

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate and Legal Services
Director: Nigel Stewart



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22 May 2003

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 30 MAY 2003** at **10:30 AM**, which you are requested to attend.

Nigel Stewart
Director of Corporate and Legal Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST (IF ANY)**
- 3. MINUTES**
Audit Committee 21 February 2003 (PAGES 1 - 2)
- 4. TERMS OF REFERENCE OF AUDIT COMMITTEE (PAGES 3 - 4)**
- 5. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS TO COUNCIL FROM 2001/2002**
Report by Internal Audit Manager (PAGES 5 - 24)
- 6. FINAL REPORT ON 2002/2003 AUDIT PLAN**
Report by Internal Audit Manager (PAGES 25 - 28)
- 7. REPORT ON 2002/2003 INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)**
Report by Internal Audit Manager (PAGES 29 - 32)
- 8. FIRST YEAR OF PARTNERSHIP AGREEMENT WITH KPMG AND PROPOSALS FOR THE SECOND YEAR**
Report by KPMG (PAGES 33 - 36)
- 9. EXTERNAL AUDIT REPORTS 2002/2003**
Report by Internal Audit Manager (PAGES 37 - 78)

- 10. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS FROM PRICEWATERHOUSECOOPERS (PwC) TO THE COUNCIL FOR 2000/2001**
Report by Internal Audit Manager (PAGES 79 - 86)

- 11. INTERNAL AUDIT PERFORMANCE MEASUREMENT 2002/2003**
Report by Internal Audit Manager (PAGES 87 - 90)

AUDIT COMMITTEE

Vincent Bradbury (Vice-Chairman)	Councillor Donald MacMillan
Councillor John McAlpine	Graham Michie
Councillor Gary Mulvaney (Chairman)	Councillor Elaine Robertson
Councillor John Tacchi	

Contact: Melissa Jones

Tel. No. 01546 604406

ARGYLL AND BUTE COUNCIL

MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on FRIDAY 21 FEBRUARY 2003

Present: Councillor John Stirling (In the Chair)

Councillor Robert Macintyre
Councillor Alistair MacDougall
Mr Graham Michie

Attending: Charles Reppke, Head of Democratic & Community Services
Gerry Wilson, Head of IT Infrastructure
Bruce West, Head of Accounting
Ian Nisbet, Internal Audit Manager
Steve Keightley, KPMG
Brian Howarth, Audit Scotland

Apologies: Councillor Gordon McKinven Mr Vincent Bradbury
Councillor James McQueen

1. MINUTES

The Committee approved the minutes of the Audit Committee of 8 November 2002 as a correct record.

2. CORPORATE GOVERNANCE/RISK MANAGEMENT

In accordance with Corporate Governance arrangements a formal assessment of business risks is required to be undertaken by the Council, and a report set out a proposed timetable to achieve this.

Decision

The Audit Committee noted 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.

(Ref: Report by Head of Legal Services dated 27 January 2003, submitted).

3. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS FROM PRICEWATERHOUSE COOPERS TO THE COUNCIL FOR 2000/2001

Internal Audit has prepared a list of all external audit management letters where recommendations still remain outstanding. The Head of IT Infrastructure and the Head of Accounting updated the Committee on elements of the management letters which they still require to complete actions on.

Decision

1. Agreed to note the contents of the Report.
2. That Internal Audit continue to pursue completion of the outstanding matters.

(Ref: Report by Internal Audit Manager dated 21 February 2003, tabled).

4. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS TO COUNCIL FROM 2001/2002

Internal Audit has prepared a list for all external audit management letters produced by Audit Scotland for 2001/02. A review regarding the progress made by management in the implementation of these reports recommendations has been undertaken.

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 21 February 2003, tabled).

5. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2002-2003

An interim progress report has been prepared covering the audit work performed by Internal Audit during the third quarter of 2002-03.

Decision

To note the progress made with the Annual Audit Plan 2002-2003.

(Ref: Report by Internal Audit Manager dated 21 February 2003, submitted).

6. ANNUAL AUDIT PLAN 2003-2004

The Internal Audit Manager reported on the Annual Audit Plan 2003-2004.

Decision

That the Annual Audit Plan for 2003/04 be approved.

(Ref: Report by Internal Audit Manager dated 21 February 2003, submitted).

Audit comm. 21 feb

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****TERMS OF REFERENCE****GENERAL FUNCTIONS**

1. To promote internal controls, financial and otherwise, in order to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.
2. To report annually to the Council on the internal control environment.
3. To develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability.
4. To promote good financial practice within the Council.
5. To agree the internal audit strategy and plan.
6. To receive internal audit progress reports.
7. To oversee and review action taken on internal audit recommendations.
8. To review the internal audit annual plan.
9. To be consulted on the external audit strategy and plan.
10. To review all reports from the Council's External Auditors.
11. To oversee and review action on external audit recommendations.
12. Without prejudice to the role of the Standards Committee to deal with matters included in their terms of reference, in particular matters arising from the investigation of disclosures under the Council's Public Interest Disclosure Policy, to provide assurance on the Council's compliance with Financial and Security Regulations, Contract Standing Orders and Accounting Codes of Practice.
13. To review the Council's financial performance as contained in the Annual Report and Accounts.
14. To examine the activities and accounts of the Council in order to ensure (a) that the expenditure approved by the Council has been incurred for the purposes intended; (b) that services are being provided efficiently and effectively; and (c) that value for money is being obtained, all in accordance with Best Value requirements.

MEMBERSHIP

The membership of the Audit Committee will be –

5 elected members of the Council none of whom shall hold an executive position in the Council, and two independent Members who are not Members of the Council.

0482js audit note
(reports)

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
30th MAY 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 12th May 2003 indicates that out of 9 agreed recommendations 8 have been implemented and 1 remains outstanding. Implementation of the outstanding recommendation is held up due to our Oracle software provider's poor support. However, the problem has been raised in profile and is now being dealt with by Oracle. (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 as of the 12th May 2003 from the original 19 recommendations 12 have been implemented. Of the remaining 7, two have implementation dates of January 2005. The 5 remaining recommendations concern the Unified Benefits System Section for which comments have been obtained from local management as to progress, see Appendix 3.

3.3 Audit Scotland has produced an Audit of Accounts 2001/02 Audit Memorandum The 2001/02 final report for Argyll & Bute Council on the audit of Final Accounts was presented to the Council in November 2002. As at the 12th May 2001 out of 9 recommendations, 3 have been implemented and one has an implementation date of January 2005. For the remaining 6 recommendations management have given comments on progress. (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 as at the 12th May 2003 out of 6 recommendations 3 have been implemented. Comments have been obtained from management for the remaining 3 recommendations. (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 and had reached a good standard of service in relation to discretionary services. As at the 12th May 2003 only 2 of the original 11 recommendations remain outstanding management comments are appended. (See Appendix 6).
- 3.6 Audit Scotland in October 2002 produced a report entitled Performance Audit of Managing Pre-School Education. A review by Internal Audit of this reports recommendations as at the 12th May 2003 indicates that all agreed recommendations have been implemented.
- 3.7 With regard to the above management letters, Internal Audit will carry 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 remaining to be implemented will continue to 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 30 May2003.
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ACTION PLAN – REGULARITY & GOVERNANCE

APPENDIX 2

Page/ Para Ref	No	Recommendation	Responsible Officer	Action	Date	Update as at 11/10/02	Update as at 12/05/03
8/10	9	<p>A review of suppliers on the creditors system should be performed. Where appropriate, duplicate entries should be removed.</p> <p><i>Priority: Medium</i></p>	A Allan, IT	<p>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.</p>	26 September 2002	Revised date 31 st May 2003	<p>The problem is still to be resolved by Oracle the software suppliers.</p> <p>IT is actively pursuing this issue and has raised the profile to a higher level.</p> <p>A consultant has been hired to look at other issues and may also help in this area.</p>

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ACTION PLAN – REGULARITY & GOVERNANCE 2000/2001

Page/Para Ref	No	Recommendation	Responsible Officer	Action	Date	Situation as at 12 th May 2003
10/8	4	Internal Audit Management should consider the appropriateness of the staffing structure of internal audit. <i>Priority: Medium</i>	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	Will be reviewed nearer the implementation date
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	Will be reviewed nearer the implementation date
13/27	14	Unified Benefits System The Benefits System should be reconciled with the financial ledger on a monthly basis. <i>Priority: High</i>	J. Preston	Agreed	November 2002	This has not been possible due to absence of suitable reports from the I-world system. The reconciliation will be performed as soon as reports are available.

