

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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16 September 2003

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **THURSDAY, 26 JULY 2001** at **2:00 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST (IF ANY)**
- 3. MINUTES**
Audit Committee 21 March 2001 (PAGES 1 - 4)
- 4. (a) UNAUDITED 2000/2001 ANNUAL ACCOUNTS**
Report by Director of Finance (Pages 5 - 36)
- (b) REVENUE BUDGET MONITORING**
Report by Head of Accounting (Pages 37 - 48)
- (c) IMPROVING BUDGET MONITORING**
Report by Head of Accounting (Pages 49 - 52)
- 5. ACCOUNTS COMMISSION OVERVIEW REPORT 1999/2000**
Copy attached (PAGES 53 - 96)
- 6. REVIEW OF INTERNAL AUDIT SERVICE**
Report by Director of Finance (PAGES 97 - 114)
- 7. FINAL REPORT ON 2000/2001 AUDIT PLAN**
Report by Director of Finance (PAGES 115 - 118)

8. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2001/2002

Report by Director of Finance (PAGES 119 - 124)

9. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS TO COUNCIL FROM 1999/00 TO PRESENT

Report by Director of Finance (PAGES 125 - 128)

10. ANTI-FRAUD AND ANTI-CORRUPTION POLICY

Report by Director of Finance (PAGES 129 - 154)

AUDIT COMMITTEE

Vincent Bradbury (Vice-Chairman)
Councillor Gordon McKinven
Graham Michie
Councillor John Stirling

Councillor Alistair MacDougall
Councillor James McQueen
Councillor Len Scoullar

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ARGYLL AND BUTE COUNCIL

MINUTES of MEETING of the AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on WEDNESDAY, 21 MARCH 2001

Present: Councillor John Stirling (In the Chair)

Councillor Ronald Kinloch	Mr Vincent Bradbury
Councillor Isobel Strong	Mr Graham Michie
Councillor Len Scoullar	

Attending: Charles Reppke, Head of Democratic & Community Services
Stewart McGregor, Director of Finance
Ian Nisbet, Chief Internal Auditor

1. MINUTES

The Committee approved the minutes of the Audit Committee of 29 November 2000 as a correct record.

2. APPOINTMENT OF VICE-CHAIRMAN

In the light of the Council's Review of Political Management which will be considered at the Council Meeting on 22 March 2001 it was agreed to take no action on the appointment of the Vice-Chairman at this time.

3. TERMS OF REFERENCE

The Committee discussed the Terms of Reference for the Committee as determined by the Council and were advised by Gordon Jack, External Auditor from PricewaterhouseCooper that paragraph 14 be amended to more clearly focus the role of the Committee.

Decision

- (1) To note the Terms of Reference numbered 1-13
- (2) To recommend to the Council that paragraph 14 be amended to read –

To examine the activities and accounts of the Council and exercise a governance role over management efforts 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.

(Ref: Audit Committee Terms of Reference, submitted)

4. **INTERNAL AUDIT**

(1) **Progress Report on 2000/2001 Audit Plan**

The Internal Audit Manager submitted a report on the interim progress covering audits performed by Internal Audit during 2000/2001.

Decision

To note the content of the report and the appendix thereto.

(Ref: Report by Internal Audit Manager dated 26 February 2001, submitted).

(2) **Internal Audit Plan 2001/2002**

The Internal Audit Manager submitted a report on the Annual Plan of proposed audit activity for the financial year 2001/2002.

Decision

To note the Annual Audit Plan for 2001/2002 as detailed in Internal Audit Manager's report dated 26 February 2001.

(Ref: Report by Internal Audit Manager dated 26 February 2001, submitted)

5. **EXTERNAL AUDIT**

Mr Gordon Jack and Mr David McLaren gave a presentation on their role as External Auditors and submitted their Client Service Plan on the 2000/2001 Audit.

The Chairman thanked Mr Jack and Mr McLaren for their enlightening presentation.

Decision

- (1) To note the 2000/2001 Client Service Plan from PricewaterhouseCooper.
- (2) To note that 2000/2001 was the final year that PricewaterhouseCooper will be External Auditors to the Council and that another firm will be appointed for a 4 year term by the Audit Commission in early course.

(Ref: Client Service Plan 2000/2001 by PricewaterhouseCooper, submitted).

6. **EXTERNAL AUDIT MANAGEMENT LETTER UPDATE 1999/2000 PROGRESS REPORT**

The Internal Audit Manager submitted a report in regard to the progress and

implementation of recommendations raised in the PricewaterhouseCooper final report to Members for 1999/2000 which had been undertaken by Internal Audit.

Decision

- (1) To note the contents of the Internal Audit Manager's report dated 16 February 2001.
- (2) To request the Director of Corporate & Legal Services to furnish the Committee with an update on the timescale for provision of the Fraud & Corruption Policy.

(Ref: Report by Internal Audit Manager dated 26 February 2001, submitted).

7. **REVIEW OF INTERNAL AUDIT SECTION**

The Director of Finance submitted a report advising that the Audit Committee will receive reports on Internal Audits' Annual and 3 Year Plan together with progress on Audits and liaison between Internal Audit and External Audit. He considered it would be appropriate to review the role of the Internal Audit Section with the presentation of a report to a future Audit Committee outlining current arrangements and raising issues for consideration and possible changes and that it would be desirable to run the review of Internal Audit in conjunction with the study carried out by the Accounts Commission.

Decision

To agree in order to bring an independent view to the Review of the Internal Audit Section to secure the assistance of Dr. Arthur Midwinter to carry out a detailed review with the following terms of reference.

- Obtain detailed information on current structure of Internal Audit, resources available, work plans, reporting arrangements and any other aspect relevant to the current delivery of the Internal Audit service and undertake discussions with Internal Audit staff to obtain their professional views on the current position.
- Carry out consultation with users of Internal Audit service.
- Compare current arrangements with other benchmarking or equivalent information available including CIPFA's Code of Practice on Internal Audit and identify possible areas for improvement.
- Carry out an options appraisal for alternative service delivery arrangements e.g. partnership or outsourcing.
- The review would be undertaken in a manner consistent with the principles of a best value service review. The approach outlined above includes elements of consultation, benchmarking and options appraisal. It would meet best value principles in terms of member and external involvement through consideration by the Audit Committee and the use of Dr. Midwinter would bring an external

expertise to the review.

- Liaise with External Audit to ascertain preliminary findings from their review of the Council's internal audit arrangements.
- Form initial view on recommendations for change and provide draft report to the Director of Finance and the Audit Committee.
- **Concluding Section**

Immediately following the issue of the Accounts Commission report on Internal Audit arrangements within the Council and recognising the findings of that report, prepare a final report for the Director of Finance and the Audit Committee with recommendations on alterations to the delivery of the Council's Internal Audit service which will lead to an improved delivery of service. It is anticipated that the report will be consistent with current best practice, CIPFA's Code of Practice, Dr.Midwinter's own view based on experience and the Accounts Commission's report on Internal Audit arrangements.

(Reference: Report by Director of Finance submitted)

Audit Comm 21 Mar

**ARGYLL AND BUTE COUNCIL
FINANCE**

2000/2001 ANNUAL ACCOUNTS (UNAUDITED)

1 SUMMARY

- 1.1 The unaudited Annual Accounts should be lodged with the Controller of Audit by 30th June 2001 in accordance with legislation. The unaudited Accounts should also be submitted to Council and a set is attached to this report.

The General Fund shows a surplus position of £85,000 and the Housing Revenue Account shows a surplus position of £1,573,000. In both cases, the sums are carried forward into the financial year 2001/2002. However, it should be noted that the Council has commitments of £468,000 in respect of specific projects relating to the interim award of SINA.

