/01/03
Ref 1	<p>A review of controls over dial-up access should be undertaken and improvements made. Examples are:</p> <p>Restrictions on the use of dial up networking should be included within third party contracts and all dial-in requests should be formally recorded.</p>	A. Connolly	End December 2001	<p>Still having technical problems. Task has been reallocated and alternative funds have been identified. Completion date is now December 2002.</p>	<p>All technical problems have been resolved. A new procedure has been introduced which requires all third party access to be logged at the service desk. Procedure for requesting access by third party completed.</p>
Ref 2	<p>Service Level Agreements and maintenance contracts held with third parties should be updated on an on-going basis, have a confidentiality clause, and where relevant contain a clause regarding external dial-up.</p>	K.Duncan	<p>Stage 3 & 4 : End December 2001 Stage 5 : End March 2002</p>	<p>Administration support is now in place and existing maintenance contracts are being collated and reviewed. Appropriate training has been planned to allow scanning and indexing of documents for central storage. Completion date is December 2002.</p>	<p>The Contracts with those suppliers who support our business applications and/or have remote access to the Councils network have been revisited to introduce revised terms and conditions relating</p>

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Reference No.	Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 11/10/02	Update as at 29/01/03
					<p>to Confidentiality. Procedures for controlling Remote Access to our networks have been introduced as part of our existing agreements with those suppliers. Relevant contract documents have been collated centrally and following resolution of technical problems with scanning equipment, all will be available in electronic format centrally.”</p>

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Reference No.	Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 11/10/02	Update as at 29/01/03
Ref 3	<p>In order to increase system resilience it is recommended that a contingency and scenario planning exercise be undertaken. This should enable a full risk assessment to be made and a detailed disaster recovery plan to be developed. This plan should then be tested and updated on an ongoing basis.</p>	G. Wilson	End October 2001	<p>The Information Security Forum has now been established. G Wilson is preparing a presentation on a full scale information security disaster recovery initiative to the forum. The project will have significant financial and resource implications for the Council with no budget yet identified to implement any solution. A contingency and scenario planning exercise will be undertaken prior to Christmas and will include an assessment of the Council's insurance policies to determine if data recovery and</p>	<p>An initial contingency planning exercise has been completed and a decision taken to employ external assistance to progress the project. Newell and Budge are now working with IT staff to prepare a report on the options available to the Council to ensure Unix and Microsoft Exchange services face minimal disruption in the event of a disaster. The report will outline weaknesses in current server rooms and backup procedures,</p>

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Reference No.	Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 11/10/02	Update as at 29/01/03
				<p>contingency costs can be partially met from insurance policies. A full risk assessment based on securing or replacing IT systems in the event of a disaster will have to follow</p>	<p>highlight the various commercial options available to the Council, including the delivery and configuration of replacement servers, prioritise services based on input from the IT management and senior officers of the Council, and suggest ways in which a recurring contingency planning exercise can be introduced to the Council's standard procedures. A request for funding has been included in the forthcoming budget process.</p>

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Reference No.	Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 11/10/02	Update as at 29/01/03
Ref 4	Formal key performance indicators for the IT department should be established and reported to management on a regular basis.	G.Boyd	End September 2001 End December 2001	Currently looking at measurable P.I.'s Expect to have P.I.'s established and reported by end of December 2002.	Following review of options, IT propose to apply the current SOCITM Internal KPIs to their service . This proposal will be reported to the Council Management Team on 3 rd February 2003 and , subject to their approval , calculations against those KPIs will then start .
Ref 5	Controls over the Council network should be strengthened.	A.Connolly	End October 2001 April 2001	Are currently working on procedures – no date as yet. Are pushing to get a number of procedures by end of March 2003.	The procedure for authorising major changes to the network has been completed.

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Reference No.	Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 11/10/02	Update as at 29/01/03
				<p>Has not been done due lack of resources – should be done by March 2003. If not done by January 2003 additional staff will be brought in to do this. A new server has been installed to control FTP access. Work Completed. Backups are monitored manually – automatic monitoring is not essential. Work Completed</p>	<p>Router configuration sheets have been updated as required.</p>

**ARGYLL & BUTE COUNCIL
AUDIT MANAGEMENT LETTER 2000/01
7 JANUARY 2002 (Updated 9 JANUARY 2003)**



Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 11/10/02	Update as at 09/01/03
<p>Partial Exemption</p> <p>The Council has a VAT partial exemption de-minimus level of 5%. At the time of our visit, we noted that the Council had not undertaken a partial exemption calculation for either the 1999/2000 or 2000/2001 financial years, although we were advised that their VAT advisers were currently working on the 1999/2000 calculation.</p> <p>In the absence of any partial exemption calculations for either 1999/2000 or 2000/2001 we are unable to comment as to whether the Council has remained within its 5% de minimus limit. It should be noted that if the Council were to exceed its 5% limit, the VAT cost to it would be in excess of £340,000 per year (based on 5% of the input tax declared on the VAT returns submitted for 2000/2001).</p>	<p>The Council should review the current procedure for calculation of its partial exemption position such that this is undertaken on a timely basis.</p>	<p>The Council is going to review the contract for external consultancy for both partial exemption and advice support. It is the intention to carry out a tendering exercise early in 2002.</p> <p>It is still the intention to retender for this service in 2002</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Contact has been made with KPMG, the Council's VAT advisers with a view to them undertaking this exercise. KPMG are now working on this.</p>	<p>The advisors are still working on this.</p>

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 11/10/02	Update as at 09/01/03
<p>Detailed Review of March 2001 VAT return</p> <p>The Council currently completes a VAT return to Customs and Excise on a monthly basis. The reconciliation of the return to the financial ledger includes a number of manual adjustments to reflect the council's operations.</p>	<p>Consideration should be given to agreeing an input tax estimate with Customs to allow for any VAT on expenditure invoices dated within the VAT return period that have not been processed by the period end. On the basis that the average delay in processing invoices is 30 days, a one off advance VAT payment of around £565,000 could be obtained. The cashflow benefit in respect of such an advance would be approximately £33,800 per year (based on interest rates at 6%).</p>	<p>Exercise to identify an input tax estimate for submission and agreement with customs and excise will be carried out. Although it will depend on the availability of staff and external consultants.</p> <p>We have had preliminary discussions with KPMG (VAT advisors) and we will look at this once the annual accounts have been prepared.</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Once the exercise on estimation of time delay in VAT reclaim for creditors invoice has been completed arrangements will be made to re-tender the VAT advisory service. There is little point in carrying out a retendering exercise whilst this project is underway with the existing Vat advisers.</p>	<p>Once the exercise mentioned in 9.01 has been completed arrangements will be made to commence retendering.</p>

9.02

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
21st FEBRUARY 2003

**PROGRESS REPORT on EXTERNAL AUDIT REPORTS TO COUNCIL FROM
2001/2002**

1. SUMMARY

Internal Audit has prepared a list for all external audit management letters produced by Audit Scotland for 2001/02. (See Appendix 1). A review regarding the progress made by management in the implementation of these reports recommendations has been performed the results of which are detailed below.

2. RECOMMENDATIONS

2.1 The contents of this report are to be noted and followed up by Internal Audit.

3. DETAILS

- 3.1 The Council received an external audit management report from Audit Scotland entitled Regularity & Governance 2001/2002. A review by Internal Audit of this reports recommendations as at the 9th January 2003 indicates that out of 9 agreed recommendations 7 have been implemented and 2 remain outstanding. Of the remaining 2 recommendations, one relates to authorised signatory lists for the Payroll section and has gone over its completion date of December 2002. However we can report that substantial progress has been made with the recommendation and it will be implemented by the end of February 2003. The implementation of the other recommendation is held up due to our Oracle software provider's awaited response. (See Appendix 2).
- 3.2 An external report was received from Audit Scotland entitled Management Report – Regularity & Governance 2001/2002. The focus of the audit was a review of a number of key systems from which 19 recommendations were made. Internal Audit can report that 18 of these have implementation dates of March 2003 or later. The one recommendation relating to November 2002 has been implemented. A copy of the report is attached see Appendix 3.
- 3.3 Audit Scotland has produced an Audit of Accounts 2001/02 Audit Memorandum The 2001/02 final report on the audit of Argyll & Bute Council Final Accounts was presented to the Council in November 2002. In summary the auditors commented that there were no qualifications but highlighted the failure of the Property Maintenance Direct Labour Organisation to meet its financial objective. They also recommended that the Council should continue to monitor the Education Departments financial reporting and budget position. I would invite the Audit Committee to comment on the appropriateness of the Council responses to the reports 9 recommendations. (See Appendix 4).
- 3.4 An audit memorandum for Audit of Accounts 2001/02 was presented to the Council in October 2002. The purpose of this memorandum was to address matters of accounting principle not previously reported in the Final Report on the Audit of

the Council. Internal Audit can report that of 6 recommendations 5 have implementation dates of March 2003 or later. One recommendation relating to October 2002 has been implemented. A copy of the report is attached see Appendix 5.

- 3.5 Audit Scotland in December 2002 produced a report entitled Performance Audit of Trading Standards. The conclusion drawn was that the Trading Standards Service has performed above the Scottish average. A total of 11 recommendations have been made in the report, a copy of the Executive Summary is given in Appendix 6.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit as part of the annual audit plan. Those remaining to be implemented will be reported to the Audit Committee.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 21February2003.
21febprogreport21feb

APPENDIX 1**EXTERNAL AUDIT REPORTS**

Audit Scotland Report Name	Comments Obtained from Respondents Y/N	Recommendations Outstanding
Regularity and Governance 2001/02	Y	2
Management Report – Regularity and Governance 2001/02	Y	18
Final Report Argyll & Bute Council 2001/02	Y	9
Audit of Accounts 2001/02 – Audit Memorandum	Y	5
2001/02 Performance Audit – Trading Standards	Y	11

ACTION PLAN

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date	Update as at 11/10/02	Update as at 09/01/03
8/10	9	A review of suppliers on the creditors system should be performed. Where appropriate, duplicate entries should be removed. <i>Priority: Medium</i>	A Allan, IT	This has been planned with IT for some considerable time. A project is now underway to remove one-off suppliers. It is presumed that the example referred related to council tax or NDR refunds where a one-time supplier reference is created each time by the interface. There is no practical alternative to this process.	26 September 2002	Revised date End of December 2002	The problem is still to be resolved by Oracle the software suppliers. IT is actively pursuing this issue.
		Main Accounting					
9/18	12	An updated and comprehensive authorised signatories list should be maintained and held by the payroll section. <i>Priority: Medium</i>	M Soudan	The payroll section has always held an authorised signatory list. This is updated annually. However, consideration will be given to updating these 6 monthly.	December 2002	December 2002	Will be completed by February 2003

Argyll & Bute Council – 2001/02
Management Report - Regularity and Governance

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EXECUTIVE SUMMARY

Introduction

As part of our final audit for the year to 31 March 2002, we undertook a review of selected aspects of a number of systems in place within the Council. We have concluded that in some areas internal control and processes require to be further developed as highlighted by the need for the Council to take remedial action during the year. This section summarises the main findings arising from our review.

Main findings

Internal Audit

Progress against the action plan points raised in the 2000/01 report *A Job Worth Doing* has been good, although there are still some areas where improvements have yet to be realised. Since the partnership with KPMG commenced in February 2002 a risk-based audit needs assessment and a three year strategic internal audit plan have been prepared and approved by the Audit Committee. In our view the audit needs assessment employed sound methodology and the strategic plan provides an appropriate basis for internal audit to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control systems. We have concerns in some areas, including the independence of internal audit, the level of IT/MIS coverage, and the staffing and structure of the internal audit section.

Budgetary Control – Education Department

During 2001/02 it became apparent to Council management that budgetary control within the Education Department was not operating effectively and that there was a possibility that the Department would overspend its budget for 2001/02. In a review to examine financial control within the Education Department, KPMG outlined a number of areas where financial control systems were unreliable and commented that the process employed to prepare income and expenditure projections was not sufficiently detailed and robust. A dedicated team was put in place to revise the budgetary control system and their work is continuing.

Building Maintenance DLO

As reported in the 2001/02 annual accounts, the Building Maintenance DLO incurred a deficit of £85,000. The monitoring of management accounts by the Finance Department during the year highlighted a potential problem. The level of work had increased from the previous year and controls to ensure that individual jobs were accurately costed and ongoing cost control measures proved insufficient for a reasonable return to be achieved.

Unified Benefits System

A review of procedures relating to the processing of Housing and Council Tax Benefit claims was undertaken. We noted that procedures could be tightened to potentially reduce the amounts of benefit overpaid and reconciliations between the Unified Benefits System and financial ledger should be carried out more regularly. In addition, communication between departments could be improved with regard to benefit fraud investigation and the Benefit Procedures Manual should be updated to clarify the procedures staff should follow when processing backdated applications, dealing with applications from family or friends and investigating the non-return of review forms.