APPENDIX 3

argyll & bute council - 2001/2001

Page/P ara Ref	No	Recommendation	Responsible Officer	Action	Date	Situation as at 12 th May 2003
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	This will not be possible until the new structure is in place
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	This exercise will not be possible as advised by the Council's Data Protection Officer.
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	Some progress has been made and will be fully resolved when the new structure is in place.
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	Currently applicable and will be further reviewed nearer the implementation date.

APPENDIX 4

Action Plan

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Comments at 12 th May 2003
		Management response	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	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Comments at 12 th May 2003
		Management response	Who by	When by	
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	B West	31/03/2003 for 2002/03 Annual Accounts	Under current consideration

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Comments at 12 th May 2003
		Management response	Who by	When by	
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	Currently under review
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	DLO/DSO Finance Monitoring Group	Ongoing	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Comments at 12 th May 2003
		Management response	Who by	When by	
11/13 contd		<p>Management Accounts, which in turn is reported to the Chair of COB, the Council Leader and the Spokesperson for Resources.</p> <p>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.</p>			
14/25	Internal audit. The Council should review the current structure and	The Council recently reviewed the structure and reporting arrangements of	S McGregor	January 2005	

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Comments at 12 th May 2003
		Management response	Who by	When by	
20/16 contd		<p>conclusions.</p> <p>Introduction of commitment accounting and the move towards a full accruals based budget monitoring is dependent upon progress on e-procurement. This will provide a platform for these 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</p>		will be considered once sufficient progress is made with e-procurement.	No change
			A Bovaird	Ongoing	The request to advertise has been repealed and he will discuss the communication

Argyll & Bute Council
Report on the 2001/2002 Audit

Appendix 4

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Comments at 12 th May 2003
		Management response	Who by	When by	
		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.			of information with the Members.

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APPENDIX 5

AUDIT MEMORANDUM

<u>Finding</u>	<u>Recommendation</u>	<u>Action</u>		<u>Comments as of 12th May 2003</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>Currently being worked upon.</p>
<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>Some steps taken but this remains an ongoing task.</p>
<p>4. Cash & Bank</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>Presently under consideration by Head of Accounting.</p>

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1. IMPROVEMENT AGENDA - TRADING STANDARDS

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?	Col.7 Position as at 12th May 2003
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.	This has been 60% implemented.
10. Details of targets for performance and results to be included within Public Protection 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.	This document has been prepared but not yet published.

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ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
30th MAY 2003

FINAL REPORT ON 2002/2003 AUDIT PLAN

1. SUMMARY

A final report covering audits performed by Internal Audit during 2002 – 03 is appended. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The contents of this report are noted.

3. DETAILS

3.1 The report appended lists the audits that were scheduled for the financial year 2002 – 03. The objective of the report is to advise members of the final status of each audit. (See Appendix 1).

3.2 A total of 28 audits were planned these can be broken down into the following categories:

- 19 Core Financial Systems Audits and
- 9 Non Financial Systems Audits.

Additional to the above Internal Audit carried out special investigations, follow up reviews and external audit work.

3.3 Of 19 Core Financial Systems audits, one audit Purchase Ordering & Certification was amalgamated with another audit for efficiency reasons. This was reported previously to the Audit Committee.

Of the remaining 18 audits 16 Final reports with implementation plans have been issued with the remaining 2 audits at Final Draft stage.

3.4 Of 9 Non Financial Systems audits one audit Best Value was amalgamated with the Performance Management & Planning (PMP) audit for efficiency reasons.

Of the remaining 8 audits 5 Final reports have been issued 3 audits are at Final Draft stage.

3.5 Throughout 2002 – 03 Internal Audit resources were tight and in the final quarter of the financial year additional experienced resources were brought in on a contract basis. This allowed the internal audit plan to progress resulting in the annual audit plan being completed.

- 3.6 Additional to the above Internal Audit completed a number of special investigations. Also follow up reviews were carried out for both internal and external audit reports issued in the previous financial year. Internal audit report recommendations have been implemented and those external audit report recommendations remaining to be implemented are highlighted in separate reports to the audit committee.
- 3.7 Based on audit work carried out in 2002 – 03, we are of the opinion that the Council’s systems provide a reasonable assurance regarding the effective and efficient achievement of the Council’s objectives. We have indicated in our audit reports certain matters, which we understand are being addressed by local management; our opinion on the Council’s systems is based on our recommendations being satisfactorily implemented. Additional assurance has been given in an Internal Financial Control Statement (IFCS) prepared by Internal Audit and is the subject of a separate report to the Audit Committee.

4. CONCLUSIONS

The audit plan for 2002 – 03, was effectively completed by the 31st May 2003. The audit committee is asked to accept the assurances provided by Internal Audit, based on the 2002 – 03 audit work completed.

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 30 May 2003.
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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	59	-9
Housing rents	2001/02	1	20	20	17	3
Treasury management	-	2	20	20	20	0
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	22	-2
Payroll	2000/01	3	42	42	37	5
Purchases of equipment and materials	2001/02	2	20	20	30	-10
Government grants	-	1	20	20	20	0
General ledger operations	2001/02	2	20	20	25	-5
Creditor payments	2001/02	2	30	30	7	23
Budgetary preparation and control	-	1	20	20	22	-2
Subtotal core financial systems			377	377	371	6
Section Total			377	377	371	6
Non-financial systems / Best Value / VFM						
Transportation and property	-	2, 8	20	20	22	-2
DLO's	-	1	20	20	26	-6
Performance Indicators	2001/02	-	70	70	91	-21
Performance indicators (PMP)	-	-	33	33	37	-4
Best Value reviews	-	-	30	30	28	2
Corporate governance compliance / risk	-	-	30	30	8	22
Subtotal non-financial			203	203	212	-9
Section Total			203	203	212	-9
Actual Direct Audit Time			580	580	583	-3
Special investigations contingency						
Capital Programme	-	-	115	115		115
Victoria Hall	-	-	0	0	2	-2
Housing	-	-	0	0	3	-3
Housing	-	-	0	0	2	-2
Vehicle leasing – special investigation	2001/02	-	0	0	24	-24
Contractor Liquidation - DES	-	-	0	0	2	-2
Chief Execs	-	-	0	0	3	-3
Dunoon Pool	-	-	0	0	11	-11
Corporate Accounting	-	-	0	0	18	-18
Benefit Fraud	-	-	0	0	38	-38
General Special Investigations (from Oct 02)	-	-	0	0	25	-25
Section Total			115	115	128	-13
Follow-up external audit management letter						
	-	-	20	20	10	10
Risk assessment, strategic plan, annual plans						
	-	-	20	20	8	12
Internal audit follow up Section Total			40	40	9	31
POSSIBLE DEFERMENTS						
Core financial systems						
1. Capital contracts	2001/02	3	30	30	24	6
2. Tendering procedures	2001/02	3	20	20	19	1
3. Car allowances	2001/02	3	20	20	24	-4
Total			70	70	67	3
Non-financial systems / Best Value / VFM						
4. DSO VFM Shanks	-	4, 7, 9	35	35	53	-18
5. Education	-	3, 4, 11	40	40	0	40
6. DES VFM Pest Control	-	3, 6	20	20	42	-22
DEFERRED						
Purchase Ordering and Certification	-	-	30	30	0	30
Total			125	125	95	30
Section Total			195	265	229	36
Total			970	1040	966	74

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**ARGYLL & BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
30th MAY 2003**

REPORT ON 2002/2003 INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

1. SUMMARY

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. For the Council's annual accounts for the financial year 2002-03 it is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the internal financial control system (IFCS) for the Director of Finance. (See Appendix 1).

2. RECOMMENDATION

2.1 The contents of this report are noted.

3. DETAILS

3.1 The main objectives of the Council's internal financial control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

3.3 Evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by internal audit during the year to 31st March 2003;
- The assessment of needs completed during the preparation of the strategic audit plan;
- Reports issued by the Council's external auditors, Audit Scotland.
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

3.4 The statement has 2 sections in which Internal Audit is required to give an opinion on the Council control environment. Exceptions are also covered where Internal Audit has found reason to make a comment. The statement is in Final Draft format until Audit Scotland completes their review of the Council's Annual Accounts for 2002 – 03. If they have additional comments that they feel need to be included within the statement.