The Direct Labour Organisations and Direct Service Organisations returned a net surplus of £389,000 in respect of 2000/2001.

Overall, the total net revenue expenditure shows a variation from budget (as augmented by approved use of accumulated surplus) of 0.1%. However, the departments of Education and Transportation and Property Services incurred expenditure over budget, compensated by savings in other areas of the Council's budget.

2 RECOMMENDATION

- 2.1 The Council note the submission of the unaudited Accounts within the statutory timescale and remit the Accounts to the Audit Committee for further scrutiny.

3 DETAIL**3.1 Introduction**

There is a statutory requirement to prepare a set of Accounts and submit the Accounts to the Controller of Audit and the Council.

The date set for submission of the Accounts by the Scottish Executive, is 30th June of each year.

3.2 Summary of main items in Accounts

Before commencing on the details contained in the Accounts, it should be noted that the Accounts have still to be audited. The Auditors certificate and letter to Members will be submitted following the completion of the audit anticipated for 30th

September 2001. Figures are therefore subject to change.

i Outturn For The Year On The General Fund (£611,000)

It should be noted that the Council budgeted to use £364,000 of accumulated Housing Revenue Account surplus at 31st March 2000 and during the course of the 2000/2001 financial year, decided to utilise a further £110,000 of General Fund surplus in connection with the Education NPDO project. Actual expenditure should therefore have exceeded budget by £474,000. The final outturn amounts to £611,000.

The surplus carried forward from 1999/2000 was £332,000 (following audit). Surplus utilisation during 2000/2001 together with 2000/2001 variations amounted to £611,000 and after bringing in the transfer of £364,000 from the Housing Revenue Account reserves (as budgeted) a closing balance of £85,000 remains on the General Fund to be carried forward into 2001/2002.

ii Surplus For The Year On The Housing Revenue Account
£317,000

The surplus for the year amounted to £317,000. Variances on repairs and maintenance, void house rents and bad debt provision resulted in a lower than budget surplus. A surplus of £2,192,000 was carried forward from 1999/2000 which earned interest of £128,000. A contribution of £700,000 was made from surpluses to capital and a contribution of £364,000 was made to the Councils General Fund leaving a surplus of £1,573,000 to be carried forward in 2001/2002.

iii Summary of Revenue Accounts (Excluding HRA)

A comparison between the actual outturn for 2000/2001 and the budget by service, is given on the page headed Consolidated Revenue Account for the year ended 31st March 2001. 1999/2000 actual net expenditure figures are also shown.

It can be seen on the line third from the bottom of the Consolidated Revenue Account, that overall, the variation from budget amounts to £260,000 (£611,000 - £351,000) of this sum, £110,000 is in respect of approved use of accumulated surplus leaving a net variation from budget of only £150,000 (0.1%).

However, there are variations from budget within each Service Department, albeit they net out to only £150,000 overall.

It should be noted that an adjustment has been made to Education and Development and Environmental Services expenditure in respect of capital impairment values (see note at the foot of the Consolidated Revenue Account). These

adjustments are cancelled out through the Capital Financing Reserve and do not effect the overall General Fund position. The over expenditure in the Education service has resulted mainly from School Transport, Catering and Cleaning and savings anticipated in staff costs not achieved. In terms of Catering and Cleaning, arrangements have been put in place by Education and Transportation and Property to agree the approved 2001/02 budget premise by premise. In the case of school transport information will be provided by the departments of Education and Transportation and Property on the specific contracts which resulted in increased costs following retendering and 2001/02 budgets will be reprofiled for budget monitoring purposes. The over expenditure in the department of Transportation and Property Services is mainly in respect of Winter Maintenance costs, additional staff costs and reductions in income. The authorised extra expenditure on the Housing and Social Work service is balanced by additional Revenue Support Grant given to the Council following completion of the 2000/2001 estimates. The Council also incurred £132,000 in unbudgeted expenditure in respect of precautionary measures regarding the foot and mouth outbreak.

The over expenditure mentioned in the foregoing paragraph has been compensated by savings achieved in Loan Charges in the sum of £1,100,000 together with additional council tax and community charge income amounting to £173,000 and contributions of £389,000 from the DLO/DSOs. The interim award of SINA in the sum of £900,000 was not fully spent at 31st March 2001 and the sum of £468,000 also contributes towards the surplus for the year (although this sum is "committed" expenditure to be incurred in 2001/2002).

iv Outturn On The Capital Account

In the Composite programme (which excludes the Housing Revenue Account) expenditure exceeded the capital consent available by £538,000. This was in accordance with the Councils objectives to fully maximise the Capital Consent and utilise the tolerance arrangements whereby expenditure can be incurred by anticipating the following years capital allocation. Capital Expenditure on the Housing Revenue Account matched the Capital Allocation.

v Direct Labour Organisations (DLOs) and Direct Services Organisations (DSOs)

The position on DLO/DSO trading is shown on the page headed summary DLO/DSO Revenue and Appropriation Account. Overall, a net surplus of £389,000 has been achieved for 2000/2001 and each DLO/DSO returned a surplus for the year.

Stewart McGregor
Director of Finance
19 June 2001
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ACCOUNTS FOR THE PERIOD

1 APRIL 2000 TO 31 MARCH 2001

(Unaudited)

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Introduction

This foreword is intended as a comment on Argyll and Bute Council's financial position as presented within the Statement of Accounts for the financial year 2000/2001.

Statement of Responsibilities

This statement sets out the main financial responsibilities of the Council and the Director of Finance.

Accounting Policies

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared, and explains the accounting treatment of both general and specific items.

The Financial Statements

Consolidated Revenue Account

shows the income raised by the Council during the year and how it was spent on services, financing costs and contributions to/from reserves. A comparison to budget is also made in this statement. The surplus or deficit is carried to the Statement of Total Movement on Reserves. The notes to the Consolidated Revenue Account provide additional information on some costs and income included within the Consolidated Revenue Account

Housing Revenue Account

reflects the statutory requirement to separately account for local authority housing provision, as defined in the Housing (Scotland) Act 1987. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents, housing support grant and other income. The surplus or deficit is carried to the Statement of Total Movement in Reserves.

Summary DLO/DSO Revenue and Appropriation Account

gives the summarised financial outcome for each DLO/DSO for the financial year. It also shows how the overall surplus or deficit is dealt with. A note to the statement indicates whether the DLO/DSO's have achieved their statutory financial objective. The overall DLO/DSO position is carried to the Consolidated Revenue Account and Statement of Total Movement on Reserves.

Council Tax Income Account

explains how the council tax income shown for the financial year in the Consolidated Revenue Account is made up.

Non-domestic Rate Income Account

shows the build up of non-domestic rate income, the contribution to or from the national pool and the resulting net income for the financial year to the Council which is shown in the Consolidated Revenue Account.

Consolidated Balance Sheet

brings together all the assets and liabilities of the Council's General Fund, Direct Labour and Direct Service Organisations and Loans Fund. It is the statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the close of the year expressed in accounting terms. The notes to the Balance Sheet give further information on the make up of certain assets and liabilities.

Statement of Total Movement in Reserves

gives details of the balances on each reserve at the start of the financial year, movements during the financial year by source and the balance at the end of the financial year as shown in the Balance Sheet.

Consolidated Cash Flow Statement

summarises the inflows and outflows of cash arising from the transactions with third parties on both day to day revenue transactions and expenditure on capital activities.