Corporate Governance and Fraud and Corruption arrangements

We found that the Council had well developed arrangements to ensure that the three fundamental principles of corporate governance, openness, integrity and accountability, are applied and also to prevent and detect fraud and corruption.

Conclusion

Overall the procedures put in place by the Council appear to be operating satisfactorily. However, some procedures were put in place or enhanced during the year to meet shortcomings which controls were unable to prevent. Detailed recommendations are included within our audit findings for each area reviewed, and are summarised in the following agreed action plan.

ACTION PLAN

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date
		<i>Internal Audit</i>			
9/5	1	<p>Management should continue to monitor the implementation of the outstanding points in the action plan agreed following the 2000/01 report.</p> <p><i>Priority: Medium</i></p>	I. Nisbet/ A. Colligan	<p>Training is included in our partnership agreement with KPMG and will be provided by them.</p> <p>Internal Audit has adopted a consistent approach in respect of working papers and files.</p> <p>New members of staff attend a corporate induction course and are provided with an audit pack that includes the Audit manual, risk assessment and strategic plan and other documents used by Internal Audit.</p>	March 2003
10/6 10/9	2	<p>Management should ensure that the plan for 2002/03 is followed as closely as possible and levels of non-direct audit work are monitored actively.</p> <p><i>Priority: High</i></p>	I. Nisbet/ A. Colligan	The audit plan for 2002/2003 contains less days assigned to these tasks. The audit plan for 2002/2003 will be followed as closely as possible.	March 2003
10/7	3	<p>Any further input to benefit fraud investigations should be restricted to minimise the effect on the delivery of the 2002/03 plan.</p> <p><i>Priority: Medium</i></p>	I. Nisbet	A Counter Fraud Manager was appointed on the 2 nd of September 2002. This will reduce the input requirement by Internal Audit.	N/A
10/8	4	<p>Management should consider the appropriateness of the staffing structure of internal audit.</p> <p><i>Priority: Medium</i></p>	S. McGregor	The Council recently reviewed the structure of Internal Audit and entered into a partnership for Internal Audit with KPMG for a 3-year period. It is not proposed to review the structure prior to the end of the partnership.	January 2005

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date
10/10	5	Management should consider the relatively low planned input on IT/MIS and the opportunity afforded for coaching in this area. <i>Priority: Medium</i>	I. Nisbet/ A. Colligan	The days assigned are to review the IT environment and looked at IT matters from a strategic and installation level. Controls at an individual application level are addressed during the course of audit. The transfer of experience will be progressed over the remaining life of the partnership.	Ongoing
11/11	6	Management should consider the relative independence of internal audit and current reporting lines. <i>Priority: Medium</i>	S. McGregor	Internal Audit has access to the Director of Finance, the Chief Executive and the Chairman of the Audit Committee. However this will be reviewed at the termination of the Internal Audit partnership with KPMG	January 2005
		Budgetary Control - Education Department			
12/18	7	Management should continue to realise improvements in the system of budgetary control and ensure that monitoring of the financial position is actively carried out on a frequent and regular basis. <i>Priority: High</i>	S. MacDonald	An action plan has been prepared to address the improvements required in financial control within Education. This is a much wider issue than that identified by PWC. The action plan is currently being progressed by an augmented finance team for Education. A monitoring group of members and senior officials has been established to review progress against the action plan. The Group is reporting progress to the Strategic Policy Committee. The action plan continues until March 2003	31/03/ 2003

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date
		Building Maintenance DLO			
12/21	8	Management should ensure that systems provide reliable management information and that all efforts are made to reduce levels of work in progress. <i>Priority: High</i>	A.Law	There has been continual pressure on DLO Management staff to use information available to them and a long-delayed computer enhancement was completed in September this year. Issues around reducing Work in Progress are continually re-inforced with line management and this will continue to be pressed over the remainder of this year	October 2002 – March 2003
12/21	9	Information presented to the Commercial Operations Board should accurately reflect the true current position and potential position of the DLO. <i>Priority: Medium</i>	A.Law	This is done – previous report of 29/8/2002 and intended one of 21/11/2002	Ongoing
12/22	10	Management should ensure that the costing and pricing of potential work is realistic to achieve the desired rate of return. <i>Priority: High</i>	A.Law	This has been actioned in terms of any <i>ad hoc</i> work bid for and the revision to the Term Maintenance Contracts has been done with the DLO seeking to pursue reward levels sufficient to allow their statutory return to be made	Ongoing
13/23	11	Management should continue to monitor closely the financial performance of the DLO. <i>Priority: High</i>	A.Law	This is being done – monthly Management Accounts considered and copied to senior members of the Council. Weekly staff productivity records and overtime sheets also reviewed by line management and Head of Service	Ongoing

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date
		Unified Benefits System			
13/25	12	The Benefits Procedure Manual should be updated to cover the procedures to be followed by staff when processing their own benefit applications or those of relatives and friends, dealing with backdated applications and investigating the non-return of review forms. <i>Priority: Medium</i>	J. Preston	Agreed	Feb 2003
13/26	13	For cases where review forms are not returned investigations should be performed to establish whether benefit has been overpaid. <i>Priority: Medium</i>	J. Preston	Assess if resources can be made available for this to be carried out.	March 2003
13/27	14	The Benefits System should be reconciled with the financial ledger on a monthly basis. <i>Priority: High</i>	J. Preston	Agreed	November 2002
13/28	15	Consideration should be given to standardising the rotation of staff duties across all area offices. <i>Priority: Medium</i>	J. Preston	Matter will be considered	Feb 2003

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date
14/29	16	Consideration should be given to conducting a data matching exercise for all Council employees. <i>Priority: Medium</i>	J. Preston	Assess feasibility with Corporate Personnel and Payroll.	Jan 2003
14/30	17	Every effort should be made to improve communication and co-ordination between departments with regard to benefit fraud investigations. <i>Priority: Medium</i>	J. Preston/ K. MacLeod	Agreed	November 2003
14/31	18	The Council should confirm whether the requirements of the Verification Framework remain applicable to the Council. <i>Priority: Medium</i>	J. Preston	Agreed	November 2003
14/32	19	The duties and responsibilities for the preparation of the annual benefits subsidy claim should be clearly defined. <i>Priority: Medium</i>	B. West/D. MacVicar	Management felt that responsibility for preparation of the claim was clear. However in the light of this comment the responsibility for preparation of the claim will be re emphasised to those involved in the preparation.	March 2003

INTRODUCTION

1. We conduct our audit in accordance with Audit Scotland's Code of Audit Practice, which requires us to consider the corporate governance arrangements in place as they relate to the systems of internal control. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.
2. As part of our 2001/2002 audit activity, a review was undertaken of a number of the systems in place within the Council, specifically budgetary control within the Education Department, Unified Benefits and a high level review of DLOs and DSOs. We employed an approach which involved evaluating the internal control system by selecting key controls and testing that they operated satisfactorily.
3. In addition, we took the opportunity to follow up the findings of *A Job Worth Doing*, the 2001 report on raising the standard of internal audit in Scottish councils, which resulted in a detailed action plan to improve the service at Argyll & Bute Council. We also assessed the Council's corporate governance arrangements and arrangements in place to prevent and detect fraud and corruption.
4. This report summarises the findings from our review and, where appropriate, makes recommendations to address any weaknesses identified. It should be noted that communication of weaknesses does not absolve management from its responsibility for the maintenance of an adequate system of control. The Action Plan included in Section 2 of this report sets out the agreed action to be taken in response to the main recommendations, graded to show their relative priority, and the timescales within which the issues are to be addressed. The Action Plan should be read in conjunction with the relevant reference from the main findings (Section 4).
5. It should be understood that weaknesses highlighted in this report are only those that have come to our attention during normal audit work in accordance with the Code of Audit Practice and therefore are not necessarily all of the weaknesses that may exist.
6. The factual accuracy of the content of this report, and the remedial action to be taken, has been agreed in discussion with appropriate officials.
7. The co-operation and assistance afforded to audit staff during the course of the review are gratefully acknowledged.

MAIN FINDINGS

Internal Audit**Introduction**

1. In *A Job Worth Doing*, the 2001 report on raising the standard of internal audit in Scottish councils, Argyll & Bute Council was assessed in band 4 (the lowest band) on compliance with the CIPFA Code of Practice for Internal Audit (below 50% compliance). PricewaterhouseCoopers, the Council's external auditors, produced a local report which incorporated a detailed action plan to introduce the range of improvements required. The action plan contained 27 individual recommendations.
2. Following this report the Council chose to seek a suitable partner to establish an internal audit partnership. Following a tender exercise KPMG were appointed to provide 390 days over a three year period at a cost of £225,000. As part of our 2001/02 audit we have assessed the progress made by Internal Audit since the *A Job Worth Doing* report and the commencement of the partnership with KPMG.
3. Since their appointment in February 2002, KPMG have been involved in preparing a risk-based audit needs assessment, a three year strategic internal audit plan, and annual plans for the period. KPMG also provided advice on the format of Internal Audit's annual assurance statement and proposed performance indicators for the Internal Audit service. The strategic plan reflects the results of the audit needs assessment exercise and provides a detailed schedule of assignments covering a range of systems, both financial and non-financial, operating within the Council. The annual plans include time for follow-up reviews to assess progress on implementing agreed recommendations, value for money reviews, dedicated computer audit reviews, and coverage of best value reviews and performance indicators. A contingency allowance is included also to cater for special investigations.
4. In our view, the audit needs assessment employed sound methodology and the strategic plan provides an appropriate basis for internal audit to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control systems.

Audit Findings***Progress in implementing action plan points***

5. Progress against the action plan points has been good, although there are still some areas where improvements have yet to be realised. Appropriate training has yet to be agreed and delivered (point 3.41 in action plan), the introduction of the latest technology has still to be considered (point 3.49), and formats for files, reports and working papers have still to be finalised (point 3.43).

Refer action plan no.1

2001/02 Internal Audit coverage

6. Internal audit's work for 2001/02 was reported to the Audit Committee on 26 July 2002. The section suffered from staffing difficulties during the year and five planned reviews were deferred. We note that 279 days, some 29% of the total days delivered, were spent on three areas, namely year-end stock taking (88 days), the housing benefit grant claim (45 days) and performance indicators (146 days). Although the majority of this work was performed by more junior staff, the time spent on these areas appears excessive. The plan for 2002/03 envisages much less time being spent on such activities.

Refer action plan no.2

7. Historically the Internal Audit Manager has had responsibility for the Council's fraud officers and has spent a fair proportion of time managing and performing benefit fraud investigations. Such work was never part of the Internal Audit plan and there is a risk that continuing input may distract the section from delivering its core service. We understand that a fraud manager has recently been appointed, and that for the remainder of 2002/03 little input will be required from the Internal Audit Manager.

Refer action plan no.3

Staffing and Organisation

8. Internal Audit suffered from a shortage of resources during 2001/02 and two members of staff were recruited in July 2002. We note that the strategic plan is based on six full-time members of staff whilst currently one member of staff works for only three days a week. The section now comprises two internal audit managers one of whom is designated as the lead, two accountants and two audit assistants. The current structure may not be the most appropriate and there may remain a lack of clarity around lines of accountability and reporting.

Refer action plan no.4

2002/03 Plan

9. The current estimate is for 805 days direct audit work in comparison with the original estimate of 970 days. The shortfall arises from internal audit being under complement until August 2002. The plan is for coverage of those areas assessed with the lowest priority ranking in the Audit Needs Assessment to be deferred if necessary. This is a sensible approach to minimise the effect of the shortfall in planned days. However, we understand that the 970 days was based on six full-time members of staff, whilst one member of staff works for only three days a week. Therefore, a risk exists that the planned work for 2002/03 will not be completed substantially.

Refer action plan no.2

10. Of the 140 days that KMPG will provide, only 25 days are scheduled to be on direct audit work, being 10 days on IT/MIS strategy and controls (computer audit) and 15 days on Value For Money. The total planned for IT/MIS is 30 days. This appears to be a relatively low number of days given the reliance placed by the Council on IT systems. This is one particular area where on the job coaching and skills transfer by KPMG specialist(s) could be of benefit to the Council.

Refer action plan no.5

Independence of Internal Audit

11. The CIPFA Code of Practice for Internal Audit sets out the importance of the independence of Internal Audit. At Argyll and Bute, Internal Audit cannot be said to be truly independent of line management. In practice, Internal Audit report to the Head of Accounting, who is responsible for many of the systems that Internal Audit will scrutinise. This may lead to an element of conflict. It may be more appropriate for Internal Audit to report directly to the Director of Finance with direct access to the Chairman of the Audit Committee.