4. CONCLUSIONS

Except for the items listed in the IFCS in Appendix 1, it is the opinion of Internal Audit, based on the audit work carried out to date, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems in the year to 31st March 2003.

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 30 May 2003.
2mayfinalreport30may

INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

FINAL DRAFT

To the members of Argyll & Bute Council, the Director of Finance and the Chief Executive

As Internal Audit Manager of Argyll & Bute Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Council for the year ended 31st March 2003.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Internal Audit Manager to provide an annual overall assessment of the robustness of the internal financial control system.

Sound internal controls

The main objectives of the Council's internal financial control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of financial control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal financial control.

The work of internal audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal financial control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal financial control as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The section undertakes an annual programme of work approved by the Audit Committee based on a 3-year strategic audit plan. The strategic audit plan is based on a formal needs assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters arising from internal audit work are reported to the Director of Finance and the Council's Audit Committee.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by internal audit during the year to 31 March 2003;
- The assessment of needs completed during the preparation of the strategic audit plan;
- Reports issued by the Council's external auditors, Audit Scotland.
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

Opinion

Except for the following listed matters it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31st March 2003:

- The capital investment control guidelines currently in place require review and amendment;
- The project management disciplines in use for controlling capital programmes are not sufficiently formalised;
- The Payroll system has inadequate written procedural instructions in place;
- Arrangements to prepare a Risk Register are in place and it is expected that a draft register will be prepared by May 2003. The final version is planned to be available by September 2003;
- An augmented Finance team is now located within Education headquarters in Dunoon with the objective of improving budgetary control procedures within the department. Regular progress reports are submitted to the Strategic Policy committee following meetings of the Education Financial Monitoring Group. A requirement to achieve savings of approximately £1.3m was identified and latest reports indicate that this objective will be achieved THIS STATEMENT TO BE REVISED; and
- The Council will be looking at a revised Business Plan for the Building Maintenance DLO. This follows comments made by Amey in their review of Council services and the Council's own awareness of a difficult situation in achieving the break-even requirement. The most recent Management Accounts show that a loss-making situation has been halted and there is a basis for projecting at least a break-even position for the future. THIS STATEMENT TO BE REVISED

Ian Nisbet, MBA MSc ACMA

Internal Audit Manager

HQ Kilmory

30/05/2003

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
30th MAY 2003

REPORT RE FIRST YEAR OF PARTNERSHIP AGREEMENT WITH KPMG AND PROPOSALS FOR THE SECOND YEAR

1. SUMMARY

This report details the progress of the internal audit partnering agreement in its first year of operation and explains KPMG's proposals for the forthcoming year.

2. RECOMMENDATIONS

- 2.1 That this committee notes the progress of the agreement in its first year and approves the proposals for the forthcoming year.
- 2.2 The committee notes the opinion of Audit Scotland in relation to the reporting lines of internal audit.

3. DETAILS

- 3.1 Following a review of the internal audit function at all Scottish Local Authorities performed by Audit Scotland and a consequent review of the internal audit provision at Argyll and Bute Council by Professor Arthur Midwinter of the University of Strathclyde, the Council entered into a partnership agreement with the accounting and advisory firm KPMG.
- 3.2 The objective of the partnering arrangement is to develop the internal audit function at the Council to a position where:
- It services the Council's internal audit requirements in accordance with good practice; and
 - In any follow-up review of internal audit functions at Scottish Local Authorities by Audit Scotland, that of Argyll and Bute will be classed as amongst the best.
- 3.3 A plan for the first year of the contract was divided into the following activities:
- Conducting a Risk Assessment as a basis for the development of an internal audit strategic plan;
 - Management and professional support;
 - Formal and informal training;
 - Information Technology audit;
 - Audit Committee attendance; and
 - Meetings/relationship management and audit functioning
- 3.4 The following actions have been delivered during the first year of the contract:
- A three-year risk based strategic plan was produced, following extensive

consultation throughout the Council, from which was drawn a work programme for the year 2002/2003.

- The arrangements for the provision of internal audit services at Argyll and Bute Council were examined and recommendations made surrounding the positioning, relationships and processes of the internal audit function. These recommendations were implemented by the Head of internal Audit.
- A training needs assessment was compiled to identify training requirements. One full days training on governance and risk management, strategic and assignment planning, assignment fieldwork and computer audit issues was delivered to staff at KPMG's Glasgow office. Two half-day training sessions were held at Kilmory covering governance, risk management, internal control, value for money (vfm) and Best Value.
- A review of the Council's IT environment was completed using KPMG specialist IT auditors.
- All meetings of the Audit Committee were attended by at least one member of the KPMG team.
- Ad-hoc advice to the Head of Internal Audit and the Director of Finance concerning issues as they arose. For example, the position of internal audit in the newly structured council, and Statements of Internal Financial Control.
- KPMG and the Head of Internal Audit undertook a "self-assessment" review of the compliance of the Argyll and Bute Council audit team with good practice, and in particular, the guidelines likely to be used by Audit Scotland in any follow-up review. They concluded that improvement could be demonstrated against most of the criteria used. KPMG have since conducted in depth reviews against particular areas of guidance, making recommendations designed to ensure that such improvement is both demonstrable and auditable.

Overall, KPMG are pleased with the progress being made towards the achievement of the objectives outlined at paragraph 3.2.

3.5 During the course of this first year the manager responsible for servicing the agreement at KPMG decided to change his career direction within the firm. He was replaced by a manager who was previously a Chief Internal Auditor at a Scottish Local Authority.

3.6 KPMG propose the following activities for the second year of the agreement:

- Management and professional support (development of the role of the internal audit function in relation to Best Value and Statements of Internal Control/Compliance with a local code of Corporate Governance);
- Formal and informal training (both to the Audit Committee regarding their role and to the audit team on systems auditing particularly in relation to IT);
- Direct audit time (allocated to a vfm study of education transport);
- Audit Committee attendance;
- Meetings/relationship management and audit functioning (in particular continuing reviews of compliance with good practice and guidance – it is proposed to produce a consolidated report covering all reviews in the

- Autumn of 2003); and
- Assistance with a review of risk for the development of a revised strategic plan.

3.7 In relation to the review of compliance with good practice and guidelines, KPMG have contacted the Controller of Audit for his opinion on the position of internal audit within the Authority. His and our view is that the Head of Internal Audit should report directly to a first tier officer (Chief Executive or departmental director) such as the S.95 officer who, in terms of CIPFA guidance, is a full member of the senior management team. If the S.95 officer is not a senior officer but reports via the Chief Executive the controller of audit would have some concerns that the Chief Executive would have direct responsibility for all the financial and operational activities of the council so it would be important for the audit committee to address the risks of this arrangement and for the Head of Internal Audit to be able to directly access the audit committee. Any other arrangement could impact on a “5 star” grading being achieved against one of the criteria likely to be used by Audit Scotland in their follow-up review of internal audit sections. The Audit Committee, other elected members and senior management should bear this in mind when deciding or approving the reporting lines of internal audit in any Council re-structure.

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)

Grant Macrae
Partnership Director
07 May2003.
KPMGprogreport30may

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ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
30th MAY 2003

EXTERNAL AUDIT REPORTS 2002 – 03.

1. SUMMARY

As part of Audit Scotland's statutory responsibilities, they are required to satisfy themselves that the Council has in place appropriate management arrangements to secure value for money from the resources available to it. The method used by external audit to review Council best value progress is Performance Management and Planning (PMP). Attached for member awareness are executive summaries from the reviews carried out by external audit in 2002 - 03. (See Appendix 1)

2. RECOMMENDATIONS

2.1 The contents of this report are noted.

3. DETAILS

3.1 The report appended in Appendix 1, 2 3, 4 and 5 are the executive summaries from the PMP follow up review of Council Services carried out throughout 2002 - 03 by external audit. The overall conclusion of these reports is that evidence had been obtained that significant progress in service improvements had been achieved. Also appended is a report on following the Public Pound, which is an area, receiving more prominence in audit terms.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by both Audit Scotland and Internal Audit.