Major Changes in Accounting Practice

The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). In accordance with best accounting practice the deferred charge balance as at 31 March 2000 has been written out of the balance sheet to the Capital Financing Reserve. Deferred charges arising during the year have been charged in full to the relevant service department's revenue account. The budget figures have been adjusted to aid comparison.

Further more to comply with the 2000 Statement of Recommended Practice (SORP) depreciation has been charged on all operational buildings, again the budget figures have been adjusted to aid comparison.

During 2000/2001 the Council carried out a review of its approach to allocating central support service costs. The outcome is an increase in the transparency, clarity and robustness of these allocations. This has resulted in a number of changes in the allocations to individual services with the budget being adjusted for comparison. The most notable adjustment being a reduction in allocations to the Housing Revenue Account of £0.171m. Except for the Housing Revenue Account budgets have been adjusted to aid comparison.

Property Valuations

It is the intention of Argyll and Bute Council that all land and property inherited from the former District and Regional Councils be revalued through a rolling programme of revaluation. This programme was started during 1999/2000 with all properties of the former Argyll and Bute District Council being valued together with all other properties which had a valuation as at 1 April 1999 greater than £1m. This programme of revaluation continued during 2000/01 with the revaluation of all Primary Schools and 84 of the non-operational buildings. By 31 March 2001 86% of the opening net book value of the "Other Land and Buildings" category of Fixed assets had been revalued.

Council dwellings were revalued at the 31st March 2001.

Asset Impairment

In compliance with Financial Reporting Standard 11, Impairment of Fixed Assets and Goodwill, the Council has reviewed the valuations of its assets at 31 March 2001 to assess any reduction in asset valuations. Arising from these impairment reviews the Council has reduced the valuation of Hermitage Academy and Campbeltown Swimming Pool by £6m and £0.5m respectively. These reductions are reflected in the actual expenditure of Education and Development and Environment Services for the year.

Consolidated Revenue Account

The general fund surplus at 31 March 2001 amounted to £0.085m. This is an increase of £0.072m on the budget balance of £0.013m. However it should be noted the Council has forward commitments of £0.468m be funded from this in respect of specific projects related to the interim award of the Special Islands Needs Allowance (SINA).

The main elements of the increase of £0.072m in the general fund surplus are:

	£'m
Savings in loan charges	0.800
Increase in collection of Council tax and community charge	0.150
Contribution to general fund by DLO/DSOs	0.389
Underspend on specific projects funded from interim SINA award	0.468
Other	0.039
Balance brought forward which was not budgeted	0.332
Increased Income	2.178
Over expenditure on Education	(1.164)
Over expenditure on Transportation & Property Services	(0.529)
Supplementary estimate re feasibility study for capital funding in Education	(0.110)
Precautionary measures re foot and mouth	(0.132)
Reduction in central support allocation to HRA	(0.171)
Increased expenditure	(2.106)
Net increase in general fund	0.072

During the year the Council took precautionary measures with regard to the national foot and mouth outbreaks. The amount of expenditure incurred during 2000/2001 was £0.132m. This cost was met by the Development and Environment Services and has been included in the total expenditure chargeable against Section 83 of the Local Government (Scotland) Act 1973.

The income and expenditure of the Education service reflects additional central government grant funding of £1.2m allocated to schools which has been spent on additional staffing and school supplies. This income and expenditure was additional to budget.

The major reasons for increases in Education expenditure include cleaning and catering costs, pupil transport and teaching staff costs. The contributing factors within Transportation and Property Services include additional costs related to winter maintenance of roads, unbudgeted staff costs and reduced income levels.

DLO/DSO's

During 2000/2001 the Council's DLO/DSO's achieved a surplus of £0.389m. The surplus has been taken as a contribution to the General Fund. All DLO/DSO's met their statutory financial objective. In a period of financial constraints this is a welcome outcome and reflects positively upon the Council's management of direct services.

Housing Revenue Account

The balance on the HRA reserve stands at £1.573m at 31 March 2001. This compares to a budgeted balance of £1.811m. The main factors giving rise to the reduction of £0.238m in the reserve are as follows:

Housing Revenue Account (Continued)	£'m
Savings in capital financing costs and interest	0.178
Increase in other income	0.305
Reduction in central support service allocation	0.171
Increased Income	0.654
Additional expenditure on repairs and maintenance	(0.518)
Void house rents and provision for bad debts	(0.299)
Other movements	(0.075)
Increased Expenditure	(0.892)
Reduction in HRA Reserve	(0.238)

Budgeted contributions of £0.7m to supplement the capital expenditure programme and a transfer to the general fund of £0.364m were made.

Capital Expenditure

The Council incurs capital expenditure within limits laid down by the Scottish Executive who issue consents under Section 94 of the Local Government (Scotland) Act 1973. Capital receipts (from the sale of buildings, land, etc.) and private sector contributions are used to enhance these consents, subject to certain Scottish Executive restrictions placed on the use of receipts. Details of capital expenditure are as follows:

	Composite Programme	Housing Revenue Account
	£'m	£'m
Net Allocation	10.882	1.675
Usable Capital Receipts	1.282	0.800
Capital Financed from Current Revenue	0.134	0.700
Gross Consent	12.298	3.175
Capital Expenditure	12.836	3.175
Excess Expenditure	0.538	-

The excess expenditure on the composite programme, which was planned, is within tolerance limits allowed and will be offset against the consent available in 2001/2002. Containing expenditure within the tolerance limit demonstrates effective management of the substantial capital investment programmes and the continuing pressure upon these programmes. The composite programme includes all services other than Police, Fire and the Housing Revenue Account. Joint Boards control capital expenditure on Police and Fire and are reported separately thereon. The Housing Revenue Account covers capital expenditure on the Council's stock of houses. The composite programme includes additional consent in relation to the redevelopment of Port Askaig Harbour which the Council secured in competition, securing much needed

Other Significant Matters

The Council has been active in progressing a range of initiatives which although not directly affecting the financial position for the 2000/2001 financial year are worthy of mention in order to gain a full understanding of the Council's business.

Over the last 2 years the Council has been developing a public private partnership to secure the necessary capital investment to meet the Council's long term waste disposal needs. Negotiations are progressing and financial closure is anticipated in July 2001.

The Council secured funding under the new housing partnerships programme. This funding has been utilised to carry out an options appraisal study for large scale voluntary transfer of the housing stock. The options appraisal is well underway and the outcome of this will be considered over the next year.

In common with other Councils a significant investment in school buildings is required. The Council has adopted a proactive approach to this and allocated funding during 2000/2001 for a feasibility study to investigate how this investment might be achieved. To supplement this the Council secured £0.200m of Scottish Executive funding to develop an outline business case for its education capital investment proposals. This exercise is now underway.

Conclusion

The Council ends the year with a small general fund surplus. However this is committed to projects already underway. Improvements in council tax collection, savings in loan charges, effective management of DLO/DSOs and containment of expenditure in most departments has offset the over expenditure on Education and Transportation and Property Services. There is a small reduction in the HRA reserve. In overall terms the Council has achieved its objectives in fully utilising capital consents.

The Council will continue to pursue initiatives to secure additional funding. Budgetary control will be scrutinised to improve financial control within Education and Transportation and Property Services.

Stewart McGregor
Director of Finance
20 June, 2001

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

1. to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.
2. to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LA(S)AAC Code of Practice on Local Authority Accounting in Great Britain ("The Code of Practice"), is required to present fairly, the financial position of the authority as at 31 March 2001 and its income and expenditure for the year ended on that date.

In preparing this statement of accounts, the Director of Finance has:

1. selected suitable accounting policies and applied them consistently;
2. made judgements and estimates that were reasonable and prudent;
3. complied with "The Code of Practice".