Refer action plan no.6

Budgetary Control - Education Department

12. During 2001/02 it became apparent that budgetary control within the Education Department was not operating effectively and that there was a possibility that the Department would overspend its budget for 2001/02. The Director of Finance requested that KPMG perform a review to examine financial control within the Education Department. KPMG highlighted a number of areas where financial control systems were unreliable and commented that the process employed to prepare income and expenditure projections was not sufficiently detailed and robust. Recommendations were included in a detailed action plan to improve controls within the Education Department. In February 2002, in a follow-up report, KPMG concluded that they were unable to form a conclusion on the accuracy of the estimated projections of the year-end position.
13. One of the problems identified by KPMG was that budgetary information held in the Education Delegated Management of Resources (DMR) system and the main financial system, ORACLE, was not consistent and had not been reconciled regularly.
14. On 4 February 2002, the Education Finance Monitoring Group decided that all non-essential education expenditure should be stopped with immediate effect, in view of the uncertainty remaining on the financial outturn for the year. The Strategic Policy Committee at its meeting on 21 February 2002 transferred financial control from the Education Department to the Director of Finance.
15. The overspend on Education for 2001/02 totalled £0.691 million having been reduced by £200,000 and was achieved by reducing the Education capital budget and allowing Transportation and Property Services to transfer expenditure from revenue to capital.
16. It should be noted that the external auditors raised concerns about the budget setting and budget monitoring processes during both 1999/2000 and 2000/01. In their interim management letter for 2000/01, external audit reported that information submitted to the Education Committee was insufficient to allow an understanding of the individual factors which impact upon the variances arising. In addition, external audit commented that the budget had not been appropriately phased throughout the year which increased the complexity of departmental monitoring and variance reporting.

17. A dedicated finance team based within the Education Department was set up in November 2001 to introduce improvements in budgetary control and to progress the agreed actions in the KPMG action plan. This team has reported regularly to the Education Finance Working Group and has revised the approach to budget monitoring and reporting. It has been considered necessary to examine variances at a lower level than those examined in other departments. All Education budget holders are now required to provide explanations for variances at account code level of the lower of 5% or £5,000 (but greater than £500). This should provide greater control and also encourage budget holders to take ownership of their budgets and become fully involved in the financial monitoring process.
18. The team have completed a detailed costing exercise and revenue budget for 2002/03. This indicated that the funds required to deliver the Education Service are approximately £1.3 million more than the approved estimate. As a result the Strategic Policy Committee, on 29 August 2002, approved a savings plan totalling £1.1 million and a decision was taken to establish a core scrutiny team to undertake a thorough review of the service costs and delivery.

Refer action plan no.7

Building Maintenance DLO

19. As reported in the 2001/02 annual accounts, the Building Maintenance DLO incurred a deficit of £85,000. Income for the year increased by £477,000 to £3.6 million with a corresponding increase in expenditure of £583,000.
20. Management accounts for DLOs and DSOs are prepared on a monthly basis, with formal financial monitoring meetings attended by the Chief Executive and the Director of Finance being held quarterly. The Council's Commercial Operations Board oversees the activities of the DLOs and DSOs.
21. The monitoring meeting held on 30 October 2001 projected a surplus position for all DSOs and DLOs at 31 March 2002. However, the management accounts to 30 September 2001 disclosed a work in progress balance of £800,000 for building maintenance and before the meeting on 30 October, a review was instigated which revealed that a number of jobs were being disputed and that other jobs were reported as completed but had not been invoiced. Nevertheless, the Commercial Operations Board, at their meeting on 15 November 2001 were informed that all DLOs and DSOs were in a relatively healthy position as at 30 September and on target to make the necessary rate of return by the end of the financial year.

Refer action plan no.8 and 9

22. A review of the Building Maintenance DLO's activities identified that the deficit arose mainly from individual schemes, which are separately tendered work, where the actual volume was higher than anticipated and subsequently did not achieve a reasonable overall return. The costing system proved not to be particularly effective which led to pricing being too tight, and ongoing cost control measures were insufficiently robust. We understand that the DLO experienced internal reorganisation during the year and key staff turnover which may have contributed to the problems encountered.

Refer action plan no.10

23. Action has been instigated to reverse the situation including the preparation of an updated business plan. During the first three months of 2002/03 a loss of £174,000 was incurred. This deficit position may prove difficult to overturn by the end of the financial year.

Refer action plan no.11

Unified Benefits System

Introduction

24. Our review of the Unified Benefits system covered specifically procedures relating to the processing of:
- Council Tax Benefit claims for owner occupiers (administered at Campbeltown) and for tenants processed by the Campbeltown and Dunoon offices; and
 - Housing Benefit claims.

Audit Findings

25. We noted that the Council complies with accepted good practice and has issued a revised Benefits Procedure Manual in July 2002 to all staff involved in the processing of all benefit claims. However, our review of the Manual identified that it does not cover the procedures to be followed by staff when processing their own benefit applications or those of relatives and friends, dealing with backdated applications or investigating the non-return of review forms.

Refer action plan no.12

26. Housing and Council Tax Benefit claimants not returning review forms are not followed up after a reminder is sent out. Benefit is withdrawn from the review date and no attempt is made to determine when entitlement to the benefit ceased in these instances. Therefore no steps are taken to assess the amount of the potential overpayment.

Refer action plan no.13

27. The Benefits System is only reconciled with the financial ledger on a yearly basis at the financial year end. This increases the risk that material errors remain unidentified throughout the year.

Refer action plan no.14

28. Our review noted that the Oban area office has a workload rotation list for members of staff. Audit enquiry noted that staff feel that the benefits of such a system includes the identification of training needs, an increase in staff motivation and a reduction in the backlog of work in some areas of responsibility. Other area offices do not have such a system in place, with the workload in the Dunoon and Helensburgh area offices being split alphabetically. We understand that this may be creating difficulties where the workload is not split evenly amongst staff. We identified that no work rota exists in the Helensburgh office.

Refer action plan no.15

29. Although a data matching exercise was carried out by the Council in consultation with the Department of Work and Pensions (DWP) in 2000/2001 for manual and cleaning staff, no such exercise has been carried out for all other Council employees to identify staff who may be fraudulently claiming benefits.

Refer action plan no.16

30. With regard to benefit fraud investigation procedures, audit enquiry identified the following:

- the poor quality of information on some referral forms meant that fraud officers were unable to proceed further with the investigation. There appears to be a breakdown of communication between fraud officers, verification officers and benefits staff; and
- the documentation used by Fraud Officers when investigating cases of alleged fraud, e.g. documentation of interviews, may not be legally sufficient if a case were to be sent to the Procurator Fiscal for prosecution.

Refer action plan no.17

31. The Verification Framework control sheet records the information required to be submitted by benefit claimants as evidence of their entitlement to benefit and to meet the requirements of the Verification Framework. Audit testing identified that this form was located in most of the files checked at the Oban area office for the claim prior to the current claim. However, we noted that benefits staff at the Helensburgh area office no longer use this form. The Benefits Manager is of the belief that the rules for the Verification Framework have been relaxed and it may be no longer mandatory requirement to provide this type of evidence.

Refer action plan no.18

32. The Internal Audit report on the Unified Benefits System issued in February 2002 stated that the officer responsible for completing the annual benefits subsidy claim was unsure of his precise responsibilities and duties with regard to the preparation of the claim. The report recommended that the Internal Audit Manager prepare a paper which clearly specifies various duties and responsibilities for the preparation and checking of the subsidy claim. Audit enquiry noted that Internal Audit Manager did not understand why he was the responsible officer for preparing such a paper, and as such the recommendation remains outstanding.

Refer action plan no.19

Corporate Governance

33. We performed an overview of the Council's corporate governance arrangements using a standard checklist approach. We are pleased to note that most of the elements necessary to ensure that the Council applies the three fundamental principles of corporate governance, openness, integrity and accountability, are in place. These include:
- Codes of Conduct for Councillors and for Employees;
 - A Scheme of Administration and Delegations; and
 - A risk management policy and strategy in place and Risk Management Group prepare annual report.

Fraud and Corruption

34. The Council has the responsibility to establish arrangements to prevent and detect fraud and corruption. As part of this year's audit we considered the adequacy of these arrangements using a standard checklist approach. Overall we found a number of good practices including the following:

- An “anti-fraud and anti-corruption” strategy which advises and guides members and staff on the Council’s approach to the serious issues of fraud and corruption;
- A “fraud response plan” which outlines the procedures for reporting suspected fraud or corruption and how the Council will deal with such complaints;
- A “whistle blowing” policy that is consistent with the provisions of the Public Interest Disclosure Act 1998; and
- In relation to housing and council tax benefit, the Council has documented procedures for the prevention and detection of fraud and for the investigation of fraudulent claims.

CONCLUSION

1. We have highlighted a number of areas where the Council has reacted and taken steps to improve control and oversight. We judge the action taken to be generally appropriate and have recommended that planned improvements are continued. The matters which we have raised in this report are designed to add to the existing system of internal control.

2001/2002 final report on the audit of

Argyll & Bute Council

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Convenor and Members
Argyll & Bute Council
Headquarters
Kilmory
LOCHGILPHEAD
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31 October 2002

Controller of Audit
EDINBURGH

Ladies and Gentlemen

Report on the Audit for the year ended 31 March 2002

I have now completed my audit of the Council's Accounts for the year ended 31 March 2002.

As part of my responsibilities as external auditor to the Council I am required to submit, at the conclusion of each year's audit, a report addressed both to Members of the Council and to the Controller of Audit. I have pleasure in attaching my report on the Council's audit for the year to 31 March 2002.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of Members' attention.

I should like to take this opportunity to thank those officers who have assisted my staff in the course of the audit.

Yours faithfully

David McConnell
Chief Auditor

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Executive Summary

Introduction

This report summarises the auditor's main responsibilities and duties and draws the attention of members to the range of matters emerging from the audit of the Council for the year to 31 March 2002.

Financial Statements and Related Matters

There are no qualifications to my audit report in that I am able to conclude that the Council's financial statements present fairly its financial position as at 31 March 2002. However, my audit report highlights the failure of the Property Maintenance Direct Labour Organisation to meet its prescribed financial objective. I have also provided an audit opinion for the Council's Direct Labour Organisations and Direct Service Organisations and can confirm that the prescribed financial objective has been achieved for each description of work and defined activity, with the exception of the Property Maintenance DLO.

Governance and Regularity

As part of the 2001/02 audit, a number of systems were reviewed including main accounting, payment of creditors, unified benefits and payroll. We also undertook follow-up audits of the main financial systems and departmental systems reviewed in previous years. Our systems audit work is designed to help ensure that appropriate levels of control are in place. We also carried out overviews of the Council's internal audit service and of its procedures for the prevention and detection of fraud and corruption. A standard checklist approach was used in each case. Additionally, we carried out an overview of the Council's corporate governance arrangements.

Performance Management

Part of the auditor's statutory responsibilities is to be satisfied that the Council has made appropriate arrangements to secure value for money from its available resources. The main elements of the performance audit work carried out as part of the 2001/2002 audit included an exercise on managing pre-school education (including grant arrangements), a review of the trading standards service and follow-up reviews of property risk management in schools and benchmarking internal audit.

Introduction

1. It may be helpful to members to summarise my main responsibilities and duties and the way in which I approach the conduct of the audit.
2. My responsibilities and duties as auditor derive from the Local Government (Scotland) Act 1973. These responsibilities and duties are summarised in the Audit Scotland Code of Audit Practice which sets out the auditor's objectives as being to review and report on:
 - ◆ the Council's corporate governance arrangements as they relate to
 - the systems of internal control
 - the regularity of transactions, and the prevention and detection of fraud and irregularity
 - standards of conduct and prevention and detection of corruption
 - its financial position;
 - ◆ aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources, and the publication of specified performance information;
 - ◆ the Council's financial statements.
3. Accordingly, I have significantly wider responsibilities than would be expected of external auditors in the private sector. This report on the 2001/2002 audit is a summary of audit activity for the year, and reflects those wider responsibilities.
4. This report requires to be considered in the context of the stewardship responsibilities of the management of the Council. As the Audit Scotland Code of Audit Practice makes clear:

"The prime responsibility for ensuring both that public business is conducted in accordance with the law and proper standards and that public money is handled with absolute integrity and spent appropriately rests with the members and officials. To discharge this accountability, public bodies and those responsible for the conduct of their affairs require to establish and maintain proper arrangements for the governance of their affairs and the stewardship of resources at their disposal."
5. The key issues arising from the audit, which require action by the Council, are set out in the Action Plan included as an appendix to this report.

Financial statements and related matters

- ◆ Introduction
 - ◆ Auditor's report
 - ◆ Matters from previous years
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Introduction

1. The financial statements of the Council are an essential means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. The management of the Council is responsible for the preparation of the accounts, which present fairly its financial position and the income and expenditure for the year.
2. I am required to place an auditor's report on the financial statements, which contains my opinion as to whether the Council has fulfilled this responsibility.
3. I am also required to consider whether the Council has established adequate arrangements to ensure that its financial position is soundly based.