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 30 May 2003.
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APPENDIX 1

EXTERNAL AUDIT PMP REPORTS

PMP Report Name	Appendix No.
Personnel	2
Fleet Management	3
Corporate Approach	4
Roads & Transportation	5
Registration	5
Community Care	5
Public Pound	5

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APPENDIX 2

Argyll & Bute Council

Performance Management and Planning – Follow-up of the 2000/2001 Audit of Personnel Services

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EXECUTIVE SUMMARY

INTRODUCTION

- 1.1 Best Value has been progressing in Scottish Councils since late 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a performance management and planning (PMP) framework, which delivers continuous improvement.
- 1.2 As part of the auditor's statutory responsibilities, he is required to satisfy himself that a local authority has in place appropriate management arrangements to secure value for money from the resources available to it. With the introduction of the Best Value regime for councils, this element of the audit – the Performance Management and Planning audit - has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

AUDIT SCOPE AND OBJECTIVES

- 1.3 The audit required service managers to submit two reports to their auditors, namely:
- an Improvement Action Progress Report (IAPR). This report is used to record progress in implementing the improvement actions agreed during the 2000/2001 audit
 - a Best Value Achievement Report (BVAR). This report is used to record tangible improvements, which have been, achieved overall since the introduction of Best Value.
- 1.4 The PMP follow-up audit has the following objectives:
- to identify the extent to which planned improvements have been implemented
 - to provide independent, external assurance that the audited service is making progress in implementing Best Value and its PMP framework.

EVIDENCE BASE

- 1.5 A key requirement of the PMP audit is that it is evidence based and as part of the audit we sample checked a range of evidence to verify that progress was being made in implementing actions recorded in the IAPR and to substantiate achievements outlined in the BVAR.

OVERALL CONCLUSION

- 1.6 In general, our conclusion is that the service can demonstrate clear commitment and progress in implementing a Best Value PMP framework. We examined evidence, which confirmed that Personnel Services had made significant progress in implementing its IAPR and had also achieved a number of important service improvements.

SUMMARY OF MAIN FINDINGS

- 1.7 Eight out of eleven improvements (73%) agreed as part of last year's audit have been fully implemented as planned. The remaining three actions are substantially complete and are on target to be implemented by the agreed milestone dates.
- 1.8 The service has achieved a number of tangible service improvements since the introduction of Best Value including for example:
- Work experience monitoring takes place on a regular basis to review customer needs and provide a better quality of service
 - Customer surveys are undertaken on a regular basis which gives customers the opportunity to comment on services provided
 - A more structured approach to staff training and development through initiatives such as training for staff to minimise exposure of employees to dangerous/harmful conditions
 - The Training and Management Services review was submitted to the Chief Executive.

ACKNOWLEDGEMENTS

- 1.9 The co-operation and assistance given by all officers contacted during the course of this review is gratefully acknowledged. There was a clear commitment given by officers at all levels within the service to the completion of the PMP follow-up audit.

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APPENDIX 2
BEST VALUE ACHIEVEMENT
REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	Dates for follow-up agreed with auditor.	for further work with auditor.
11. Introduction of Northgate Personnel Module.	Implementation of the Personnel Module by March 2002.	To provide a single database with information on the Council's workforce, to minimise data input and maximise accuracy.	HR system in the process of being implemented. Target date: Autumn 2003	Project Plan with key dates.	January 2004	

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APPENDIX 3

Argyll & Bute Council

Performance Management and Planning – Follow up of the 2002/2003 Audit of Fleet Management Services (formerly Transportation Services)

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Executive Summary

Introduction

- 1.1 Best Value has been progressing in Scottish Councils since late 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a performance management and planning (PMP) framework, which delivers continuous improvement.
- 1.2 As part of the auditor's statutory responsibilities, he is required to satisfy himself that a local authority has in place appropriate management arrangements to secure value for money from the resources available to it. With the introduction of the Best Value regime for councils, this element of the audit – the Performance Management and Planning audit - has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Audit Scope And Objectives

- 1.3 The review required Service managers to submit two reports to their auditors, namely:
- an Improvement Action Progress Report (IAPR). This report is used to record progress in implementing the improvement actions agreed during the 2000/2001 audit; and
 - a Best Value Achievement Report (BVAR). This report is used to record tangible improvements, which have been, achieved overall since the introduction of Best Value.
- 1.4 The PMP follow up audit has the following objectives:
- to identify the extent to which planned improvements have been implemented; and
 - to provide independent, external assurance that the audited service is making progress in implementing Best Value and its PMP framework.

Evidence Base

- 1.5 A key requirement of the PMP audit is that it is evidence based and as part of the audit we sample checked a range of evidence to verify that progress was being made in implementing actions recorded in the IAPR and to substantiate achievements outlined in the BVAR.

Overall Conclusion

1.6 In general, our conclusion is that the Service can demonstrate clear commitment and progress in implementing the PMP framework. We examined evidence, which confirmed that the Service had made satisfactory progress in implementing its IAPR and had also achieved a number of important service improvements.

Summary Of Main Findings

1.7 One of the three improvements (33%) agreed as part of last year's audit has been fully implemented as planned. Of the remaining two actions, one is substantially complete. However, one of the improvement actions has not been implemented.

1.8 The Service has achieved a number of tangible service improvements since the introduction of Best Value including for example:

- there has been a significant reduction in the average age of the fleet across all vehicle categories;
- fuel monitoring equipment has been fitted to all major fuel sites;
- quarterly user group meetings are being held between the Service and its customers;
- the Service has been a member of the Association for Public Sector Excellence (APSE) benchmarking network for the past three years; and
- contact has been made with a number of external organisations with a view to identifying additional sources of revenue.

Acknowledgements

1.9 The co-operation and assistance given by all officers contacted during the course of this review is gratefully acknowledged. There was a clear commitment given by officers at all levels within the Service to the completion of the PMP follow-up audit.

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APPENDIX 3

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with auditor.
1. Complete a Getting To Know You Exercise	No agreed dates but it was assessed that the task would take about 23 weeks when started	<p>To ensure/demonstrate that the Service has:</p> <ul style="list-style-type: none"> - identified all stakeholders - confirmed customer needs, priorities, expectations and perceptions - agreed realistic standards and targets - agreed information reporting requirements 	<p>During the past year meetings have continued with fleet users. This has been achieved through user group meetings and also with users individually whenever required. Fleet Management was also involved with, and continues to be involved with the Education department scrutiny group which has helped to inform both Education and Fleet Management. Further work regarding this improvement action will have to wait the outcome of the implementation of a council restructuring which may have a significant impact on future service requirements.</p>	<p>Agendas and minutes of meetings held since the PMP audit.</p> <p>PMP SMART action plan</p>	<p>September 2003 at earliest i.e. following the completion of the planned restructure.</p>

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APPENDIX 4

Argyll & Bute Council

Performance Management and Planning – Follow up of the 2000/2001 Audit of Corporate Approach to PMP

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EXECUTIVE SUMMARY

INTRODUCTION

- 1.1 Best Value has been progressing in Scottish Councils since late 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a performance management and planning (PMP) framework, which delivers continuous improvement.
- 1.2 As part of the auditor's statutory responsibilities, he is required to satisfy himself that a local authority has in place appropriate management arrangements to secure value for money from the resources available to it. With the introduction of the Best Value regime for councils, this element of the audit – the Performance Management and Planning audit - has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

AUDIT SCOPE AND OBJECTIVES

- 1.3 This report sets out the detail of the follow up audit of last year's corporate PMP audit.
- 1.4 Over the last three years, the PMP audit has covered the following areas:

Year	PMP audit	PMP follow up audit
1999/2000	Sheltered Housing Non Domestic Rates Estates	
2000/2001	Personnel Registration Transport Services Corporate audit	Sheltered Housing Non Domestic Rates Estates
2001/2002	Roads and Transportation Community Care	Sheltered Housing Non Domestic Rates Estates Personnel Registration Transport Services Corporate audit

- 1.5 The follow up audit is used review the progress made in implementing the improvement actions that were identified in the original PMP audit.
- 1.6 The previous years PMP1 and PMP2 follow up audits confirmed that there were no significant issues of a corporate nature requiring the attention of the Chief Executive.

1.7 The audit required service managers to submit two reports to their auditors, namely:

- an Improvement Action Progress Report (IAPR). This report is used to record progress in implementing the improvement actions agreed during the 2000/2001 audit
- a Best Value Achievement Report (BVAR). This report is used to record tangible improvements, which have been, achieved overall since the introduction of Best Value.

1.8 The PMP follow up audit has the following objectives:

- to identify the extent to which planned improvements have been implemented
- to provide independent, external assurance that the audited service is making progress in implementing Best Value and its PMP framework.

EVIDENCE BASE

1.9 A key requirement of the PMP audit is that it is evidence based and as part of the audit we sample checked a range of evidence to verify that progress was being made in implementing actions recorded in the IAPR and to substantiate achievements outlined in the BVAR.