The Director of Finance has also:

1. kept proper accounting records which were up to date;
2. taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounts have been prepared in accordance with the Code of Practice for the publication of Financial Information. Due regard has been given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

1. REVENUE ACCOUNTS

Revenue transactions have been recorded on an income and expenditure basis, actual or estimated sums having been included in respect of known debtors and creditors at the year end.

Customer and client receipts in the form of sales, fees, charges and rents have been accrued in the period to which they relate.

Employee costs have been charged to the period within which the employees worked.

Interest payable on external borrowing and internal income has been accrued in the period to which it relates on the basis of the overall economic effect of the borrowing.

The cost of supplies and services has been accounted for in the period during which they were received or consumed.

All revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of a local authority or to compensate for loss of income are credited to the revenue account of the financial year to which they relate. Specific government grants are accounted for on an accruals basis when the conditions for receipt have been complied with.

2. OVERHEADS

The cost of all Central Support Departments are fully allocated over user departments. Allocations have been based on actual or estimated activity levels, time and floor area.

3. PENSIONS

The cost of providing pensions for employees is charged to the revenue account in accordance with the statutory requirements governing the particular pension schemes to which the council contributes.

The accounting treatment followed by the Council is not in accordance with the Statement of Standard Accounting Practice 24 (SSAP24), "Accounting for Pension Costs", which requires that the pension costs should be charged to revenue in such a manner as to provide a substantially level charge for current and future pension costs. It is not considered appropriate to reflect non-cash items of this nature in the accounts of the Council and, therefore, the charge for the year represents only the actual contributions paid.

The employer's contributions to the scheme are assessed every three years by a consulting actuary and are calculated to ensure the actuarial solvency of the fund. The cost of pensions to the Council, reflected in the financial statements, is the actual contribution paid in the year as determined by the actuary.

4. CAPITAL ACCOUNTING

Accounting Policy Statement

The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices. In Scotland the status of the 1993 Code is derived from the Scottish Office Circular 5/1985 and not from a statutory source.

Services have been charged for the assets based on their value rather than on the financing costs of debt outstanding on the asset.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

Disposal of Fixed Assets

The receipts arising from the disposal of fixed assets have been dealt with on an accruals basis. Those of a capital nature are credited to the Capital Financing Reserve.

Depreciation

This policy complies with the requirements of the 2000 SORP which incorporated the introduction of Financial Reporting Standard 15 (FRS15), "Tangible Fixed Assets".

Operational Buildings	-	20 – 50 years
Infrastructure and Deferred Government Grants thereon	-	40 years
Vehicles	-	4 – 20 years
Plant and Equipment	-	3 – 10 years
Vessels	-	25 years

5. DEFERRED CHARGES

Deferred charges are items that have been charged to the capital account of the authority, but which do not result in the acquisition of a tangible asset for the authority. On the 31 March 2000 these were valued at £42.218m, £34.566m of which was for Argyll and Bute Council investing in private sector housing stock by way of repair, improvement and disablement grants. On 31 March 2001, in line with best accounting practice, these are now shown to have no value as Argyll and Bute Council derives no beneficial ownership of such investment.

Deferred charges arising during the financial year have been written out immediately with service revenue accounts being charged on the basis of the benefit that the service receives as a result of the expenditure. Adjustments have been made through the contribution to the Capital Financing Reserve so that there is no net impact on the amount to be met from government grants and local taxation.

6. STOCK & WORK IN PROGRESS

Stock has been valued at the lower of cost and net realisable value.

Work in progress is reflected in the Revenue Accounts and Balance Sheets of the appropriate trading activities at cost plus, where appropriate, a proportion of overheads together with attributable profits and allowances for future losses.

7. PROVISION FOR BAD AND DOUBTFUL DEBT

Due account has been taken of the likelihood of the collection of outstanding debt, including local tax collection, and, where appropriate, debtor balances have been reduced to reflect this.

INSURANCE FUND

An insurance fund has been established in accordance with the Local Government (Scotland) Act 1994.

9. RESERVE FUNDS

A Repairs and Renewals Fund has been established in accordance with the Local Government (Scotland) Act 1975. Reserve Funds for the Direct Labour and Direct Service Organisations have been established in accordance with the relevant CIPFA Code of Practice. A Capital Fund has also been established within the Direct Labour Organisation.

10. LEASING

All current leases are classified as "operating leases" as defined by Statement of Standard Accounting Practice 21 (SSAP 21), "Accounting for Leases and Hire Purchase Contracts". The annual rentals are charged to the appropriate Revenue Account.

11. ASSETS FINANCED BY COVENANT SCHEMES

The accounting treatment of assets financed under Covenant Schemes is in accordance with Section 4.1 of Guidance Note 1 - Covenant Schemes Accounting Treatment and Disclosures - issued by the Local Authority (Scotland) Accounts Advisory Committee

The Council's indebtedness is recorded as a Deferred Covenant Liability in the Consolidated Balance Sheet. The assets have been valued in accordance with Note 4 above.

12. LOANS FUND

In accordance with the Local Government (Scotland) Act 1975 Schedule 3 (12), the Council administers a Loans Fund. All loans raised by the Council are paid into the fund and are pooled.

Interest and expenses of the Loans Fund have been calculated and allocated to the revenue account on the basis of debt outstanding on each account at the start of the financial year with a pro-rata adjustment in respect of new advances.

Redemption of debt has been calculated and provided for in the Revenue Account on an annuity basis.

Interest on revenue balances is allocated on the basis of monthly balances held on the respective accounts.

13. DIRECT LABOUR AND DIRECT SERVICE ORGANISATIONS

Accounts for the Direct Labour and Direct Service Organisations are included in summary format in this document. A detailed set of accounts as required by statute are available on request from Council Headquarters. The Consolidated Revenue Account and Balance Sheet include entries from these as appropriate.

1999/00		2000/01			
Actual Net Expenditure £'000		Actual Gross Expenditure £'000	Actual Gross Income £'000	Actual Net Expenditure £'000	Budget Net Expenditure £'000
	Council Services				
56,249	Education	75,644	8,754	66,890	58,315
17,022	Development and Environment Service	24,735	6,069	18,666	18,087
20,484	Social Work and Housing Service	45,076	18,813	26,263	25,462
(594)	Housing Revenue Account	13,818	14,135	(317)	(683)
20,160	Roads and Transportation Service	38,470	18,457	20,013	19,369
1,806	Central Services to the Public	2,994	1,190	1,804	2,161
2,262	Corporate and Democratic Core	3,379	87	3,292	3,327
11,017	Joint Boards	11,114	-	11,114	11,061
128,406	Net Cost of Services	215,230	67,505	147,725	137,099
39	Net (income) / expenditure on the Asset Management Revenue Account			830	(298)
128,445	Net Operating Expenditure			148,555	136,801
594	Surplus/deficit transferred to/from HRA Balances			317	683
6,261	Contributions to/(from) Capital Financing Reserve			(9,614)	461
(280)	Contribution from DLO/DSO			(389)	-
135,020	Amount to be met from Government Grants and Local Taxpayers			138,869	137,945
30,652	Council Tax			32,984	32,877
76,818	Revenue Support Grant			75,852	75,371
25,472	Non-domestic Rates			29,231	29,221
314	Community Charge and Old Rates			191	125
(1,764)	(Deficit) / Surplus for Year			(611)	(351)
	Transfer from HRA Reserves			364	364
2,096	General Fund Surplus Brought Forward			332	-
332	General Fund Surplus Carried Forward			85	13

During the year the valuations of Hermitage Academy and Campbeltown Swimming Pool were revised down to reflect a permanent impairment in value. This amounted to an additional charge of £6.071m being made to the Education service account and £0.511m being made to the Development and Environment service account.