Auditor's report

4. There are no qualifications to my audit report as, in my opinion, the Council's accounts present fairly its financial position as at 31 March 2002 and its income and expenditure for the year. However, my audit report highlights a failure to comply with a statutory requirement, in that the Property Maintenance Direct Labour Organisation did not meet its prescribed financial objective. This matter is discussed further at paragraph 12 of Section 4 of this report.
5. I have also provided an audit opinion on the Council's Direct Labour Organisations and Direct Service Organisations and can confirm that, with the exception of the Property Maintenance DLO, the prescribed financial objective has been achieved for each description of work and defined activity.
6. It should be noted that the auditor's report included in the financial statements document does not, in the year under audit, refer to the statement on corporate governance arrangements.

Matters from previous years

7. A number of action plan points were included in the 2000/2001 Report to Members. I have summarised below those significant issues that I would draw to the attention of members.
8. **Central support recharges.** The Council had agreed, in response to the previous auditor's comments, to consider automating the central support recharge process further, in order to improve the timely allocation of overhead charges during the 2001/2002 financial year. During our audit of the 2001/2002 annual accounts we noted that the agreed action had not been implemented although work was being progressed. We understand that the Logotech time recording system is now being implemented within the majority of the Council's Central Support Departments, i.e. Corporate and Legal, Finance, Personnel and Information Technology. The information generated from this exercise will be used to produce the central support recharge allocations for 2002/2003 financial year. Auditors will continue to monitor progress in this area.
9. **Performance indicators.** The Council had agreed that each department would report on the action proposed to address the issues identified by external audit with regard to the 2000/2001 Performance Indicators to the Strategic Policy Committee/Audit Committee by 31 December 2001. We noted that no such reports have been presented as yet to the Strategic Policy Committee/Audit Committee. Auditors will continue to monitor progress in this area.
10. **Implementation of the 2000/2001 action plan.** Our audit work also included a review of the Council's progress in implementing the action plan contained in the previous year's final report. We can confirm that action has been taken to address issues raised in last year's report and this includes:
 - ◆ a 'whistleblowing' procedure has been introduced as part of the Council's Public Interest Disclosure Policy;
 - ◆ Internal Audit follow up all internal and external audit report recommendations and progress reports with regard to implementation of these recommendations are presented regularly to the Audit Committee.

Financial position

11. The Report by the Director of Finance, which prefaces the Annual Report and Accounts, indicates that the revenue budget was set such that the authority would end the year in a break even position. During the course of the year, the Council decided to undertake additional work on housing, funded from carry forward Housing Revenue Account (HRA) balances, and the accounts therefore disclose an actual deficit of £0.490million on the HRA. The surplus on other services is £0.402m. The HRA deficit is set against accumulated surpluses, leaving funds to be used in future years to contribute to the Housing Capital Programme. The General Fund surplus has been added to the surplus brought forward from the previous year of £0.085m; the total of £0.487m has been carried forward to financial year 2002/2003.
12. The Report by the Director of Finance also discloses that, within Education Services, expenditure exceeded budget by £0.691m. Two reports submitted by the Director of Finance to the Council and the Strategic Policy Committee on 27 June 2002 and 15 August 2002 respectively, give further details of Education Services overspend in 2001/2002. Both reports show that Education Services' actual expenditure exceeded budget by £0.891m.
13. The difference of £0.200m is due to the fact that Education Services deferred £0.200m of capital expenditure to future years and transferred £0.200m of capital consent in 2001/2002 to Roads and Transportation Services. Consequent adjustments by Roads and Transportation Services effectively increased its surplus by £0.200m against the original revenue budget. As this £0.200m of additional Roads and Transportation Services surplus was generated by Education Services transferring its capital consent to Roads and Transportation Services, the Director of Finance is of the opinion that this £0.200m of additional surplus can be taken against Education Services deficit of £0.891m to reduce it to £0.691m.

14. Due to the identification of concerns over the budgetary position within the Education Department, a dedicated finance team, based within the Education Department, was set up in November 2001 to introduce improvements in budgetary control. This team has reported regularly to the Education Finance Working Group and has revised the approach to budget monitoring and reporting. It has been considered necessary to examine variances at a lower level than those examined in other departments; all Education budget holders will be required to provide explanations for variances at account code level of the lower of 5% or £5,000 (but greater than £500). The authority consider that this should provide greater control and also encourage budget holders to take ownership of their budgets and become fully involved in the financial monitoring process. The issue of budgetary control within the department has clearly been a cause for concern, both in itself, and in the context of similar issues occurring elsewhere in Scottish Local Government. This is an area which will be subject to review by external audit in 2002/2003.
15. Capital expenditure in 2001/2002 amounted to £19.103million; £3.349million was invested in the council housing stock, renewing roofs, heating, windows, improving thermal efficiency. General services capital expenditure of £15.754million is spread over all the services in Argyll & Bute. Capital expenditure is funded from cash generated from the sale of assets, revenue contributions, grants from various funding bodies, and from borrowing.

Issues arising

16. A number of issues arose during the course of the audit of the Council's accounts, which were resolved in discussion or have been separately reported to officers. These include such matters as non-compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (ACOP). This is an established part of the audit process in respect of which detailed reporting to members' is not considered appropriate. There are, however, certain issues that I would draw to members' attention.
17. **Waste Management – Public Private Partnership.** One of the most significant transactions in the year involved the Council entering into a Public Private Partnership (PPP) to meet the Council's long term waste disposal needs. The contract was signed in September 2001 and the agreement will operate until September 2026. As part of the arrangement, three waste disposal sites, two transfer stations and five civic amenity sites were leased to the project's external provider for the duration of the agreement. The PPP scheme has been assessed by the authority's financial advisers as warranting an off-balance sheet accounting treatment and I have confirmed that the process followed to determine whether the Council should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance.

18. The Council has not yet recognized, in 2001/2002, any level of acquisition of the final residual value of the assets which will revert to the Council at the end of the agreement. It is my view that such adjustments would be required. However, the amounts involved for the first part year of the agreement, from September 2001, are not considered to be material in the context of the accounts, and I note that the Council is to consider recognising these transactions from 2002/2003. Auditors will continue to review the operation of this significant arrangement.
19. **Central support recharges.** As noted in the 'matters from previous years' section, the Council is currently automating the process followed when calculating the year end central support service recharge allocations, the results of which will be reflected in the 2002/2003 Annual Accounts.
20. The 2001/2002 year end central support service recharge allocations were calculated on the basis of percentages calculated for 2001/02 revenue budget setting exercise. The percentages used were calculated from information generated during the service level agreement (SLA) exercise up to September 2000. This involved calculating the level of charges which would be due under each SLA and totalling these by user department for each of the central departments and then expressing the resulting user department total as a percentage of the total support service charge income for the relevant central department. The resulting percentages were then applied to the net cost of the central department to derive the actual charge. This process is somewhat complex.
21. Our audit work identified that, in 2001/02, approximately £252,000 of Finance Department costs were recharged to the Local Tax Collection service. However, the Head of Accounting noted that this charge was unrealistic and that Local Tax Collection should be recharged only a small amount of central Finance Department costs. This highlights the inaccuracies of the methodology used to calculate the year end central support service recharge allocations. Although, these inaccuracies would not affect the reported surplus for 2001/2002, they may impact upon the net expenditure amounts reported for each Council service.
22. In addition, any inaccuracies in the central support service recharge may impact upon the DLOs/DSOs accounts which are allocated a proportion of the costs recharged to the appropriate client service. Audit testing also identified that the methodology used to apportion central support service recharges to the individual DLOs and DSOs is not wholly robust. Auditors will continue to monitor progress with regard to the automation of central support service recharge allocations.

23. **Fixed assets.** CIPFA's Best Value Accounting Code of Practice 2001 (Annex B – Paragraph B12) indicates that capital charges on non-operational assets should not be charged to service revenue accounts, as by definition, no service is making use of the assets. However, approximately £368,000 of capital charges in respect of non-operational assets were charged to service revenue accounts in 2001/2002. This is due to the fact that service revenue accounts are receiving income for these non-operational buildings which are leased to external parties and, as such, receive the capital charge for deriving benefit from the use of the asset.
24. Paragraph 4.190 of the guidance notes for Code of Practice on Local Authority Accounting in the United Kingdom (ACOP) states that *'Assets should not be included as non-operational where they are contributing to the achievement of one or more of the authority's policy objectives for a service.'* I have agreed with the Director of Finance that non-operational assets which are leased to external parties will be reviewed next year to assess whether these assets are contributing to the achievement of one or more of the Council's policy objectives for a service. If any assets are deemed to be contributing to the achievement of one or more of the Council's policy objectives for a service, they should be classified as operational.

Other issues

25. **Future funding of housing.** The Council commissioned external consultants – DTZ Pineda – to identify the options available to it for the management and maintenance of its housing stock. One of the options identified was the use of a housing stock transfer. It is the Council's intention that tenants would be fully consulted before deciding to progress the matter further. I will continue to note developments in this area.
26. **FRS 17 Retirement Benefits.** The Council agreed in response to the 2000/01 Final Report by the auditors to ensure that procedures would be implemented in readiness for the application of the Financial Reporting Standard 17 – Retirement Benefits in future years. I noted from my audit of the 2001/02 annual accounts that the Council has complied with the disclosure requirements of ACOP, which includes the requirement to include a note to the Consolidated Balance Sheet disclosing the Council's net asset/liability, in respect of its share in the Strathclyde Pension Fund. The CIPFA/LASAAC Joint Committee is proposing that the requirements of FRS 17 will be incorporated fully into ACOP by the 2003/2004 financial year. I will continue to monitor the Council's compliance with the disclosure requirements of ACOP in this area.

Governance

- ◆ Matters from previous years
- ◆ Systems of internal control
- ◆ ICT audit
- ◆ Fraud and corruption arrangements
- ◆ Internal audit
- ◆ Corporate governance arrangements
- ◆ Legality issues

1. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
2. As auditor, I have a responsibility to review and report on the Council's corporate governance arrangements.
3. Performance issues are reported separately at section 5 following.

Matters from previous years

4. I am pleased to report that remedial action has been taken in regard to most of the matters raised in both management reports issued last year covering the main financial systems and general computer environment. Of the thirty nine agreed audit recommendations made last year, twenty seven had been implemented (69%), while plans have been put in place to recover slippage on the twelve remaining actions. We will follow up these remaining points at a later date to confirm full implementation of audit recommendations.

Systems of internal control

5. The Council has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance controls and risk management. This involves undertaking a proper assessment of the risks facing the Council and implementing systems and procedures to address those risks.
6. During the audit, a number of the financial systems were reviewed. The main findings to which I would direct members' attention are detailed overleaf. These have been restricted to the major matters raised.

7. **Payment of creditors.** Our audit testing of the creditors system indicated that most of the key internal controls were operating satisfactorily. A number of control weaknesses were reported to management and included the following:
- ◆ a review of the procedures used for the payment of invoices should be undertaken to ensure that value for money is being achieved
 - ◆ the payment date overwrite facility should be restricted to the Creditors Supervisor and the Senior Accounting Assistant
 - ◆ the 'pay all run' facility should only be used when there is a business need to do so e.g. at times of system upgrades. Excessive use of this facility could result in loss of interest to the Council and would distort its invoice payment performance
 - ◆ departments should be reminded of the need for consistent application of checks on orders and invoices prior to them being passed to the Creditors Section for payment
 - ◆ a review of suppliers on the creditors system should be performed. Where appropriate, duplicate entries should be removed.
8. **Payroll.** We carried out an audit of the payroll system which indicated that there are adequate controls to ensure that payments are only made to valid employees, all data input is properly authorised, standing data is complete and accurate, payments have been correctly calculated and payroll costs are correctly recorded in the financial ledger. However, there are some areas where we identified potential improvements. These relate to the need for formal written procedural instructions and the introduction of a list of authorised signatories.
9. Management have agreed an action plan that will address the weaknesses identified above. We will follow this up at a later date.
10. **Property Maintenance DLO.** Our review of the budgetary control system operating within the Property Maintenance DLO identified that management accounts for DLOs and DSOs are prepared on a monthly basis, with formal financial monitoring meetings being held quarterly. The minutes of the financial monitoring meeting held on 30 October 2001 show that a surplus position for the year was being projected for all DSOs and DLOs. However, the management accounts to 30 September 2001 disclose a work in progress balance of £800,000 in relation to the Property Maintenance DLO and prior to the 30 October meeting a review was undertaken which revealed that a number of jobs were in dispute, with other jobs reported as completed but which had not been invoiced.