OVERALL CONCLUSION

1.10 In general, our conclusion is that Argyll and Bute Council can demonstrate clear corporate commitment and progress in implementing a Best Value PMP framework. We examined evidence, which confirmed that the service had made significant progress in implementing its IAPR and had also achieved a number of important service improvements. The BVAR that the service provided comments on service developments throughout the Council, rather than dealing exclusively with developments in Corporate Services because it was an audit of the overall approach to PMP.

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APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up date.
<p>5. Develop and host Service Challenge Day</p> <ul style="list-style-type: none"> ▪ Develop training programme June 2001 ▪ Services nominate staff to attend days August 2001 ▪ Trainers are trained August 2001 ▪ Organise events September 2001 ▪ Host events September 2001 - 2002 ▪ Review and revise events March 2002 	<ul style="list-style-type: none"> ▪ Staff would have greater awareness of Best Value ▪ more involvement in the Best Value process ▪ more ownership of the process 	<p>We have postponed this task for the following reasons. The Service Challenge Day aimed to inform staff about Best Value in general and particularly in relation to the Best Value requirements outlined in the Local Government Bill (as they are likely to be the staff responsible for implementing these requirements). However, the Local Government Bill has still not received assent and the associated guidance has been considerably delayed. Therefore, we have decided to wait until the guidance has been developed and the Bill has received assent to ensure that all of the required information is given to staff otherwise there is a high risk of having to run the training days again which would be prohibitively expensive and not achieve the best use of our resources.</p> <p>Secondly, the aim of the service challenge day is to train 3rd tier managers who were then going to act as cascades to their staff.</p>	<p>The work is programmed in the Corporate Policy Service Plan. (5)</p>	<p>January 2004</p>	

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up dates
			<p>However, the implementation of the organisational review recommendations would mean that a number of the existing 3rd tier staff might no longer be the most appropriate people to train. Therefore, to avoid duplication it is important that we wait until after the review to ensure that we train the most appropriate people.</p> <p>We still have this work scheduled in our work programme however we do not plan to commence until the Local Government Bill receives assent and the organisation review is completed.</p> <p>The revised timescales are as follows</p> <ul style="list-style-type: none"> ▪ Develop training programme Oct 03 ▪ Services nominate staff to attend Nov 03 ▪ Trainers are trained Dec 03 ▪ Host events January 04 <p>(B)</p>		

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up date.
<p>7. Ensuring team meeting structures are in place to cascade information about best value to Council staff</p>	<ul style="list-style-type: none"> ▪ Design cascade structure July 2001 ▪ Establish cascade structure Sep 2001 ▪ Monitor and evaluate the effectiveness of the structure March 2002 	<p>Staff have</p> <ul style="list-style-type: none"> ▪ Greater awareness of Best Value ▪ more involvement in the Best Value process ▪ more ownership of the process 	<p>This action is based on the assumption that 3rd tier managers are going to act as cascades to their staff. However, the implementation of the organisational review recommendations would mean that a number of the existing 3rd tier staff might no longer be the most appropriate people to train. Therefore, to avoid duplication it is important that we wait until after the review to ensure we train the most appropriate people.</p> <p>The revised timescales are as follows</p> <ul style="list-style-type: none"> ▪ Design cascade structure Oct 03 ▪ Establish cascade structure Dec 03 ▪ Monitor and evaluate the effectiveness of the structure March 04 	<ul style="list-style-type: none"> ▪ N/A 	<p>January 2004</p>

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up dates
20. Develop the information strategy to ensure that effective, relevant and timely measures of performance are in place or are in development	<ul style="list-style-type: none"> ▪ Initial proposed measures by April 2001 ▪ Consultation on measures via Citizens Panel third quarter of 2001 ▪ Agreed plan for action 23 incorporated into Integrated Corporate Plan February 2002 	<ul style="list-style-type: none"> ▪ Identification of key performance measures across all services 	<p>This has been incorporated into the council's strategic service review on knowledge management. The review has a six month timescale and is due to start in February</p> <p>Also identified as an action to be taken forward from the latest EFQM face to face session.</p>	<ul style="list-style-type: none"> ▪ Knowledge Management Best Value Review Report to Management Team (19th Dec 2002) (21.1) ▪ Alasdair's diary of road shows (21.2) ▪ The road show presentation (21.3). 	September 2003
21. Extension of reporting to relevant service points	<ul style="list-style-type: none"> ▪ Following agreed measures, performance information to be displayed at all service points by March 2003 	Performance Information available to the public at point of service use	<p>As some services already publish performance information at the point of service delivery.</p> <p>The Council has been undergoing an organisational review since August 2002. The review is likely to change the structure of the organisation and the way we interface with the public.</p>	<ul style="list-style-type: none"> ▪ The Development and Building Control Handbook is sent/given to every one who makes a planning application. (22.1) ▪ A notes about the location/ availability of the figures. There is a need to visit the offices to verify this. (22.2) 	<p>At some points March 2003</p> <p>At all points September 2003</p>

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up dates
			<p>Therefore, we decided that if services did not have their point of service reporting structure in place then we would suspend the requirement to do so until after the review.</p> <p>There has also been slippage because of the latest of national guidance from the Best Value Task Force. See 23.</p>	<ul style="list-style-type: none"> ▪ An example of the performance figures that Development and Building Control report at the Areas Offices. (22.3) 	

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up dates
<p>22. Complete implementation of management information systems to deliver required performance information</p>	<ul style="list-style-type: none"> • The Council is to review its management information systems Nov 02 • Recommendations as how to improve systems Dec 02 • Implement action Plan Mar 03 	<p>The Council will have information systems, which will enable it to provide the information that stakeholders require.</p>	<p>The Council has undertaken a review of the information systems and made recommendations for improvement. Corporate Policy has also established a research forum. However the finally implementation of the recommendations is likely to be delayed due to the restructuring of the organisation as it would not be wise to implement a number of recommendations until the correct structures are in place.</p>	<ul style="list-style-type: none"> ▪ Knowledge Management Report to Management Team (19th Dec 2002) (See 21.1) ▪ Establishment of research forum.(23.2) 	<p>Initially scheduled for March 2003</p> <p>Could be delayed until autumn depending on the Best Value Task Force - Autumn 2003 – September 2003</p>

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Follow up dates
<p>23. Ensure effective systems are in place for improvement in PPR systems for succeeding years.</p> <p><i>As a result of Audit Scotland's recommendations, we have added the following- Develop and report on local performance indicators.</i></p>	<p>Services are to develop qualitative performance indicators rather than just using the quantitative statutory indicators.</p>	<ul style="list-style-type: none"> ▪ Identification of key performance measures across all services <p>The Council could provide to customers and citizens useful and meaningful performance information relating to local concerns, or needs.</p>	<p>On schedule to achieve this as we have embarked upon this task however do not wish to complete this work until the Local Government Bill second tier guidance for PPRg and developing local indicators is available as being too proactive may result in duplicating work. Therefore, we are on track now but it is considered that the national guidance may not be available until autumn hence this would delay our completion date.</p>	<ul style="list-style-type: none"> ▪ PMP framework ▪ Knowledge Management Report to Management Team (19th Dec 2002) (See 21.1) ▪ Establishment of research forum. (24.2) 	<p>March 2003</p> <p>Initially scheduled for March 2003</p> <p>Could be delayed until autumn depending on the Best Value Task Force - Autumn 2003 – September 2003</p>

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APPENDIX 5

Argyll & Bute Council

Performance Management and Planning – Follow-up of the 2000/2001 Audit of Registration Services

Brian Howarth ACMA, Senior Audit Manager, Audit Scotland 7th Floor, Plaza Tower, East Kilbride G74 1LW T. 01355 619 200 F. 01355 619 201

Executive Summary

Introduction

1.2 Best Value has been progressing in Scottish Councils since late 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a performance management and planning (PMP) framework, which delivers continuous improvement.

1.3 As part of the auditor's statutory responsibilities, he is required to satisfy himself that a local authority has in place appropriate management arrangements to secure value for money from the resources available to it. With the introduction of the Best Value regime for councils, this element of the audit – the Performance Management and Planning audit - has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Audit Scope and Objectives

1.4 The review required Service managers to submit two reports to their auditors, namely:

- an Improvement Action Progress Report (IAPR). This report is used to record progress in implementing the improvement actions agreed during the 2001/2002 audit; and
- a Best Value Achievement Report (BVAR). This report is used to record tangible improvements, which have been, achieved overall since the introduction of Best Value.