1. Joint Boards

This account shows payments to the Police, Fire and Valuation Joint Boards and to the Authorities Buying Consortium.

1999/2000		2000/01
£'000		£'000
6,481	Strathclyde Police Joint Board	6,406
3,512	Strathclyde Fire Joint Board	3,641
1,006	Dunbartonshire and Argyll & Bute Valuation Joint Board	1,038
18	Authorities Buying Consortium	29
<u>11,017</u>	Total Joint Boards	<u>11,114</u>

2. Asset Management Revenue Account

This account shows the (deficit)/surplus arising from the capital charges made to the service accounts for the use of assets and the cost to the Council of financing these assets.

1999/2000		2000/01
£'000		£'000
4,056	Provision for Depreciation/Impairment	16,562
17,978	External Interest Payable	17,921
(21,526)	Capital Charges	(33,165)
(469)	Release of Government Grant	(488)
<u>39</u>	Net Expenditure / (Income)	<u>830</u>

3. Contributions to Capital Financing Reserve

This shows the amount of revenue resources used to finance capital expenditure during the year and the repayment of the principal instalment from the Loans Fund, offset by depreciation/impairment charges (net of Government Grants credit) and the amount of deferred charges written off to revenue.

1999/2000		2000/01
£'000		£'000
643	Capital Financed from Current Revenue	134
9,205	Principal Loans Fund Instalment	9,667
(4,056)	Depreciation/Impairment	(16,562)
469	Deferred Charges Written off to Revenue	(3,341)
<u>6,261</u>	Release of Government Grant	488
	Total Contribution to Capital Financing Reserve	<u>(9,614)</u>

4. Operating Lease Rentals Paid

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amount paid under these arrangements in 2000/01 are as follows:

1999/2000		2000/01
£'000		£'000
113	Land and Buildings	68
521	Vehicles	887
558	Plant and Equipment	395
<u>1,192</u>	Total	<u>1,350</u>

In respect of vehicles the Council recovered £0.121m of leased car costs from its employees during 2000/01.

The future cash payments required under these operating leases are:

	£'000
2001/02	1,148
2002 onwards	3,686
Total	<u>4,834</u>

5. Local Government Act 1973, Section 83 Expenditure

The Council's expenditure under this statute, which is for the benefit of local residents, is limited to the product of £3.80 and the population of the Council's area. For 2000/01 that limit was £0.337m with expenditure of £0.324m being incurred and included within service expenditure. This expenditure covered the cost of Leisure Management Grants, Joint Twinning and the precautionary measures taken with regards to the national outbreak of foot and mouth disease.

6. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.404m was incurred during 2000/01 and is included within service expenditure as follows:

1999/2000		2000/01
£'000		£'000
181	Staff advertising	172
16	Leaflets and publications	21
60	Statutory notices	64
155	Other	147
<u>412</u>	Total	<u>404</u>

7. Agency Income

The Council has an agency agreement with Scottish Homes whereby the Council collects rents on their behalf and arranges for maintenance work to be carried out on their housing stock. In addition the Council has an agency agreement with the West of Scotland Water Authority to collect water and sewerage rates.

1999/2000		2000/01
£'000		£'000
1	Scottish Homes - collection of rents	1
3	Scottish Homes - repair of houses	1
161	West of Scotland Water Authority	161
<u>165</u>		<u>163</u>
-	Agency Expenditure	-
<u>165</u>		<u>163</u>

8. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £4.624m and the related expenditure was £4.581m. The goods and services provided were as follows:

	Income	Expenditure
	£'000	£'000
Joint Finance and Resource Transfer	1,659	1,659
North Lanarkshire Council - Cleaning Outdoor Centre	73	66
Trunk Road Maintenance	2,445	2,427
Education - Provision of Special Needs	203	196
Strathclyde Police	106	99
Strathclyde Fire Brigade	127	125
Scottish Homes	6	5
Kirkcare	5	4
	<u>4,624</u>	<u>4,581</u>

9. Pensions - Local Government Superannuation (Scotland) Scheme

The Council participates in the Superannuation Fund administered by City of Glasgow Council's Strathclyde Pension Fund. This Fund provides members with defined benefits related to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund, the most recent of which was at 31 March 1999 and set employers contributions as follows:

2000/01 - 200% of employees contributions
 2001/02 - 210% of employees contributions
 2002/03 - 220% of employees contributions

The value of assets of the scheme as at 31 March 1999 did not exceed 105% of the value of the liabilities of the scheme.

1999/2000 £'000		2000/01 £'000
3,240	Pension costs charged to the accounts (£)	3,757
10.20%	as a percentage of pensionable pay (%)	12.00%
16	Discretionary payments made by the council (£)	10
0.05%	as a percentage of pensionable pay (%)	3.19%
377	Expenditure on added years awarded (£)	-
1.19%	as a percentage of pensionable pay (%)	

The capital cost of discretionary increases in pensions payments agreed by the authority are:

	£'000
in the year	77
in earlier years	12,946

This includes both retirals from Argyll and Bute Council itself, and retirals from predecessor authorities for which Argyll and Bute Council is still making payments.

10. Teachers Pensions - Administered by the Scottish Office

1999/2000 £'000		2000/01 £'000
1,612	Amount paid over (£)	1,994
6.90%	Rate of contribution (%)	6.90%
441	Amount of added years awarded by the Council (£)	431
56	Discretionary payments made by the council (£)	-

11. Members' Allowances

The total amount of members' allowances paid by the Council during the year were:

1999/2000 £'000		2000/01 £'000
192	Basic Allowance	195
176	Special Responsibility Allowance	199
<u>368</u>	Total Allowances	<u>394</u>

12. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions was £40,000 or more in bands of £10,000 were:

1999/2000		2000/01
No	Remuneration Band	No
30	£40,000 - £49,999	34
3	£50,000 - £59,999	2
6	£60,000 - £69,999	6
1	£70,000 - £79,999	1

13. Related Party Transactions

During the year transactions with related parties arose as follows:

	Income £'000	Expenditure £'000
Central Government and Agencies:		
Revenue Grants: Revenue Support Grant	75,852	
Non-domestic Rates	29,231	
Housing Benefits / Support Grant	13,100	
Council Tax Benefit Subsidy	4,523	
Other Government Grants	6,772	
Capital Grants: European Grants	111	
Sports Lottery	92	
Argyll and the Islands Enterprise	47	
Scottish Natural Heritage	6	
New Deal for Schools	600	
Other Government Capital Grants	323	
Related Bodies:		
Joint Boards (see note 1 for further details)		11,114
Scottish Passenger Transport		1,079
Other Related Party Transactions:		
Companies in which members have a significant interest		88

1999/2000		2000/2001	2000/2001
Actual		Actual	Budget
£'000		£'000	£'000
	Expenditure		
3,883	Repairs and Maintenance	4,502	3,984
3,553	Supervision and Management	3,647	3,732
5,227	Capital Financing Costs	4,953	5,003
307	Void House Rents	402	240
28	Bad Debt Write Off	-	-
24	Provision for bad or doubtful debts	137	-
114	Other expenditure	177	128
13,136	Total Expenditure	13,818	13,087
	Income		
13,212	Rent of houses (gross)	13,501	13,437
57	Non-dwelling rents	51	55
93	Housing Support Grant	93	93
368	Other income	490	185
13,730	Total Income	14,135	13,770
594	(Deficit) / Surplus for Year	317	683
3,298	Surplus Brought Forward	2,192	2,192
-	Interest Earned on Surplus Brought Forward	128	-
(1,700)	Contribution to Capital Financing Reserve	(700)	(700)
-	Contribution to General Fund	(364)	(364)
2,192	Surplus Retained in Housing Revenue Account	1,573	1,811

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £37.95 per week in 2000/01 (1999/2000 £36.45)

2. Housing Stock

1999/2000		2000/01
No		No
182	Sheltered Housing	198
3,592	Other houses	3,563
1,658	Tenement flats	1,664
1,453	Other flats	1,330
6,885	Total Housing Stock	6,755

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2001 were £0.472m (31/3/2000 - £0.322m) and this equated to an average rent arrears per house of £70.00 (1999/2000 - £46.77)

In accordance with the latest assessment of potential recovery and in order to reflect due prudence, the provision for bad debts has been adjusted to £0.272m (1999/2000 - £0.125m), this represents an increase of £0.147m.

SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

1999/2000 (Surplus) Deficit Actual £'000		2000/01			
		Turnover Actual £'000	Total Expenditure Actual £'000	(Surplus)	(Surplus)
				Deficit Actual £'000	Deficit Budget £'000
	DLO				
(95)	Property Maintenance	3,148	3,125	(23)	-
(4)	Roads - Local	8,015	7,878	(137)	
(40)	Roads - Trunk	2,445	2,428	(17)	
	DSO				
(37)	Vehicle Maintenance	1,732	1,586	(146)	
(6)	Ground Maintenance	2,533	2,515	(18)	(4)
(2)	Street Cleansing	865	858	(7)	
(51)	Refuse Collection	1,442	1,426	(16)	
-	Leisure Management	750	743	(7)	
(42)	Catering	2,433	2,427	(6)	
(3)	Cleaning	1,247	1,235	(12)	
(280)	TOTAL	24,610	24,221	(389)	(4)

Appropriation Account

	Deficit (Surplus) £'000	Transfer to General Fund £'000	Transfer to Reserve Fund £'000	Balance 31/3/01 £'000
2000/01	(389)	389	-	-

NOTES TO THE SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

1. Further Information

The detailed accounts for the Direct Labour and Direct Services Organisations are contained in a separate Annual Report, which is published in accordance with the appropriate legislation and is available on request from Council Headquarters.

2. Statutory Financial Objectives

The statutory financial objective for all DSO's and DLO's is to break-even after applying the CIPFA Code of Practice on Capital Accounting. All Direct Labour and Direct Service Organisations have achieved the statutory financial objective.

Shows the net income raised from council taxes levied under the Local Government Finance Act 1992.

1999/2000		2000/01
Actual		Actual
£'000		£'000
38,312	Gross Council Tax levied and contributions in lieu	41,443
	Less:	
(252)	Council Tax benefits (net of government grant)	(183)
(6,626)	Other discounts and reductions	(7,087)
(782)	Provision for bad and doubtful debts	(1,189)
<u>30,652</u>	Net Council Tax Income	<u>32,984</u>

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

1. Calculation of the Council Tax

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, ie. Band D equivalents as below. This value is then decreased or increased dependant upon the band of the dwelling. The charge for each band for 2000/01 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	£ 625.33
B	£27,000 - £35,000	78%	£ 729.56
C	£35,000 - £45,000	89%	£ 833.78
D	£45,000 - £58,000	100%	£ 938.00
E	£58,000 - £80,000	122%	£1,146.44
F	£80,000 - £106,000	144%	£1,354.89
G	£106,000 - £212,000	167%	£1,563.33
H	Over £212,000	200%	£1,876.00

NOTES TO THE COUNCIL TAX INCOME ACCOUNT - Continued

2. Calculation of the Council Tax Base 2000/01

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	8,098	9,372	9,278	5,358	6,438	3,266	2,156	205	44,171
Less - Exemptions / Deductions	891	619	1,264	397	518	162	93	28	3,972
- Adjustment for Single Chargepayers	915	955	692	382	315	127	73	7	3,466
Effective Number of Properties	6,292	7,798	7,322	4,579	5,605	2,977	1,990	170	36,733
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	4,195	6,065	6,508	4,579	6,851	4,300	3,317	340	36,155
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									750
Nominal Tax Yield									36,905
Less Provision for Non-Collection - 5.4%									1,993
Council Tax Base 2000/01									34,912

Shows the income from the rate levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property.

1999/2000		2000/01
Actual		Actual
£'000		£'000
30,636	Gross rates levied and contributions in lieu	33,286
	Less:	
(3,998)	Reliefs and other deductions	(5,867)
16	Payment of interest	(19)
(230)	Provision for bad and doubtful debts	(420)
<u>26,424</u>	Net Non-domestic Rate Income	<u>26,980</u>
8	Adjustments for years prior to introduction of national non-domestic rates pool	10
(960)	Contribution from / (to) national non-domestic rate pool	2,241
<u>25,472</u>	Guaranteed Rate Income	<u>29,231</u>

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

1999/2000		2000/01
£		£
2,902,925	Industrial and freight transport subjects	3,409,660
31,683,788	Public utilities including British Rail, British Gas, Hydro Electric etc	33,258,234
	Commercial subjects:	
8,280,645	Shops	9,680,920
3,783,285	Offices	4,555,835
5,343,005	Hotels, Boarding Houses etc.	6,819,895
4,421,665	Others	5,596,495
8,284,462	Miscellaneous and formula valued subjects	7,298
<u>64,699,775</u>	Total Rateable Value	<u>63,328,337</u>

2. Non-Domestic Rate Charge

1999/2000		2000/01
Pence		Pence
<u>48.9p</u>	Rate Per Pound	<u>45.8p</u>

3. Calculation of Rate Charge for Each Property

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

1999/2000 £'000		Note		2000/01 £'000
	Fixed Assets	1		
	Operational Assets			
62,364	- Council Dwellings			63,290
152,755	- Other Land and Buildings			156,013
4,233	- Vehicles, Plant and Equipment			3,988
59,384	- Infrastructure Assets			60,175
28	- Community Assets			-247
	Non-operational Assets			
10,279	- Non-operational Land and Buildings			15,494
289,043				298,713
43,561	Deferred Charges	2		-
1,347	Long Term Debtors			9,065
333,951	Total Long Term Assets			307,778
	Current Assets			
1,158	- Stock and Work in Progress		1,178	
14,835	- Debtors	5	9,946	
795	- Cash at Bank and in Hand		1,922	13,046
350,739				320,824
	Current Liabilities			
-29,765	- Short Term Borrowing	6	-1,095	
-15,389	- Creditors		-27,515	
-2,315	- Bank Overdraft		-2,765	-31,375
303,270	Total Assets less Current Liabilities			289,449
-184,996	Long Term Borrowing	6	-207,659	
-479	Deferred Covenant Liability		-399	
-11,215	Deferred Government Grants	7	-11,113	-219,171
106,580	Total Assets less Liabilities			70,278
60,836	Fixed Asset Restatement Reserve			74,759
39,748	Capital Financing Reserve			-9,142
3,369	Earmarked Reserves			2,895
	Balances			
332	- General Fund			85
2,192	- Housing Revenue Account			1,573
103	- DSOs			108
106,580	Total Equity			70,278

Stewart McGregor
Director of Finance
June 20, 2001

1.1 Movement of Fixed Assets

	Balance at 1/4/00 £'000	Expenditure in year £'000	Revaluations £'000	Disposals £'000	Transfers £'000	Depreciation £'000	Write off to FARR £'000	Balance at 31/3/01 £'000
Operational Assets								
- Council Dwellings	62,364	3,102	4,160	(1,156)		(2,078)	(3,102)	63,290
- Other Land and Buildings	152,755	4,357	9,092		1,341	(10,505)	(1,027)	156,013
- Vehicles Plant and Equipment	4,233	1,000		(38)		(1,207)		3,988
- Infrastructure Assets	59,384	3,582		(19)		(2,772)		60,175
- Community Assets	28	32					(307)	(247)
Non-operational Assets	10,279	236	6,803	(483)	(1,341)			15,494
Total	289,043	12,309	20,055	(1,696)		(16,562)	(4,436)	298,713
Total 1999/2000	290,588	13,492	(465)	(2,072)	(359)	(4,056)	(8,085)	289,043

1.2 Valuation of Fixed Assets

In accordance with the Capital Accounting Code of Practice, fixed assets are shown at valuation. The basis on which each category of fixed asset is valued is as follows:

Council Dwellings

The basis of valuation is Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

"Existing Use Value for Social Housing is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of the valuation."