11. The Commercial Operations Board, at their meeting on 15 November 2001 were informed that all DLOs and DSOs were in a financially stable position as at 30 September 2001 and on target to break even by the end of the financial year. Management consider that problems arose during the second half of the financial year.
12. Our consideration of the Property Maintenance DLO's activities identified that the DLO's reported deficit of £85,000 at 31 March 2002 arose mainly from those individual schemes which are separately tendered pieces of work. For this work, the volume was higher than anticipated and subsequently did not achieve a reasonable overall return. The costing system proved not to be particularly effective and this led to pricing being unrealistic, and ongoing cost control measures were insufficiently robust. In addition, the DLO underwent internal reorganisation during the year with changes in key staff, which may have contributed to the problems encountered.
13. We understand that the DLO/DSO Financial Monitoring Group, which meets on a quarterly basis, is continuing to rigorously review the management accounts of the DLO and that job costing is being reviewed to ensure prices are more realistic. Despite the continuing review, the statutory objectives were not achieved. Auditors will continue to monitor progress in this area and review the financial position of DLO/DSOs during 2002/2003.
14. **Unified benefits.** We carried out an audit of the benefits system which encompassed both housing and council tax benefits. Our testing focused on transactions processed in the Campbeltown, Dunoon and Oban offices. Overall, we concluded that most internal controls were operating as intended although a number of control weaknesses were identified and the more significant of these are outlined below:
 - ◆ the Council complies with accepted good practice and has issued a Benefits Procedure Manual to all staff involved in the processing of all benefit claims. However, our review of the Manual identified that it does not make reference to the fact that staff should not process their own benefit applications or those of relatives and friends. Also, the Manual does not cover the procedures to be followed by staff processing backdated applications and when dealing with the non-return of review forms
 - ◆ Council Tax Benefit claimants not returning review forms are not followed up after a reminder is sent out, for both owner occupiers and tenants. Benefit is withdrawn from the review date and no attempt is made to determine when entitlement to the benefit ceased in these instances

- ◆ the Benefits System is only reconciled with the financial ledger on a yearly basis at the financial year end. This increases the risk that material errors remain unidentified throughout the year
 - ◆ not all area offices operate a rotation of duties and workload system, which may lead to a decrease in staff motivation where workloads are unevenly distributed amongst staff
 - ◆ a data matching exercise for all Council employees has not been carried out to identify staff who may be fraudulently claiming benefits
15. Our findings have been to be reported in draft to management for their consideration. Any comments received will be reflected in the formal report to be issued in early course.
16. **Council Tax Income.** Our review of the Council Tax Income Account, which was conducted as part of the 2001/2002 annual accounts audit, noted that a reconciliation between the number of properties held within the Council Tax system and those properties held within the assessors' system is not carried out regularly. We note that this reconciliation process was commenced by the Council in July 2002 and is now carried out on a regular basis.

Information and communications technology (ICT) audit

17. Our planned programme of work for 2001/2002 included two information and communications technology audit exercises.
18. **Pathfinder diagnostic review (PDR).** A PDR exercise is carried out in year one of our audit appointment and is intended largely to inform our audit planning process and as such, no report is prepared for management. The PDR exercise covers six key themes: - accountability, acquisition, service management, project and change management, inventory control and risk and security.
19. **Computer Services Review (CSR).** A computer services review was planned for 2001/2002. However, an Internal Audit review of Information Technology was carried out during the year. We have considered the content of this report and have amended our CSR programme accordingly to minimise any potential areas of overlap. It is intended that this work be reported by the end of November 2002.
20. A draft report outlining our findings will be issued in early course for management's consideration.

Fraud and corruption

21. The Council has the responsibility to establish arrangements to prevent and detect fraud and corruption. As part of our audit we considered the adequacy of these arrangements using a standard checklist approach. Overall, we noted a number of good practices, including the following:
- ◆ an 'Anti-Fraud and Anti-Corruption Strategy' which aims to promote the Council's culture of honesty and integrity;
 - ◆ the Strategy also contains defalcation reporting procedures which outline the arrangements for reporting suspected frauds/irregularities and the role of internal audit in any investigation;
 - ◆ a 'whistle blowing policy' that is consistent with the provisions of the Public Interest Disclosure Act 1998;
 - ◆ in relation to housing and council tax benefits, the Council has documented procedures for the prevention and detection of fraud and corruption, staff training on anti-fraud measures and a proactive approach to fraud prevention and detection.

Internal audit

22. Internal audit is a key element of the internal control framework established by management. A strong internal audit function is essential for the effectiveness of the internal control systems.
23. Argyll & Bute Council's Internal Audit section was comprehensively reviewed as part of a national value for money study undertaken by Audit Scotland in 2000/2001. This resulted in a local report, which concluded that the Council's Internal Audit section did not comply with a number of requirements of the CIPFA Code of Practice for Internal Audit in Local Government. Our follow up audit work (outlined in more detail at Section 5 of this report) in the current year confirmed that the internal audit service has implemented most of the local report's recommendations and the head of the section is committed to continuous improvement.
24. Internal audit and external audit co-ordinate their work at the planning stage, and throughout the audit, to ensure there is no duplication of effort. In financial year 2001/2002, we formally relied on aspects of work undertaken by internal audit on:
- ◆ performance indicators;
 - ◆ housing and council tax benefits.

25. In future years we intend, where possible, to further rely on internal audit. However, our assessment of the Internal Audit function during 2001/2002 noted the following:
- ◆ Historically the Internal Audit Manager has had responsibility for the Council's fraud officers and has spent a fair proportion of his time managing and performing benefit fraud investigations. Such work was not part of the Internal Audit plan. We understand that a fraud manager has recently been appointed and for the remainder of 2002/03 there will be a reduction in input required from the Internal Audit Manager
 - ◆ Internal Audit suffered from a shortage of resources during 2001/02 and two members of staff were recruited in July 2002. The section now comprises two internal audit managers one of whom is designated as the lead, two auditors and two audit assistants. We feel that the Council should consider whether this is the most appropriate structure
 - ◆ There is some question as to whether Internal Audit is appropriately independent of line management. In practice, Internal Audit report to the Head of Accounting, who is ultimately responsible for many of the systems that Internal Audit review. Although it is acknowledged that Internal Audit do have access to the Director of Finance, the Chief Executive, Chairman of the Audit Committee and the audit partners KPMG, it may be more appropriate for Internal Audit to report directly to the Director of Finance and have direct access to the Chairman of the Audit Committee.

Corporate governance arrangements

26. An overview of the Council's corporate governance arrangements was carried out using a standard checklist approach. We noted that most the elements necessary to ensure that the Council applies the three fundamental principles of corporate governance (i.e. openness, integrity and accountability) are in place. These include the following areas:
- ◆ the operation of an Audit Committee;
 - ◆ a comprehensive set of approved financial regulations and standing orders;
 - ◆ a comprehensive scheme of administration and delegations;
 - ◆ a Risk Management Strategy for the Council which has been prepared and approved by elected members;
 - ◆ the formal adoption of a number of codes of practice, including Codes of Conduct for both Members and Employees and a Local Code of Corporate Governance based on CIPFA guidance.

27. We note that the Council does not have a detailed corporate plan incorporating each of the Council Services' three-year service plans. The Council's current corporate aims and objectives are based on the Community Planning partnership objectives and associated action plans which lead to the three corporate priorities of promoting health and well being, improving opportunities for learning, employment and skills development and sustaining and developing communities, culture and environment. In addition, the Council has three "strategic methods" of:
- ◆ developing our people;
 - ◆ working in partnership;
 - ◆ improving services and containing costs.
28. As part of the 2002/2003 service planning process, the Council intends to produce a corporate plan which will bring together in a more explicit and quantified manner, relevant service and strategic issues. We will continue to monitor developments in this significant area.

Legality issues

29. While the responsibility for ensuring the legality of all activities and transactions rests with the management of the authority, the auditor is required to keep under review the legality of significant transactions and events, and have an awareness of the key requirements of relevant statutory provisions.
30. In order to discharge my responsibilities in this area, the legality of items in the accounts are considered by the inclusion of all significant legal requirements in audit programmes and checklists used in the conduct of the audit and by the deployment of staff who have substantial experience of the public sector's legal framework.
31. I also review the Council's minutes for items where the Council's Monitoring Officer has raised concerns to ensure that these are adequately followed-up and resolved. In addition, I obtain from the Director of Finance written confirmation for each annual audit that the Council's officials are not aware of any possible non-compliance with the law or regulations which could have a material effect on the authority's operation.
32. In the current financial year there have been no legal issues brought to my attention, of which I require to apprise elected members.

Performance Management

- ◆ Matters from previous years
- ◆ Centrally directed studies
- ◆ Performance management and planning (PMP)
- ◆ Statutory performance indicators

1. As part of my statutory responsibilities I have to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Also, the Council has a statutory duty to develop proper management arrangements for value for money.
2. In fulfilling that responsibility, external auditors carry out a range of work. For Argyll & Bute Council, this consisted of the following main elements:
 - ◆ follow-up audits of value for money studies undertaken by the previous auditor and outlined in last year's Final Report;
 - ◆ centrally directed studies identified by the Accounts Commission;
 - ◆ performance management and planning (PMP);
 - ◆ statutory performance indicators.
3. The comments that follow represent a brief summary of the performance audit work carried out in 2001/2002 and significant future developments.

Matters from previous years

4. **Property risk management in schools.** A follow up audit was carried out to monitor progress in implementing agreed recommendations arising from the 2000/2001 audit report on property risk management in schools. This report compared Argyll & Bute Council's performance against good practice as reported in Audit Scotland's national report '*A safer place: revisited*' (June 2001). Our follow-up audit highlighted that all of 7 agreed audit recommendations are currently being progressed. Although, the date for implementation of all 7 improvement actions has not yet been reached, we did note that progress is being made and that the target date for implementation should be achieved.

5. **Benchmarking internal audit.** In August 2001, Audit Scotland at the request of the Accounts Commission prepared a national report 'A Job Worth Doing' – Raising the Standard of Internal Audit in Scottish Councils. A local report was issued on the basis of the national report and this included an agreed action plan of improvements. Following this report the Council chose to seek a suitable partner to establish an internal audit partnership. After a tendering exercise, KPMG were appointed to provide 390 days internal audit input over a three year period. As part of our 2001/02 audit activity, a follow up audit was carried out to assess progress made by Argyll & Bute Council's Internal Audit service in implementing the agreed action plan from the local report.
6. Overall, we concluded that Argyll & Bute Council's Internal Audit service has made good progress in implementing improvements recommended in last year's local report. The service also complies with many of the key areas of good practice highlighted in 'A Job Worth Doing' although there is still some scope for improvement including the following areas:
- ◆ appropriate staff training has yet to be agreed and delivered;
 - ◆ the introduction of the latest technology for planning and reporting audit work has still to be considered;
 - ◆ formats for files, reports and working papers have still to be finalised.

Management have agreed to take steps to address these issues and we will monitor progress in implementation in our 2002/2003 review.

Centrally directed studies

7. Audit Scotland required auditors to carry out two centrally directed national studies in 2001/2002:
- ◆ a performance audit of trading standards; and
 - ◆ managing pre-school provision.
8. **Performance audit of trading standards services.** This exercise involved piloting 'a tailored performance audit' approach with trading standards services across all Scottish councils during 2001/02. The performance audit model was designed to enable trading standards services to self-assess their performance against identified good practice and, where necessary, take action to improve.
9. The study methodology was based on a self-assessment process involving three main strands:

- ◆ *service profiles and activity analyses* – using data already gathered nationally for trading standards services
- ◆ *management arrangements* – covering PMP issues (e.g. understanding stakeholders' needs, managing staffing, performance monitoring and control, etc)
- ◆ *service performance* – including a series of good practice self-assessment guides covering elements of trading standards work (e.g. programmed inspections, consumer advice, animal health and debt counselling).

The self-assessment carried out by Argyll & Bute Council trading standards officers was subject to an independent peer review by a trading standards officer from Falkirk Council although with external audit taking a lead role.

10. The main output from the audit was a draft improvement action plan (IAP) highlighting areas where the trading standards service could improve its management arrangements and service performance as appropriate. The IAP is being reviewed by ourselves and a formal report on the Trading Standards audit will be issued in early course.
11. **Managing pre-school provision.** This audit consists of two elements as follows:
 - ◆ *Mandatory element.* This part of the audit reviewed the Council's arrangements for completing the Pre-School Education Grant and the Disbursement of Funds in terms of Sections 23 and 25, respectively, of the Education (Scotland) Act 1996. The main objectives were to confirm that Argyll & Bute Council had robust arrangements in place for managing its contracts with partner organisations and ensuring grant monies were used to provide a quality service
 - ◆ *Discretionary element.* This element of the audit will be carried out at a later stage. The key objective of this element of the audit will be to review pre-school education provision within Argyll & Bute Council and compare it against the good practice framework contained in Audit Scotland's publication '*A good start: Commissioning pre-school education*'. The aim will be to highlight good practices and identify areas with scope for improvement.

12. In our report to management we concluded that procedures for the commissioning of partners appear to be soundly based, and the current contractual arrangements generally provide for adequate agreement between the Council and the partner providers for the provision of a high standard of service and compliance with all statutory registration requirements. However, we did highlight some areas for improvement, including that the Council should review the adequacy of current procedures for review and monitoring of the financial viability of partner providers.