1.5 The PMP follow-up audit has the following objectives:

- to identify the extent to which planned improvements have been implemented; and
- to provide independent, external assurance that the audited service is making progress in implementing Best Value and its PMP framework.

Evidence Base

1.6 A key requirement of the PMP audit is that it is evidence based and as part of the audit we sample checked a range of evidence to verify that progress was being made in implementing actions recorded in the IAPR and to substantiate achievements outlined in the BVAR.

Overall Conclusion

1.7 In general, our conclusion is that the Service can demonstrate clear commitment and progress in implementing the PMP framework. We examined evidence, which confirmed that the Registration Service had made significant progress in implementing its IAPR and had also achieved a number of important service improvements.

Summary Of Main Findings

1.8 Two of the seven improvements (28%) agreed as part of last year's audit have been fully implemented as planned. Of the remaining five actions, four are substantially complete. However, the implementation of one of the improvement actions has proved difficult and alternative arrangements have been put in place.

1.9 The Service has achieved a number of tangible service improvements since the introduction of Best Value including for example:

- A revised customer questionnaire has been introduced to determine the extent of satisfaction with the Service;
- Registrars conduct marriage ceremonies outwith registration offices which provides a more flexible service for customers;
- A Best Value review group has been established and has met on a regular basis; and
- Staff have been actively involved in supporting continuous improvements.

Acknowledgements

1.10 The co-operation and assistance given by all officers contacted during the course of this review is gratefully acknowledged. There was a clear commitment given by officers at all levels within the Service to the completion of the PMP follow-up audit.

Argyll & Bute Council - 2002/03

Performance Management and Planning Follow up of the 2001/2002 Audit of Roads and Transportation

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T 01355 619200 F 01355 619201

Executive Summary

Introduction

- 1.1 Best Value has been progressing in Scottish Councils since late 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a performance management and planning (PMP) framework, which delivers continuous improvement.
- 1.2 As part of the auditor's statutory responsibilities, he is required to satisfy himself that a local authority has in place appropriate management arrangements to secure value for money from the resources available to it. With the introduction of the Best Value regime for councils, this element of the audit – the Performance Management and Planning audit - has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Audit Scope and Objectives

- 1.3 The audit required Service managers to submit two reports to their auditors, namely:
 - an Improvement Action Progress Report (IAPR). This report is used to record progress in implementing the improvement actions agreed during the 2001/2002 audit; and
 - a Best Value Achievement Report (BVAR). This report is used to record tangible improvements, which have been, achieved overall since the introduction of Best Value.
- 1.4 The PMP follow up audit has the following objectives:
 - to identify the extent to which planned improvements have been implemented; and
 - to provide independent, external assurance that the audited service is making progress in implementing Best Value and its PMP framework.

Evidence Base

- 1.5 A key requirement of the PMP audit is that it is evidence based and as part of the audit we sample checked a range of evidence to verify that progress was being made in

implementing actions recorded in the IAPR and to substantiate achievements outlined in the BVAR.

Overall Conclusion

1.6 In general, our conclusion is that the Service can demonstrate a clear commitment and progress in implementing the PMP framework. We examined evidence, which confirmed that the Service had made significant progress in implementing its IAPR and had also achieved a number of important service improvements.

Summary Of Main Findings

1.7 Thirteen of the twenty-two improvements agreed as part of last year's audit have been fully implemented as planned (59%). Four actions are substantially complete. The remaining five issues cannot be progressed, at this time, and are not considered as requiring further distinct action by the Service.

1.8 The Service has achieved a number of tangible service improvements since the introduction of Best Value including for example:

- the transportation strategy continues to be undertaken in accordance with Access to the Future and corporate objectives;
- all stakeholders were advised of the findings of the consultation stage of the Best Value Service Review;
- performance indicators have been developed for all areas of the Service;
- the Service is an active member of the Celtic Benchmarking Club, a group created to formulate best practice in highway maintenance;
- continuing membership of Hitrans, a group created to develop and co-ordinate transportation strategies on a regional basis in Scotland;
- continued working with relevant bodies in order to promote the re-introduction of the Campbelltown to Ballycastle ferry service;
- active membership of Association for Public Service Excellence (APSE);
- improvements to the financial information presented to managers have been made;
- civil engineering contracts now conform to the ICE 5th edition;
- minutes of departmental management team meetings are made available to office staff;
- equality issues have been addressed through appropriate training; and
- a report and action plan has been prepared as part of the Scotland's Health at Work Initiative (SHAW).

Acknowledgements

1.9 The co-operation and assistance given by all officers contacted during the course of this review is gratefully acknowledged. There was a clear commitment given by officers at all levels within the Service to the completion of the PMP follow-up audit.

Argyll & Bute Council – 2002/03

Performance Management and Planning

Follow up of the 2001/2002 Audit of Community Care

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Executive Summary

Introduction

- 1.1 Best Value has been progressing in Scottish Councils since late 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a performance management and planning (PMP) framework, which delivers continuous improvement.
- 1.2 As part of the auditor's statutory responsibilities, he is required to satisfy himself that a local authority has in place appropriate management arrangements to secure value for money from the resources available to it. With the introduction of the Best Value regime for councils, this element of the audit – the Performance Management and Planning audit - has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Audit Scope and Objectives

- 1.3 The audit required service managers to submit two reports to their auditors, namely:
 - an Improvement Action Progress Report (IAPR). This report is used to record progress in implementing the improvement actions agreed during the 2001/2002 audit; and
 - a Best Value Achievement Report (BVAR). This report is used to record tangible improvements, which have been, achieved overall since the introduction of Best Value.
- 1.4 The PMP follow up audit has the following objectives:
 - to identify the extent to which planned improvements have been implemented; and
 - to provide independent, external assurance that the audited service is making progress in implementing Best Value and its PMP framework.

Evidence Base

- 1.5 A key requirement of the PMP audit is that it is evidence based and as part of the audit we sample checked a range of evidence to verify that progress was being made in implementing actions recorded in the IAPR and to substantiate achievements outlined in the BVAR.
-

Overall Conclusion

1.6 In general, our conclusion is that the Service can demonstrate clear commitment and progress in implementing the PMP framework. We examined evidence, which confirmed that Community Care Services have made significant progress in implementing the IAPR and had also achieved a number of important service improvements.

Summary Of Main Findings

1.7 Of the twenty-two improvements agreed as part of last year's audit, ten have been fully implemented as planned. Ten of the remaining twelve actions are substantially complete and are on target to be implemented by the agreed milestone dates. Two improvements (the introduction of benchmarking to consultation exercises and the introduction of an asset management document are not considered as requiring further action, by the Service, at this time.

1.8 The service has achieved a number of tangible service improvements since the introduction of Best Value including for example:

- best value achievement reports have been disseminated to staff to provide them with a greater understanding of progress made;
- a "Care Inform" newsletter has been introduced and distributed every four to six weeks to inform staff of the range of initiatives within Community Care;
- Heads of Service now meet quarterly with a range of staff groups;
- Best Value action plans have been developed and are monitored through the Best Value Implementation Group;
- the Service Plan has been shortened and revised to make it more readable;
- A Training Strategy and Plan has been introduced;
- The budgetary control report format has been reviewed; and
- Performance Indicators reports are submitted quarterly for each service.

Acknowledgements

1.9 The co-operation and assistance given by all officers contacted during the course of this review is gratefully acknowledged. There was a commitment given by officers at all levels within the Service to the completion of the PMP follow-up audit.

Argyll & Bute Council 2002/03

Management Report

Regularity & Governance (1)

Brian Howarth – Senior Audit Manager, Audit Scotland
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T 01355 619200 F 01355 619201

Executive Summary

Introduction

We conduct our audit in accordance with Audit Scotland's Code of Practice. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.

As part of our 2002/03 interim audit activity, a review was undertaken of the nature and extent of the Council's financial involvement with external bodies. The review was intended to identify any situation where Council funds are transferred to an external body for the purpose of carrying out a function of the local authority or achieving a policy objective of the Council. Our approach sought to establish the extent of expenditure in this area and to obtain assurance, by system review and testing, as to the existence and operation of internal controls considered essential to ensure that appropriate procedures are followed and to ensure that comprehensive documentation is retained.

This report summarises the main findings identified from this area.