The valuations were carried out as at 31 March 2001 by an independent valuer, the District Valuer, on the aforementioned basis.

Other Land and Buildings

The basis of valuation is Open Market Value for Existing Use, assessed on either a comparative or depreciated replacement cost basis.

During the current year, revaluations were carried out by the Estates Section of Transportation and Property in accordance with their rolling programme of revaluations. This included revaluations of all schools not revalued during 1999/2000. This programme will continue during 2001/2002.

Vehicles, Plant and Equipment

These assets have been valued using historical cost as a proxy for current replacement cost.

Infrastructure and Community Assets

These assets are valued at depreciated historic cost.

Non Operational Assets

These have been valued on the basis of open market value taking account of existing and alternative uses.

During the current year, revaluations were carried out by the Estates Section of Transportation and Property, on 80 non-operational properties, in accordance with their rolling programme of revaluations. This programme will continue during 2001/2002.

1.3 Fixed Assets Information on Assets Held at 31/3/01

	2000/01		2000/01
	No.		No.
OPERATIONAL BUILDINGS		OPERATIONAL EQUIPMENT	
Administrative Buildings	38	Vehicles and Heavy Plant	354
Depots	32		
Social Work Homes for the Elderly	6	INFRASTRUCTURE ASSETS	
Social Work Children's Homes	4	Highways (miles)	1,406
Social Work Hostels	3	Bridges	954
Primary Schools	81		
Secondary Schools	10	COMMUNITY ASSETS	
Special Schools	3	Play Areas	52
Nursery Schools	3	Parks	25
Halls	10	Civic Regalia (Provosts' Chains)	4
Sports Centres	1	Civic Regalia (Bailies' Chains)	1
Swimming Pools	4	Cemeteries	66
Museums and Libraries	10		
Community Centres	8	COUNCIL DWELLINGS	6,755
Crematoria	1		
Public Conveniences	69		
Travelling Persons Sites	3		

2. Deferred Charges

	Balance at 1/4/00 £'000	Write off Opening Bal £'000	Expenditure during year £'000	Receipts during year £'000	Capital Discharged £'000	Balance at 31/3/01 £'000
Improvement Grants	34,789	(34,789)	-	-	-	-
Slum Clearance	389	(389)	-	-	-	-
Other	8,383	(8,383)	-	-	-	-
Total	43,561	(43,561)	-	-	-	-
Total 1999/2000	42,218	-	2,942	-	(1,599)	43,561

3. Spending on Capital Projects During the Year

Capital expenditure involves the creation of assets, the benefit of which will be available to future rate and council taxpayers. It is financed from borrowing and therefore the cost of the assets is effectively borne over a period of years. In 2000/01 gross capital expenditure totalled £16.012m, offset by capital income of £4.116m, as follows:

	31 March 2001 £'000	31 March 2000 £'000
Education Services	2,574	3,496
Development and Environment Services	1,976	2,043
Social and Housing Services	3,485	3,244
Housing Revenue Account	3,175	4,178
Transportation and Property Services	3,459	2,448
Central Support	1,343	1,078
Total Expenditure	16,012	16,487
Financed by:		
Sale of Council Houses	689	743
Sale of Other Assets	612	305
Grants	1,757	1,129
Other Capital Receipts	224	414
Capital from Current Revenue	834	2,343
Borrowing	11,896	11,553
Total Financing	16,012	16,487

4. Assets Held Under Finance Leases

There were no assets held under finance leases during the year.

5. Debtors

£'000

Arrears of Local Taxation	Council Tax	11,324	
	less: provision for bad debts	<u>-9,256</u>	2,068
	Community Charge	8,060	
	less: provision for bad debts	<u>-8,016</u>	44
	Non-domestic Rates	2,434	
	less: provision for bad debts	<u>-1,972</u>	462
House Rents		373	
less: provision for bad debts		<u>-272</u>	101
Debtor Accounts		3,866	
less: provision for bad debts		<u>-813</u>	3,053
VAT Recoverable			1,417
Other Debtors			2,801
Total Debtors			9,946

6. Analysis of Borrowing

6.1 Source of Loan

	31 March 2001 £'000	31 March 2000 £'000
Public Works Loan Board	187,819	185,910
Money Market	18,500	26,026
EIB	2,164	2,590
Other Loans	271	235
Total Outstanding Loans	208,754	214,761

6.2 Maturity of Loans

	31 March 2001 £'000	31 March 2000 £'000
Short Term Loans	1,095	29,765
Total Short Term Loans	1,095	29,765
1 - 2 years	1,292	1,048
2 - 5 years	2,714	3,959
6 - 10 years	1,409	16,291
Over 10 years	202,244	163,698
Total Long and Medium Term Loans	207,659	184,996
Total Outstanding Loans	208,754	214,761

7. Deferred Government Grants

	£'000
Balance at 1 April 2000	11,215
Grants received during the year to finance capital projects	386
Credit to revenue account during the year	-488
Balance at 31 March 2001	11,113

8. Analysis of Net Assets Employed

	As at 31 March 2001			Total £'000
	General Fund £'000	HRA £'000	DSO/DLO's £'000	
Assets				
Fixed Assets	235,423	63,290	-	298,713
Deferred Charges	-	-	-	-
Long Term Debtors	9,065	-	-	9,065
Stock and Work in Progress	199	-	979	1,178
Debtors	9,700	193	53	9,946
Cash at Bank and in Hand	1,922	-	-	1,922
Liabilities				
Short Term Borrowing	-1,139	25	19	-1,095
Creditors	-23,654	-1,595	-2,266	-27,515
Bank Overdraft	-2,765	-	-	-2,765
Long Term Borrowing	-161,934	-45,652	-73	-207,659
Deferred Covenant Liability	-399	-	-	-399
Government Grants Deferred	-11,113	-	-	-11,113
Total Net Assets Employed	55,305	16,261	(1,288)	70,278

9. Insurance Fund

An Insurance Fund has been established in accordance with the Local Government (Scotland) Act 1994. The balance at 31 March 2001 was £1.234m (1999/2000 - £1.178m). The fund represents contributions made from the General Fund and does not yet cover specific uninsured risks.

10. Contingent Gains and Liabilities

The Council has inherited a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of these applications is unknown at this time, although there is the possibility that the Council may lose at least some of these cases. No financial provision has been made in the 2000/2001 Accounts given the uncertainties which surround both the final outcomes and the settlement levels.

Contingent liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities which make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities which materialise in the future will be approximately 4%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.322m. Full provision for this amount has been made.

As at 31 March 2000, the Council had incurred no expenditure and had made no commitments in respect of the costs associated with the introduction of the Euro. Prior to entry into full Euro trading, a significant review of all systems will require to be undertaken. Consequently an estimate of costs is not available at this stage.