Management have agreed an action plan of improvements that will address the relevant areas.

Performance management and planning (PMP)

13. The initial report of the Best Value Task Force issued in July 1997 laid out the principles of a Best Value approach to managing and delivering services in local government. The Task Force's second report issued in July 1998 required councils to develop a performance management and planning (PMP) framework to deliver continuous improvement.
14. The objectives of the PMP audit are to provide independent external assurance that the Council is making progress in implementing a PMP framework and committed to continuous improvement.
15. For 2001/02 there were three components to the PMP audit, as outlined below:
 - ◆ a service level PMP 3 audit carried out in two services – Community Care and Roads and Transportation – which were selected in consultation with the Chief Executive;
 - ◆ a follow-up audit of the corporate and service level audits (Personnel, Registration and Transport Services) carried out in 2000/2001 (PMP 2);
 - ◆ further follow-up as necessary of the 1999/2000 service level audits (PMP 1) which included Sheltered Housing, Non-Domestic Rates and Estates Management services.

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16. In our summary report to the Chief Executive we concluded that the Council was able to demonstrate a clear commitment and progress in implementing a Best Value PMP framework. We also found that services had made significant progress in implementing previously agreed improvement actions and could also provide evidence of tangible service improvements. We also identified key issues that require input at a corporate level:
- ◆ the need to develop and implement a corporate asset management strategy. The current position provides a means to manage assets but could be more efficient;
 - ◆ the need to consider the introduction of commitment accounting. Budget monitoring on a full accruals basis would be facilitated by the introduction of a system of commitment accounting. This would allow services to monitor and control their budgets more effectively; and
 - ◆ the requirement to review Public Performance Reporting (PPR), to ensure a wider range of local measures are included in the PPR. Attainment of strategic objectives, achievement of value for money and communication of future plans are all areas which could be considered for inclusion in future PPRs.
17. We were also able to report that a number of tangible achievements have been made by all services subject to a PMP audit since the introduction of the Best Value regime. Some of the more significant are summarised below:
- ◆ ***Estates Management:*** the service has introduced the Performance Review and Development system to ensure staff skills develop in tandem with changes and improvements to service delivery;
 - ◆ ***Non Domestic Rates:*** regular consultation exercises are being undertaken and clear objectives have been set;
 - ◆ ***Sheltered Housing:*** increased levels of satisfaction expressed by tenants who appreciated involvement in the service standards adopted;
 - ◆ ***Corporate:*** joint working has been established throughout the Council. Partnerships with various groups including the NHS, Keep Scotland Beautiful (KSB) and a Public Private Partnership (PPP) with Shanks have ensured that a number of initiatives have succeeded;
 - ◆ ***Corporate:*** the implementation of a Social Inclusion Policy has reduced the exclusion from the workforce of the five most socio-economically deprived areas by providing improved education, training and employment opportunities.

18. **PMP 3 service audits.** Overall we concluded that both services covered by the PMP 3 audit in 2001/2002, i.e. Community Care and Roads and Transportation, each had a sound PMP framework in place although with scope for improvement including:

Community Care Services

- ◆ the need to ensure that Best Value principles and approach are implemented throughout the service particularly those areas of activity which have yet to receive a Best Value review;
- ◆ ensuring action plans are prepared as a result of each Best Value review. A monitoring system is also required to ensure that progress can be evaluated;
- ◆ the requirement to fully implement the agreed performance management planning (PMP) framework. This will allow performance on a range of topics to be reported systematically to management and members.

Roads and Transportation Service

- ◆ the need to ensure that future consultation exercises include an appropriate range of participants;
- ◆ the requirement to develop a range of efficiency reviews to be undertaken within the service. These should be incorporated into future service plans;
- ◆ ensuring that future Public Performance Reports contain performance measures more relevant to the service's activities. Alternative methods (other than statutory performance indicators) of reporting need to be considered.

An improvement agenda has been agreed with the management of each service to further strengthen their PMP framework. This will be followed up by us at a later date.

19. **PMP 2 follow up audits.** A total of 52 improvements were agreed for the PMP 2 service level audits and PMP 2 corporate audit completed in 2000/2001. Of these agreed improvements, thirty (58%) have been implemented as planned. Overall, we were satisfied with the reasons provided by services for not fully implementing all improvement actions and plans have been put in place to recover any slippage. The outstanding improvement actions will be followed up by us at a later date to confirm full implementation.
20. **PMP 1 follow up audits.** Our follow up audit work confirmed that the majority of improvement actions had been fully implemented, with the residual issues outstanding being substantially complete.

Statutory performance indicators

21. The Local Government Act 1992 requires the Accounts Commission to issue directions to local authorities to publish information relating to their activities in any financial year which the Commission consider will facilitate the making of appropriate comparisons (by reference to cost, economy, efficiency and effectiveness) between:
 - (a) the standards of performance achieved by different authorities in that financial year; and
 - (b) the standards of performance achieved by such bodies in different financial years.
22. The Commission's ninth Direction was issued in December 2000 requiring the publication, by 30 September 2002, of specified performance data in relation to the 2000/2001 financial year in the form of a 'statutory advertisement'.
23. We are pleased to record that the authority achieved publication of the advertisement within the statutory timetable and that, generally, the published performance information complied with the relevant Direction.
24. However, we noted that in 2001/2002, four of the Social Work Performance Indicators (PIs) were found to be unreliable, compared to three in 2000/2001. This was due to the fact that the Council was unable to provide a complete audit trail between working papers and the reported PIs. In addition, one PI within each of the areas of Libraries, Housing and Planning was found to be unreliable. These PIs were deemed unreliable as the systems used to collect the required data were flawed. It was necessary to draw attention to these matters in our report and further development is required by the Council to secure full compliance with the Direction.

Concluding remarks

1. I am pleased to be able formally to conclude the audit of the Council for 2001/2002.
2. The key issues that require action are set out in the form of an Action Plan at Appendix A.
3. This is the first year of my audit appointment, and I should like to take this opportunity to record my thanks to those officers and members of the Council with whom we have had contact during our audit for their courteous and helpful co-operation.

Action Plan

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
4/8 & 9	Matters from previous years. The Council should ensure that all outstanding issues from the 2000/2001 Final Report are implemented.	The issues raised will be addressed prior to the completion of the 2002/03 annual accounts. Members received full details of the 2000-2001 PI's via the "Councillors' Noticeboard" newsletter. Audit Scotland were correct to say it was not reported to committee as such. However the 2001-2002 PI's have been reported to both the SPC(3 October 2002) and to the Audit Committee(8 November 2002).	B West A Bovaird	31/03/2003 for 2002/03 Annual Accounts Already done
6/14	Education Department expenditure. The Council should continue to monitor the Education Department's financial reporting and budget position.	This is currently being addressed. An action plan has been prepared to address the improvements required in financial control within Education. The action plan is currently being progressed by an augmented finance team for Education. A monitoring group of members and senior officials has	Education Finance Monitoring Group	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
6/14 contd		been established to review progress against the action plan. The Group is reporting progress to the Strategic Policy Committee. The action plan continues until March 2003.		
7/18	Waste management PPP. The Council should ensure that the final residual value of assets reverting back to the Council at the end of the agreement is recognized from 2002/03 onwards.	The view on this is that the final residual value of the assets reverting back at the end of the PPP should be regarded as zero. We will have paid for their provision and the services involved over the past year and the next 24. At the end of the contract the physical assets will have 5 years' capacity or operational life (excepting moveable plant, which is simply to be operational at the time). That 5 years, however, is offset by the potential environmental liability, which will last possibly up to 30 years after site closure. I think it too early to second guess the asset value vs liability cost argument.	B West	31/03/2003 for 2002/03 Annual Accounts

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action		
		Management response	Who by	When by
7/21 & 22	Central support recharges. The Council should ensure that the central support recharge process is improved to allow overhead charges to be allocated in a realistic and timely manner.	This will be addressed prior to the completion of the 2002/03 annual accounts.	B West	31/03/2003
8/24	Non-operational assets. The Council should review all non-operational assets to assess whether these assets are contributing to the achievement of one or more of the Council's policy objectives for a service.	Finance and Estates will review the non-operational assets with a view to reclassifying those assets which are to contribute to a service's objectives.	M Miller	31/03/2003 for 2002/03 Annual Accounts
11/13	Property maintenance DLO. The Council should continue to review the financial position of the Property Maintenance DLO on a regular basis.	This is being done on a regular basis: Quarterly reporting to the Commercial Operations Board of the Council, which in turn reports to the Strategic Policy Committee. Monthly monitoring of Management Accounts, which in turn is reported to the Chair of COB, the Council Leader and the Spokesperson for Resources.	DLO/DSO Finance Monitoring Group	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
11/13 contd		Weekly review at a management level of worker productivity and work in progress. These processes will continue, with the possible exception of reporting to Chair of COB, etc as regularly, while there is any problem with the DLO's financial position.		
14/25	Internal audit. The Council should review the current structure and reporting arrangements of Internal Audit.	The Council recently reviewed the structure and reporting arrangements of Internal Audit and entered into a partnership for Internal Audit with KPMG for a 3 year period. It is not proposed to review the structure prior to the end of the partnership.	S McGregor	January 2005
15/27 & 28	Corporate plan. The Council should develop and approve a detailed corporate plan which reflects both the Council's corporate priorities and objectives	There is not a single document called the "Corporate Plan". Service plans bring together a 3-year cycle of planning on financial and service issues – with corporate priorities fully incorporated within individual	A Bovaird	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
20/16 contd		<p>developments. Without e-procurement progress it is not possible to give target date for implementation.</p> <p>The Council's PPR process is kept under constant review. The development planned for 2001-02 was to circulate a Public Performance Report to all house holds in Argyll and Bute. This was not possible since the requirement to advertise PIs in the local press had no, despite expectations, been repealed and we did not have the money to do both.</p>	A Bovaird	Ongoing

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PRIVATE AND CONFIDENTIAL

**Argyll and Bute Council
Audit of Accounts 2001/02
Audit Memorandum
October 2002**

1. INTRODUCTION

- 1.1 Following completion of the examination of the Council's statutory annual accounts for the year ended 31 March 2002 we now submit an audit memorandum summarising a number of issues arising from this aspect of the audit.
- 1.2 The purpose of this memorandum is to draw to your attention, for information and action as appropriate, any issues of substance or matters of accounting principle which have not previously been referred to in the 2001/02 Final Report on the Audit.
- 1.3 The memorandum has been discussed with the relevant officers and its factual accuracy confirmed. A number of minor points were previously reported to officers and, where appropriate, corrective action has been taken or agreed; accordingly these matters are not repeated here.
- 1.4 The memorandum contains an action plan which has been agreed verbally with Mr S McGregor (Director of Finance), Mr B West (Head of Accounting), Mrs M Miller (ASM - Corporate Accounting), Mr M Macfarlane (Senior Accountant) and Ms J Owen (Education Finance Team).
- 1.5 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

Argyll and Bute Council
Audit of Accounts 2001/02 - Audit Memorandum

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>1. Preparation of Accounts</p> <p>i. We noted that the quality of the Common Good and Trust Funds working papers could be improved upon, e.g. summary schedules were not prepared for 2001/02.</p>	<p>The Council should ensure that the 2002/2003 annual accounts working papers in respect of the Common Good and Trust Funds are improved and include summary schedules.</p>	<p>Tommy Armour</p>	<p>31st March 2003</p>	<p>Agreed</p>
<p>2. Accounting & Statutory Requirements</p> <p>i. It was noted that the Consolidated Revenue Account does not disclose budgeted net expenditure for each Council service. This differs from the 2000/2001 annual accounts which disclosed budgeted amounts.</p>	<p>Consideration should be given to the inclusion of budgeted net expenditure amounts for each Council service within the 2002/2003 annual accounts.</p>	<p>Moirra Miller</p>	<p>31 March 2003</p>	<p>There is no requirement within the SORP and the accompanying Guidance Notes to disclose budgeted net expenditure within the Consolidated Revenue Account.</p> <p>However, we will consider including budget information within the Consolidated Revenue Account when we review and update the format of the Financial Statements for the 2002/03 year end.</p>

*Argyll and Bute Council
Audit of Accounts 2001/02 - Audit Memorandum*

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>2. Accounting & Statutory Requirements (cont'd)</p> <p>ii. In Note 1.1 to the Consolidated Balance Sheet, capital expenditure is shown gross in the 'Expenditure in Year' line with the expenditure not increasing the value of the asset being shown in the 'Write Off to FARR' line. However, best practice would be to disclose the total expenditure incurred on enhancement work during the year gross in the 'additions' line, with the difference between the expenditure incurred and the increase in the value of the asset being included in the revaluation line.</p>	<p>The Council should consider amending Note 1.1 to the Consolidated Balance Sheet in the 2002/2003 annual accounts to reflect best practice disclosure requirements and include expenditure not increasing the value of the asset within the 'Revaluations' line as opposed to being shown in the 'Write Off to FARR' line.</p>	<p>Moira Miller</p>	<p>31st May 2003</p>	<p>Agreed</p>