Summary of Main Findings

In 2001/2002, the Council spent £1.407 million of revenue funding on 235 external organisations. Two organisations received £25,000 of capital funding. The Net Cost of Services for the Council was £214.741 million in 2001/2002 and less than one percent of this amount was spent on external organisations for the purpose of carrying out a function of the local authority or achieving a policy objective of the Council. Nevertheless, the fact that these monies are not under the direct control of the Council increases the risk that they may not be used for the purpose that they were originally intended.

A framework of control should be developed which includes introducing a register of funded bodies, their purpose and any member or officer involvement. For significant funding arrangements, this register should be supplemented by defined financial and non-financial performance measures and a monitoring process. We identified that payments made to Argyll, the Isles, Loch Lomond & Trossachs Tourist Board of £217,000 were not monitored as tightly as would have been expected.

This report summarises the findings from our review and, where appropriate, makes recommendations to address the weaknesses identified. It identifies and summarises data gathered as part of a national review of this area. 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 within 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 these issues are to be addressed. The Action Plan should be read in conjunction with the relevant references from the main body of the report.

It should be understood that weaknesses highlighted in this report are only those which 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 which may exist.

The factual content of the report has been agreed in discussion with appropriate officers from the Council.

The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

ACTION PLAN

No.	Recommendation	Responsible Officer	Action	Date
1	<p>A register or database of funding arrangements with external organisations should be created. This should include a register of members and officers who sit on the boards or committees of external organisations and the purpose of each body funded.</p> <p><i>High Priority</i></p>	Moir Miller Corporate Accounting Manager	Will develop database. Led by finance but require input from departments.	30 September 2003
2	<p>Quarterly budget reports from Argyll, the Isles, Loch Lomond & Trossachs Tourist Board should be reviewed by Finance staff.</p> <p><i>High Priority</i></p>	Peter Cupples Accounting Services Manager	Request copies of quarterly budget reports from staff in DES. Carry out review of quarterly budget reports.	Immediate
3	<p>Financial and non-financial performance measures should be defined for funded organisations above a significant value.</p> <p><i>Medium Priority</i></p>	Bruce West Head of Accounting	Will develop measures for financial and non-financial performance in conjunction with departments – led by finance but will require departmental input.	30 September 2003
4	<p>A monitoring procedure should be prepared to ensure that available performance measures are collected and reported.</p> <p><i>Medium Priority</i></p>	Bruce West Head of Accounting	Will develop reporting procedures following development of performance measures as outlined in recommendations – led by finance but will require departmental input.	31 October 2003

FOLLOWING THE PUBLIC POUND

Introduction

Councils have powers in certain circumstances to enter into agreements with external bodies that undertake functions which might normally be carried out by councils themselves. The external body may be a council-funded trust or company or, in other cases the relationship may be with grant aided organisations and voluntary bodies. A common feature of these arrangements is that the service is delivered outwith the local authority regulatory framework. The Local Government in Scotland Bill, modernisation of government and community planning initiatives may result in increasing numbers of arms-length arrangements.

It is important that appropriate monitoring mechanisms are in place to enable councils to discharge their stewardship and accountability duties in relation to the public funds provided to such bodies. The Code of Guidance on Funding External Bodies and Following the Public Pound, developed jointly by the Accounts Commission and COSLA (1996), sets out the principles of best practice for councils.

This report forms part of a national exercise to review and update the existing guidance to ensure that it reflects best practice and remains relevant in changing circumstances.

A survey was undertaken to capture any situation where local authority funds are transferred to an external body for the purpose of carrying out a function of the local authority or achieving a policy objective of the authority. The Council completed a self-assessment questionnaire detailing the type of organisations that they fund, the departments that are funding them and the amounts that they paid to these organisations. Further, more detailed information was established for the three largest organisations funded by each department.

An audit review of the questionnaire was undertaken to determine the reliability of the Council's responses and identify any areas where internal control could be improved.

Main Findings

In 2001/2002, the Council provided financial support to arms' length organisations amounting to £1.4 million of revenue funding. Capital funding was limited to £25,000 on two small projects. The different category of organisations funded by the Council include:

- ◆ Commercial companies;
- ◆ Charities;
- ◆ Unincorporated bodies; and
- ◆ Voluntary organisations.

The Council incurred £214.741 million on services during 2001/2002. The departments which fund external organisations to a significant extent are as follows:

- ◆ Cultural and related services;
- ◆ Planning and development;
- ◆ Social work; and
- ◆ Education.

The total gross expenditure of these departments and the amount that they spent on external organisations is demonstrated in Exhibit 1:

Exhibit 1: Financial Support to Arms Length Bodies as a % of Service gross expenditure in 2001/2002

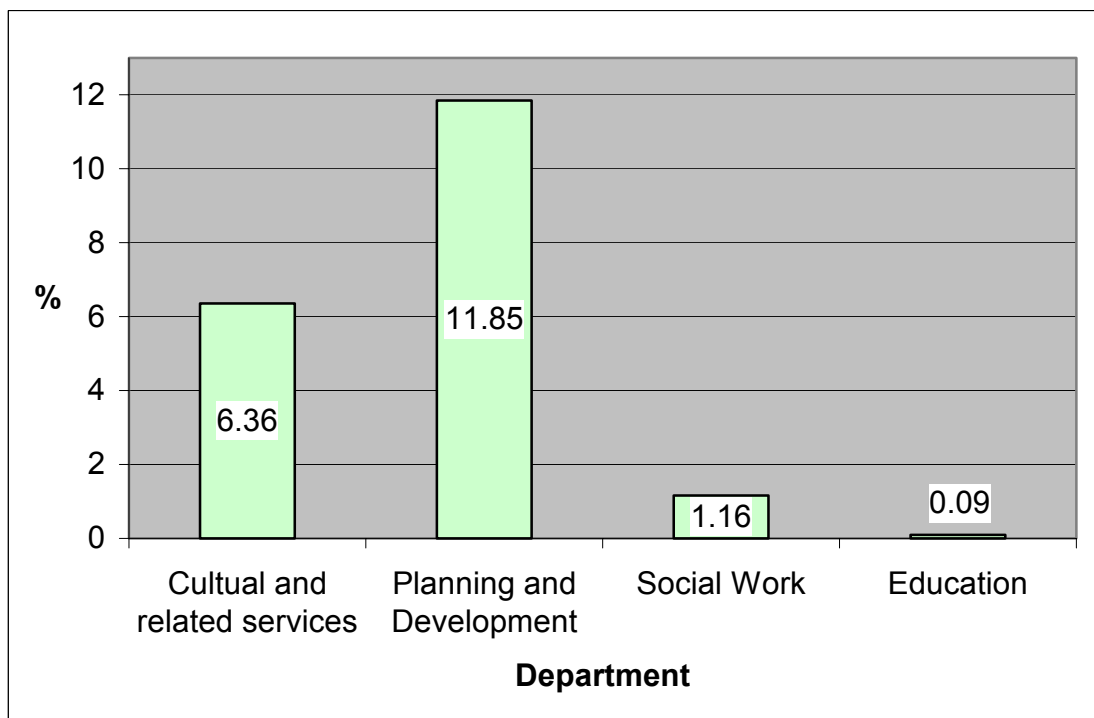
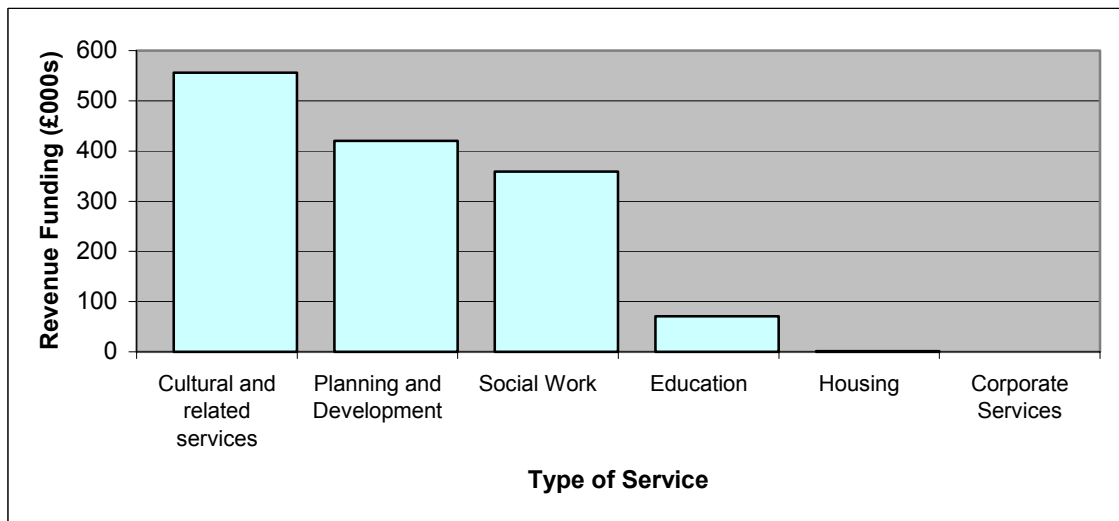