Argyll and Bute Council
 Audit of Accounts 2001/02 - Audit Memorandum

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>2. Accounting & Statutory Requirements (cont'd)</p> <p>iii. Per paragraph 4.189 of ACOP Practitioners Guide, the Deferred Government Grants Account balance should be disclosed within the financing section of the Consolidated Balance Sheet and not within the long term liabilities section as currently disclosed. This would have the effect of increasing the Total Net Worth amount, which would then not agree to the total amount, disclosed in the Statement of Total Movement on Reserves. The reason that the figures would not agree is due to the fact that the Council has not presented the Statement of Total Movement in Reserves strictly in line with the format prescribed in paragraph 4.276 of ACOP Practitioners Guide.</p>	<p>The Council should ensure that the 2002/2003 annual accounts reflect the disclosure requirements of ACOP in relation to the Statement of Total Movement on Reserves and the Deferred Government Grants Accounts.</p>	<p>Moira Miller</p>	<p>31st March 2003</p>	<p>My understanding of the ACOP Practitioners Guide is that it is not prescriptive and that Councils have the discretion to present their accounts in a user-friendly way as possible. The format of the Statement of Total Movement in Reserves, as shown in the Practitioners Guide, is not in an easily understandable format. However, we will look at the format of the Statement with a view to bringing it more into line with that in the Practitioner's Guide whilst maintaining a level of understandability for the reader of the financial statements.</p>

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>3. Fixed Assets</p> <p>i. Assets with a Net Book Value of approximately £300,000 were identified by the Estates Department during 2001/2002, which could not be located on the Fixed Asset Register.</p>	<p>The Council should consider reconciling the Estates Department Property Database and the Fixed Asset Register at least biannually.</p>	<p>Tommy Armour / Nick Allan</p>	<p>31st March 2003</p>	<p>A reconciliation of the Property Database to the Fixed Asset Register is currently being carried out as well as allocating UPRN numbers (property database references) to all properties within the asset register and vice versa.</p> <p>However it should be recognised that there is always the potential for properties and land to be identified which are currently not on the asset register. These are unlikely to be material.</p>
<p>4. Cash & Bank</p> <p>i. We noted that unrepresented cheques greater than 6 months old totalling £17,715 have been included within the 2001/2002 annual accounts. The Council are aware of this situation.</p>	<p>The Council should ensure that it continues to investigate unrepresented cheques greater than 6 months old.</p>	<p>Malcolm Bannatyne</p>	<p>On-going</p>	<p>All cheques over 6 months old were voided on the system in August 2002 following investigation. This now takes place on a monthly basis.</p>

Argyll and Bute Council
Audit of Accounts 2001/02 - Audit Memorandum

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>4. Cash & Bank (cont'd)</p> <p>ii. We noted that the Income Bank Account reconciliation (No. 84200) shows an unreconciled amount of £11,328.</p>	<p>The Council should confirm the action being taken to address this unreconciled difference.</p>	<p>Tommy Armour</p>	<p>On-going</p>	<p>The unreconciled difference has remained circa £11,000 since the year end. The cash and bank team are currently working towards achieving the same difference for two or more months. Once this is achieved the unreconciled difference will be written off.</p>
<p>5. Education Reserve</p> <p>i. Audit testing of contributions to and withdrawals from the Education Reserve noted that 8 out of a total of 55 "Form DP9A-application to withdraw from capital items replacement fund" submitted by schools to the Education Department, had not been certified by the relevant Head Teacher.</p>	<p>The Council should remind Education Department Area Finance Assistants of the requirement to ensure that these forms are certified properly before being passed to the Education Department.</p>	<p>Sharon Macdonald</p>	<p>31 October 2002</p>	<p>A memo will be issued to AFAs regarding this and the Education Finance Team will ensure that all forms are properly authorised, prior to processing.</p>

Argyll and Bute Council
 Audit of Accounts 2001/02 - Audit Memorandum

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments</u>
		<u>Responsibility</u>	<u>Date</u>	
<p>6. Common Good and Trust Funds</p> <p>i. We understand that Legal Services are currently working towards amalgamating all Trust Funds to allow expenditure levels to be increased.</p>	<p>The Council should ensure that the appropriate legal procedures are followed when amalgamating all Trust Funds, i.e. obtain appropriate judicial approval prior to amalgamation.</p>	<p>Susan Mair</p>	<p>On-going whilst trust funds are being reviewed</p>	<p>Legal Services will comply with relevant legal procedure, obtaining the relevant judicial approval where necessary.</p>

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Argyll and Bute Council – 2001/02

Report on the Performance Audit of Trading Standards

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EXECUTIVE SUMMARY

Introduction

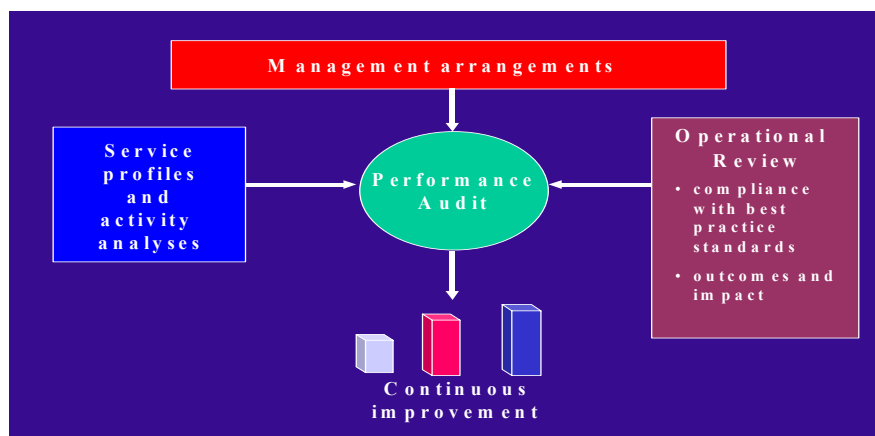
- 1.1 Audit Scotland piloted a tailored performance audit approach with trading standards services across all Scottish councils as part of the 2001/2002 programme of centrally directed studies. This involved developing a performance audit model to enable trading services to self-assess their performance.
- 1.2 At a national level the study is being undertaken in close collaboration with SCOTSS, DTI, LACORS, TSI, COSLA (see Glossary at Appendix 3) and other key stakeholders. A central multidisciplinary team, comprising staff from Audit Scotland and two seconded officers from councils, led the work on the study. The national report 'Made to Measure? An overview of trading standards services in Scotland' was published on 3 October 2002.
- 1.3 This report sets out the findings from our local audit work at Argyll and Bute Council (A&B C) and makes reference to the national report and good practice, as appropriate.

Trading Standards Service

- 1.4 Trading standards services are key to protecting the interests of consumers. The services they provide originate from a duty to inspect weights and measures, but now encompass responsibilities for ensuring that businesses comply with trade and consumer legislation. Responsibility for regulatory enforcement lies with councils, who should be aiming to provide uniformity in the standards of inspection and regulatory services. Other discretionary services also provided by trading standards include consumer advice and debt counselling.

Audit objectives, scope and methodology

- 1.5 The study has two complementary objectives:
- to pilot the development of a new performance model, tailored to trading standards (see exhibit 1 below)
 - to use that model to assess the performance of trading standards services and identify areas where there is scope for improvement in current practices

Exhibit 1 : The performance audit model being piloted

1.6 A self-assessment guide was issued to both auditors and council staff involved in the trading standards study. It explained that the study involved a review of both statutory and discretionary trading standards services. The guide emphasised that the study methodology was based on a self-assessment process involving:

- **service profiles and activity analyses** – using data already gathered nationally for trading standards services
- **management arrangements** – covering performance management and planning issues (e.g. understanding stakeholders' needs, managing staffing and other resources, performance monitoring and control, and public performance reporting)
- **service performance** – including a series of good practice self-assessment guides covering elements of trading standards work (e.g. programmed inspections, consumer advice, animal health and debt counselling).

Audit Scotland also held joint workshops at several locations throughout Scotland, which were attended by external auditors and the lead contact trading standards officers from their councils. The scope of the trading standards study and the methodology to be used were explained in detail while demonstrations of the benchmarking information and software for analysing it ('COMPARE') were also provided.

Peer review process

1.7 The self-assessment carried out by Argyll and Bute Council trading standards officers was subject to an independent peer review by a trading standards officer from Falkirk Council with external audit taking a lead role.

Overall conclusion

1.8 In general, our conclusion is that Argyll and Bute Council's Trading Standards Service can demonstrate that it has sound performance management framework in place and is committed to continuous improvement. Moreover, the service scores perform above the Scottish average in implementing minimum service standards, good practice and better practices in relation to mandatory services and also has a good standard of service in relation to discretionary services.

Summary of Main Findings

1.9 There are a number of good practices within the Council and these include the following:

Resourcing the trading standards service

- The service uses a generic approach to staffing. This means that inspection visits do not require to be made by a qualified TSO unless metrology is involved. Also, the service uses staff other than TSOs for other enforcement activities if qualified staff are not required.

Management arrangements

- The trading standards service has a sound Performance Management and Planning (PMP) framework in place and is well developed in relation to Best Value reviews, service planning, and performance monitoring and reporting.
- Argyll and Bute Council's trading standard service scores above the Scottish average in all of the PMP criteria while, in comparison to other similar councils it is either the top or second top performer in eight of the ten PMP criteria.

Service performance

- Argyll and Bute Council performs above the Scottish average in implementing minimum service standards, good practice and better practices in the following five areas: (business services and advice; investigation of offences; programmed inspections; consumer advice and consumer education and information) and above the minimum service standard and good practice in relation to debt counselling.
- Monthly and quarterly reports on a range of performance indicators are provided to management while elected members receive an annual report on performance.

1.10 Areas where we consider the Council's procedures have scope for improvement include:

- **Resourcing Trading Standard Service:** The risk profile of businesses liable to inspection requires to be updated to bring it into line with LACORS guidance. Work should also be undertaken to ensure that consumer complaints and enquiries are being recorded in line with the OFT (1998) definitions.
- **PMP:** There is scope for improvement in relation to clear leadership, aspects of human resource management and in obtaining continuous improvement. Management are committed to continuous improvement and have agreed to address to take action to address these issues in the improvement agenda at Section 2.
- **Service standards:** Argyll and Bute have identified that it needs to further develop its enforcement policy and this is included in their improvement agenda.

IMPROVEMENT AGENDA

1.11 An Improvement Agenda containing recommendations to address the areas where improvements could be achieved is outlined at Section 2 of this report. These have been discussed and provisionally agreed with the appropriate officials. The Improvement Action Plan should be read in conjunction with the relevant reference from the main findings from the audit. We will follow up progress in implementing the improvement action plan at a later date.

ACKNOWLEDGEMENTS

1.12 The co-operation and assistance given by all officers contacted during the course of this review is gratefully acknowledged with particular thanks to Sandy Taylor (Head of Protective Services) and Kate Connelly (Chief Trading Standards Officer) who were the main contacts during the audit.

1. IMPROVEMENT AGENDA

Col.1 Description of the planned improvement action.	Col.2 What problem is this action addressing?	Col.3 What is this improvement intended to achieve? This should be both specific and measurable.	Col.4 What are the key project milestones for this improvement?	Col.5 What information will you use to assess that intended benefits have been achieved?	Col.6 Which of the headings in PF 11 does the improvement action relate to?
1. Review the risk rating of premises.	Rationale for previous rating regime requires updating.	Better use of resources. Better targeted enforcement. Increased scope for high level enforcement.	Await new LACORS guidance. Provide training to officers. Review premises database and apply new scheme. Implement new risk rating for programmed visits.	Feedback from traders. Feedback from officers. Increase in higher level enforcement activities.	Internal management processes. Learning and development. Resource use.
2. Review recording of complaints and enquiries.	Department has not fully converted to OFT (1998) definitions for consumer complaints and enquiries.	More reliable data.	Issue of direction in use of OFT Definitions. Audit of enquiry recording arrangements.	Number of complaints and enquiries received relative to peer authorities using COMPARE software.	Internal management processes.
3. Staff should be reminded of the need to record all business advice requests in accordance with the definition.	Drop in number of business advice requests could be due to under recording.	More reliable data.	Issue of direction in recording of business advice requests. Audit of advice request recording arrangements.	Number of complaints and enquiries received relative to peer authorities using COMPARE software.	Internal management processes.

4. Update policies for core activities.	Existing policies are dated and relate to previous structure.	Will provide current, clear guidance for officers. Will provide information for service users.	Compile list of updates required. Identify priorities. Redraft key policies. Issue new policies to officers.	Comparison of A&B policies v 'model' TS service Feedback from officers Feedback from service users.	Internal management processes. Policy impact on stakeholders.
5. Issue of equality to be dealt with within the Service Plan.	This issue is currently dealt with on a corporate basis.	Clear accountability within the Public Protection service.	Inclusion of specific reference within the Public Protection and Trading Standards Service Plans.	Customer feedback. Officer feedback.	Internal management processes. Learning and development.
6. Improve effectiveness of service to traders.	No formal links with trader groups.	More effective trader education. Improves consultation with traders.	Identify key sectors. Establish formal links. Identify core needs for these sectors. Deliver appropriate support via leaflets, seminars etc.	Feedback from relevant trade sector. Feedback from trade associations. Increased take up of business support services.	Customer service External relationships Resource use.
7. Training to be formally evaluated after the event.	At present, evaluation of training is undertaken on an informal basis. It is formally evaluated as part of the annual PDR process.	Ability to assess whether training is achieving desired effect.	Undertake post training evaluation, utilising the corporate model. Evaluation to be undertaken by Officers after each training event.	Officers feedback. Improved staff satisfaction (training).	Resource use. Internal management processes. Learning and Development.

8. In order to ensure continuous improvement the authority should formalise the process for undertaking benchmarking.	Currently undertaken on an informal basis.	This would lead to continuous improvement within the Council and the results should be reported to management.	Establish a benchmarking group with peer authorities. Undertake benchmarking process in peer authorities in those areas identified from earlier exercise.	Continuing service development.	Resource use. Learning and development.
9. Charges for business service users should be publicised.	Charges are available on request but are not publicised.	More effective communication with traders and consumers.	Publish a leaflet describing charges made by the service. Issue the leaflet in appropriate mailings, during site visits and in public information displays/buildings.	Customer feedback.	Customer service.
10. Details of targets for performance and results to be included within Public Annual Report.	Results of performance against target is not always made public in a systematic way.	Results available to consumers and traders in readily accessible form.	Publish a Public Protection Report, detailing amongst other things targets and performance outcomes annually.	Customer feedback.	Customer service. External Relationships.
11. Develop enforcement policy.	No clear guidance for staff re prioritisation of investigations etc.	Better guidance for enforcement officers. Clearer information for traders and consumers.	Review existing procedures. Draft new procedure. Provide training and guidance to officers. Publicise new policy.	Feedback from officers. Feedback from traders. Improved systems re enforcement action.	Internal management processes. Learning and development. External relationships. Policy impact on stakeholders.

**ARGYLL & BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
21st FEBRUARY 2003**

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2002 - 2003

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit during the third quarter of 2002 – 03. The objective of the report is to advise members of the progress with the annual audit plan. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The Audit Committee is asked to approve the progress made with the annual audit plan for 2002 - 03.

3. BACKGROUND

3.1 The progress report contained in Appendix 1, lists the audits scheduled for the financial year 2002 –2003 and ordered by section and level of completion.

3.2 Internal Audit has dropped one of the audits within the annual plan entitled Purchase Ordering and Certification as the objectives of this audit have been covered by another audit within the programme. This decision was particular to this year only as it made sense to combine this audit with the Purchases of Equipment and Materials audit. Audit Scotland and our audit partners KPMG have agreed this decision. The saved audit time has been transferred to other audit areas. This reduces the total number of core audits from 16 to 15 audits.

3.3 Good progress has been made in general with all audits. Of the 15 core audits 11 have been progressed as at the end of the 3rd quarter. A total of 8 final audit reports have been issued with a further 3 at draft.

3.4 Good progress has also been made with non-core audits. Out of a total of 6 audits 5 have been progressed with 4 final reports issued.

3.5 At the last Audit Committee a report was tabled highlighting a staff shortfall and its impact on the annual audit plan that had resulted in 6 audits facing possible deferment. At the end of the 3rd quarter we are pleased to report that 3 of these audits have been made progressed with a planned programme for the remaining audits to be complete by the year-end.

3.6 Follow-up work has been covered for both internal and external audit management reports. The reviews carried out for the external audit reports are the subject of separate reports to the Audit Committee.

4. SUMMARY OF 3rd QUARTER AUDIT ACTIVITIES FOR 2002 - 2003

4.1 At the end of the 3rd quarter the Audit Assistant left to take up a post with the Housing & Social Work Department. Steps are being taken to secure a

replacement. In the meantime through agencies, 2 temporary qualified auditors have been recruited and they will allow the full audit programme to be completed by the year-end. (See 3.5 above).

- 4.2 It should be noted by the Audit Committee that the Internal Audit Performance Indicators for the first 3 quarters show that for:

INPUT PERFORMANCE MEASURE	TARGET	ACHIEVED
Input Performance Measure 2 & 3:	-	-
• Draft Reports issued within 10 days	100%	100%
• Final Reports issued within 5 days	100%	82%
Input Performance Measure 4:	-	-
• Report Standard Achievement	100%	100%
Input Performance Measure 5:	-	-
• Questionnaire audit quality, 3 = Agree 4 = Strongly Agree	Grade 3 and above	Grade 3/4

OUTPUT PERFORMANCE MEASURE	TARGET	ACHIEVED
Output Performance Measure 2:	-	-
• Follow Up Reviews within time scale	Achievement	Achieved
Output Performance Measure 4:	-	-
• Recommendations Accepted	100%	100%

The remaining performance indicators are annual task evaluated.

5. CONCLUSION

Progress is being made on audits planned for 2002 – 03 and at present it is anticipated that all the audits will be finalised by the end of the financial year.

6. IMPLICATIONS

- | | | |
|-----|----------------------|---|
| 5.1 | Policy: | Update on audit plan for 2002 – 03. |
| 5.2 | Financial: | The audit plan is based on existing budgeted provision. |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 21 february 2003.
21febprogreport21feb

APPENDIX 1

Column F is automatically updated by: Time charges against jobs 02_03.xls

Assessment of audit days: 2002-2003 strategic plan

AUDIT WORK	Last audited	Risk ranking 2002 - 03	Original Estimated Audit Days 2002-03	Revised Estimated Audit Days 2002-03	Actual Audit Days 2002-03	Out Come Days for Internal Audit
Core financial systems						
Capital accounting/Fixed Asset Management	-	2	20	20	24	-4
Cash and income banking	2000/01	2	20	20	28	-8
Council tax and non-domestic rates	2000/01	2	30	30	25	5
Unified benefits system	2001/02	2	50	50	55	-5
Housing rents	2001/02	1	20	20	14	6
Treasury management	-	2	20	20	19	1
Stock taking	2001/02	-	15	15	20	-5
IT / MIS strategy and controls KPMG	2001/02	-	30	30	15	15
Debtor accounts	2001/02	1	20	20	9	11
Payroll	2000/01	3	42	42	32	10
Purchases of equipment and materials	2001/02	2	20	20	26	-6
Government grants	-	1	20	20	0	20
General ledger operations	2001/02	2	20	20	3	17
Creditor payments	2001/02	2	30	30	0	30
Budgetary preparation and control	-	1	20	20	0	20
Subtotal core financial systems			377	377	271	106
Section Total			377	377	271	106
Non-financial systems / Best Value / VFM						
Transportation and property	-	2, 8	20	20	19	1
DLO's	-	1	20	20	26	-6
Performance Indicators	2001/02	-	70	70	90	-20
Performance indicators (PMP)	-	-	33	33	38	-5
Best Value reviews	-	-	30	30	10	20
Corporate governance compliance / risk	-	-	30	30	0	30
Subtotal non-financial			203	203	181	22
Section Total			203	203	181	22
Actual Direct Audit Time			580	580	452	128
Special investigations contingency						
Capital Programme	-	-	115		2	115
Victoria Hall					3	-3
Housing					2	-2
Vehicle leasing – special investigation	2001/02	-			24	-24
Contractor Liquidation - DES					2	-2
Chief Execs					3	-3
Dunoon Pool					11	-11
Corporate Accounting					17	-17
Benefit Fraud					32	-32
General Special Investigations (from Oct 02)					11	-11
Section Total			115		106	9
Follow-up external audit management letter						
	-	-	20		21	-1
Risk assessment, strategic plan, annual plans						
	-	-	20		0	20
Internal audit follow up Section Total						
	-	-	40		8	32
POSSIBLE DEFERMENTS						
Core financial systems						
1. Capital contracts	2001/02	3	30			
2. Tendering procedures	2001/02	3	20			
3. Car allowances	2001/02	3	20	20	6	14
Total			70			
Non-financial systems / Best Value / VFM						
4. DSO's	-	4, 7, 9	35	35	2	33
5. Education	-	3, 4, 11	40			
6. Development and environmental services	-	3, 6	20	20	2	18
DEFERRED						
Purchase Ordering and Certification	-		30			30
Total			125			
Section Total			195	75	10	95
Admin					148	-148
Total			970	655	745	135

**ARGYLL & BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
21st FEBRUARY 2003**

ANNUAL AUDIT PLAN 2003 - 2004

1. SUMMARY

This report introduces the Annual Audit Plan for 2003/04, which is part of the 3 year Strategic Audit Plan/Audit Needs Assessment presented and approved by the Audit Committee on the 24th May 2002.

2. RECOMMENDATIONS

2.1 The Annual Audit Plan for 2003/04 is approved. In approving this, Members should consider whether additional resources be provided or audit scope, timescales and assessments modified.

3. DETAILS

3.1 As an ongoing 3 year audit programme the Annual Audit Plan for 2003/04 is attached. (See Appendix 1).

3.2 The Audit Plan for 2003/04 has been drawn up from an Audit Needs Assessment prepared in conjunction with our internal audit partners KPMG and Council senior management. Audit Scotland have reviewed and agreed the plan.

3.3 The number of audit days for 2003/04 is shown against each audit area. In accordance with the Strategic Audit Plan some new areas will be addressed in 2003/04 that were not covered in 2002/03.

3.4 Internal Audit believes that adequate audit coverage and assurance can be provided if the required resources are in place.

4. CONCLUSIONS

The Audit Plan addresses the key areas highlighted in the Audit Needs Assessment and will provide an annual assurance statement on the Council's overall internal audit framework.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet

Internal Audit Manager 21February2003.

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ANNUAL AUDIT PLAN 2003-2004

<i>Core financial systems</i>	Risk ranking	Last audited	2003-04
Budgetary preparation and control	1	2002/03	20
Debtor accounts	1	2002/03	20
Government grants	1	2002/03	20
Stock taking	1	2001/02	27
Cash and income banking	2	2002/03	20
Council tax and non-domestic rates	2	2002/03	30
Creditor payments	2	2002/03	30
Purchases of equipment and materials	2	2002/03	20
Unified benefits system	2	2002/03	30
General ledger operations	2	2002/03	20
Treasury management	2	2002/03	20
Car allowances	3	2002/03	20
Payroll	3	2002/03	30
Purchase ordering and certification	3	2000/01	30
Tendering procedures	3	2002/03	20
Registration of births, marriages and deaths	3	2002/03	15
Direct transport costs	4	-	20
Payments to voluntary associations	4	-	20
Contract hire and operating leases	5	2002/03	20
Public transport costs	6	2000/01	20
<i>Subtotal core financial systems</i>			452

<i>Non-financial systems / Best Value / VFM</i>	Risk ranking	Last audited	2003-04
DLO's	1	2002/03	20
IT / MIS strategy and controls	1	2002/03	30
Performance Indicators	1	2002/03	40
Corporate governance compliance / risk management	1	2002/03	50
Transportation and property	2, 8	2002/03	20
Best Value reviews	3	2002/03	30
Performance indicators (PMP)	3	2002/03	33
Education	3, 4, 11	2002/03	40
Development and environmental services	3, 6	2002/03	20
DSO's	4, 7, 9	2002/03	35
Housing and social work	9, 10	-	30
<i>Subtotal non-financial</i>			348

<i>Special Investigation/ Risk Assessment/ Follow-up</i>	Last audited	2003-04
Special investigations contingency	2002/03	100
Risk assessment, strategic plan, annual plans	2002/03	10
Follow-up external audit management letter points	2002/03	40
Internal audit follow up	2002/03	20
<i>Subtotal</i>		170

Total	970
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Note: It is intended that where reviews are repeated in subsequent years, that the focus / emphasis will change. For example, payroll will be audited every year but it will cover main departments on a rotational basis.

Internal Audit / KPMG

	Audit Manager	Audit Manager	Accountant	Accountant	Senior audit assistant	Audit assistant	KPMG	Total
Direct Audit Work								
Core financial systems / regularity /follow-up	5	70	148	20	70	209	-	522
Computer audit	15	-	5	-	-	-	10	30
Operational / value for money / Best Value	30	15	20	110	108	-	15	298
Fraud / other contingencies Strategic plan and annual plans	20	7	5	48	14	6	-	100
	5	10	-	-	5	-	-	20
Total for Direct Audit Work	75	102	178	178	197	215	25	970