Exhibit 1 shows that 11.85% of the annual expenditure incurred in Planning and Development Services was spent on external organisations. Cultural and Related Services spent £556,000 on external organisations, accounting for 6.36% of their total annual expenditure in 2001/2002. This was the Service that spent most in this area. Exhibit 2 denotes the expenditure incurred in 2001/2002 by each service:

Exhibit 2: Financial Support to Arms Length Bodies by Type of Service

Cultural and related services, including sports and leisure, awarded revenue funding to 118 external organisations. This represented 40% of the total spend, in this area, by the Council. Planning and development expenditure of £420,000 on 37 organisations accounted for 30% and Social Work expenditure of £359,000 on 71 organisations represented 26% of the total.

The largest recipient of revenue funding from Cultural and Related Services, including sport and leisure is Oban & Lorne Community Enterprise Limited. It received £269,000 from the Council in 2001/2002. In order to ensure that the money is spent in accordance with the terms of the award, there are two Councillors on the Enterprise Board. Councillors are also represented on the boards of Islay & Jura Community Enterprise and Mid Argyll Community Enterprise, the second and third largest recipients of monies.

Planning and Development Services, including Economic Development awarded £217,000 to Argyll, the Isles, Loch Lomond & Trossachs Tourist Board, £25,000 to the Group for Recycling in Argyll & Bute (GRAB) and £20,000 to Argyll, Lomond and the Isles Energy Agency (ALIEA). Elected members represented the Council on all three of these organisations' boards.

A register of funding arrangements allows the Council to monitor the amounts that are being paid to external organisations fulfilling a Council policy objective. The Council does not maintain such a register and its absence suggests that the Council cannot easily identify the extent to which it is relying on external organisations to achieve its policy objectives.

Refer to action point 1

The review also noted that the Council does not record the names of members or officers who sit on the boards or committees of external organisations.

Refer to action point 1

The basis of funding provided to external organisations should be specific and clearly stated and the Council should employ a methodology for verifying whether the objectives of the funding given are being met by the body. The purpose of funding was not always clearly stated and this should be fully established for each organisation. This enables clearer assessment of performance and enables officers to assess whether objectives are being met.

Refer to action point 1

The Council has stated that there are arrangements in place for monitoring and reporting financial support given to external bodies. Grant support of £217,000 is paid to Argyll, the Isles Loch Lomond, Stirling and the Trossachs Tourist Board and two Councillors sit on the Board. Although quarterly budget reports are received, there is no review of these by Finance staff.

Refer to action point 2

The absence of defined measures of performance in some funding arrangements, particularly where the funding is significant¹, indicates the need for a small number of financial and non-financial performance measures to be established for significant organisations funded by the Council. The non-financial measures may include data on tourist numbers, opening hours and visitors to tourist information centres in the case of the tourist boards. A monitoring procedure should be prepared to ensure that available performance measures are collected and reported.

Refer to action points 3 & 4

Conclusion

The Council committed over £1.4 million of financial support to arms-length organisations for the purpose of carrying out a function or delivering a policy objective of the Council in 2001/2002. There is a need for the Council to design and implement appropriate control mechanisms to ensure that funding is applied to the purpose for which it was given.

This review recommends that the Council establishes a database of funded organisations and their purpose and details any representation on their boards of control. The Council should also determine a monetary value, above which the organisation funded should have defined financial and non-financial objectives and a monitoring regime.

¹ COSLA Operational Guidance on Funding External Bodies and Following the Public Pound states that “a substantial financial relationship is likely to involve council expenditure equal to the product of at least £1 on council tax”. At Argyll & Bute Council, this represents funding of about £35,000 (based on 2001/2002 Council Tax Income and Band D equivalents).

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ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
30th MAY 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 12th of May 2003 indicates that there is now only 1 recommendation still to be implemented by the IT department from the Second Interim Management Letter 2000/2001. This recommendation concerned the preparation of an IT disaster recovery plan. The IT Head of Service, Mr Gerry Wilson, has assured Internal Audit that this remaining recommendation is close to being fully implemented by the 30th of May 2003 and therefore does not anticipate any need to further report to the Audit Committee.

3.2 A review by Internal Audit as at the 12th of May 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 and they are now awaiting approval from the HM Customs & Excise to agree to their recommendations. (See Appendix 2).

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 the Audit Committee and where requested reports have been 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 Manager 30 May 2003.
2mayprogreport30may

APPENDIX 1**EXTERNAL AUDIT REPORTS**

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

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APPENDIX 2

ARGYLL & BUTE COUNCIL
AUDIT MANAGEMENT LETTER 2000/01
7 JANUARY 2002 (Updated 12 MAY 2003)



Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 11/10/02	Update as at 12/05/03
<p>9.01</p> <p>Partial Exemption</p> <p>The Council has a VAT partial exemption de-minimis 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 but final proposals are to be reviewed by the Inland Revenue.</p>
<p>9.02</p> <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</p>	<p>Consideration should be given to agreeing an input tax estimate with Customs to</p>	<p>Exercise to identify an input tax estimate for submission and agreement with</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Once the exercise on estimation of time delay in VAT reclaim for</p>	<p>Once the exercise mentioned in 9.01 has been completed arrangements will be made to commence retendering.</p>

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 11/10/02	Update as at 12/05/03
<p>financial ledger includes a number of manual adjustments to reflect the council's operations.</p>	<p>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>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>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>	

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ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
30th MAY 2003

INTERNAL AUDIT PERFORMANCE MEASUREMENT 2002 - 2003

1. SUMMARY

At the outset of the financial year 2002 – 03 Internal Audit was tasked to measure the performance of its service delivery. This was to allow comparison to be made year-on-year and to set targets for improvement and by meeting such targets, the Audit Committee could have confidence that Internal Audit were delivering a quality service

2. RECOMMENDATION

2.1 The contents of this report are noted.

3. DETAILS

3.1 In total there were 11 performance indicators agreed by the Audit Committee for Internal Audit to adhere to:

- There were 6 indicators for Input measurement and
- 5 Output performance measures.

3.3 An attached document sets out the performance measures and the performance of internal audit for the financial year 2002 – 03. (See Appendix 1).

4. CONCLUSIONS

Internal Audit has achieved the performance targets set and will continue to maintain the quality standards achieved and where appropriate make improvements.

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 30 May 2003.
2mayfinalreport30may

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1.1 Input performance measures

Ref	Performance indicator	Target	Achieved	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%	67%	Out of 6 staff audits completed by 4 qualified.
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%	100%	17 out of 20 Draft Reports were issued within 10 days but in overall terms the target was achieved.
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	100%	13 out of 19 Final Reports were issued within 5 days but in overall terms the target was achieved.
4.	Reports display: <ul style="list-style-type: none"> ■ clear opinion; ■ action plan of prioritised recommendations and management responses; ■ person responsible; and ■ date for completion 	All reports (100%) state a clear conclusion/opinion, contain and action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.	100%	All quality issues met.
5.	Management's feed back on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (ie: a mean score of '3' or more for each question	Score 3.5	There were no scores recorded less than 3.
6.	Percentage of time direct audit time	67%	67%	Achieved

1.2 Output performance measures

Ref	Performance indicator	Target	Achieved	Comment
1	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)	100%	2003-04 Audit plan submitted to Audit Committee on 21 February 2003.
2	Follow-ups to be performed within one year of the audit taking place.	100% of recommendations followed up in following year	100%	Complete.
3	Completion of every assignment in the annual plan (in budgeted time), subject to variations agreed by audit committee, and if appropriate, audit managers.	100%	100%	Audit Assignments were completed within the overall budgeted time.
4	Recommendations accepted compared to recommendations made.	Fundamental – 100% Material and minor - 80%	100% 100%	Achieved. Achieved.
5	Internal audit costs are within budget (including in-year budget variations)	100% (Total costs within budget)	100%	Achieved.