11. Provisions

A provision in respect of insurance claims and various legal actions from the former Strathclyde Regional Council was set up during the 1999/2000 financial year, this was adjusted during 2000/01 to reflect the overall movement in the claims position during the year. This provision complies with the requirements of FRS 12 (Financial Reporting Standard 12 - Provisions, Contingent Liabilities and Contingent Assets) and meets the following criteria:

- There is a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefit will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

12. Commitments Under Capital Contracts

At 31 March 2001, the Council had commitments on capital contracts of £8.295m. This expenditure will be funded from a combination of government capital consent (borrowing), income from selling assets and contributions from Revenue Accounts.

13. The Castle Trust

Argyll and Bute Council, East Renfrewshire Council and Glasgow City Council have entered a joint venture to operate the two educational outdoor centres at Ardentinny and Castle Toward.

14. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 76 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet. The funds have not been subject to an independent audit by the Council's external auditors.

Funds for which Argyll and Bute Council act as sole trustee:

	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Campbeltown Common Good Fund	33	19	426	426
Oban Common Good Fund	58	44	730	730
Inveraray Common Good Fund	-	-	1	1
Lochgilphead Common Good Fund	-	-	5	5
Dunoon Common Good Fund	-	-	8	8
Rothesay Common Good Fund	7	2	98	98
Argyll Education Trust	18	9	193	193
GM Duncan Trust	4	5	72	72
McDougall Trust	24	8	426	426
Moore's Mortification Fund	5	-	100	100
Various Other Trust Funds	22	3	357	357
Total Trust Funds	171	90	2,416	2,416

Purpose of Common Good Funds:

The funds are held for the benefit of residents of the former Burghs within Argyll and Bute.

Purpose of Trust Funds:

GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown.

McDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Moore's Mortification Fund: to provide benefits to the needy of that part of the Parish of Cardross lying between Auchentroe and Keppoch.

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex pupils of schools within the former Argyll County Council area.

Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from the Treasury Section of the Finance Department.

	CAPITAL RESERVES			REVENUE RESERVES			Total £'000
	Fixed Asset	Capital	Earmarked	General	Housing	DLO/DSO	
	Restatement	Financing	Reserves	Fund	Revenue		
	Reserve	Reserve			Account		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2000	60,836	39,748	3,369	332	2,192	103	106,580
Net surplus/(deficit) for year				(611)	317	389	95
Unrealised (gains)/loss, from revaluation of fixed assets	20,055						20,055
Interest			189		128	10	327
Contribution (to) / from General Fund		(9,614)	89	364	(364)	(389)	(9,914)
Contribution (to) / from HRA		700			(700)		-
Contribution(to) DLO Capital Fund			5			(5)	-
Capital Discharged on House Loans		(111)					(111)
Net Book Value of assets disposed of	(1,696)						(1,696)
Capital Receipts Applied		3,697					3,697
Expenditure			(757)				(757)
Write off Deferred Charges at 1 April 2000		(43,562)					(43,562)
Expenditure not through Fixed Asset Register	(4,436)						(4,436)
Balance at 31 March 2001	74,759	(9,142)	2,895	85	1,573	108	70,278

NOTES TO THE STATEMENT OF MOVEMENT OF RESERVES

1. Fixed Asset Restatement Reserve

This reserve reflects the difference between the book value of assets prior to the implementation of the new system of Capital Accounting and the revalued amounts. Any subsequent revaluations are also recorded here. It is not a revaluation reserve and does not represent resources available to the authority. It cannot be used in any way to finance revenue or capital expenditure and can only be reduced by either writing out the book value of assets or a downward revaluation.

2. Capital Financing Reserve

The Capital Financing Reserve contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans as well as the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. As with the Fixed Asset Restatement Reserve it does not represent resources available to the authority.

3. Earmarked Reserves

	Balance at				Balance at
	1 April 2000	Contributions	Interest	Expenditure	31 March 2001
	£'000	£'000	£'000	£'000	£'000
Education Reserves	353	89	19	(119)	342
Repairs and Renewals - Vehicles	552		32		584
Repairs and Renewals - General	1,205		70	(626)	649
Insurance Fund	1,178		68	(12)	1,234
DLO Capital Fund	81	5			86
Total Earmarked Reserves	3,369	94	189	(757)	2,895

4. Revenue Reserves

Revenue reserves are made up of the annual movements in the Consolidated Revenue Account, Housing Revenue Account and the DSO/DLO Appropriation Account. The Housing Revenue Account reserves carried forward are ring-fenced and as such can only be used for the benefit of Council House Tenants. Revenue reserves can be used to meet both capital and revenue expenditure.

1999/2000		Note	2000/01
Actual	REVENUE ACTIVITIES		Actual
£'000	Cash outflows		£'000
83,742	Cash Paid for and on Behalf of Employees		87,151
74,076	Other Operating Cash Payments		65,703
4,757	Housing Benefit Paid Out		6,460
1,804	National Non-domestic Rate Payments to National Pool		
164,379	Total Cash Outflows		159,314
	Cash inflows		
6,672	Rents (after rebates)		6,949
26,094	Council Tax Income		28,717
25,424	Non-domestic Rate Receipts		30,014
314	Community Charge		191
76,818	Revenue Support Grant		75,852
16,734	DSS Grants for Benefits		17,531
5,107	Other Government Grants	1	6,865
19,630	Cash Received for Goods and Services		16,291
	National Non-domestic Rate Receipts from National Pool		7,393
5,058	Other Operating Cash Receipts		5,536
181,851	Total Cash Inflows		195,339
17,472	Net Cash Inflow / (Outflow) From Revenue Activities	2	36,025
	SERVICING OF FINANCE		
	Cash outflows		
16,760	Interest paid		22,561
16,760	Total Cash Outflows		22,561
	Cash inflows		
41	Interest received		107
41	Total Cash Inflows		107
(16,719)	Net Cash Inflow / (Outflow) From Servicing of Finance		(22,454)
	CAPITAL ACTIVITIES		
	Cash outflows		
3,814	Purchase of Fixed Assets		5,525
8,800	Other Capital Cash Payments		5,456
12,614	Total Cash Outflows		10,981
	Cash inflows		
2,954	Sale of Fixed Assets		2,959
1,025	Capital Grants Received		1,008
878	Other Capital Cash Receipts		127
4,857	Total Cash Inflows		4,094
(7,757)	Cash inflow (Outflow) From Capital		(6,887)
(7,004)	Net Cash Inflow / (Outflow) Before Financing		6,684
	FINANCING		
	Cash outflows		
183,783	Repayments of Amounts Borrowed		101,470
183,783	Total Cash Outflows		101,470
	Cash inflows		
190,533	New Loans Raised		95,463
190,533	Total Cash Inflows		95,463
6,750	Net Cash Inflow / (Outflow) From Financing		(6,007)
(254)	Decrease / (Increase) in Cash and Cash Equivalents	3	677

1. Other Government Grants

1999/2000 £'000		2000/01 £'000
211	Housing Support Grant	93
239	Rural Transport Grant	253
2,094	Pre School Education Grants	2,475
258	Gaelic Education Grants	258
2,160	Other Educational Grants (e.g. Excellence Fund)	3,540
145	Other Grants (e.g. Civil Defence)	246
5,107	Total "Other Government Grants"	6,865

2. Net Cash Flow Reconciliation

1999/2000 £'000		2000/01 £'000
(1,764)	Surplus/(Deficit) for Year	(611)
594	Add back: Transfer to HRA Balance	317
(1,170)		(294)
257	Movements in Reserves	(469)
22,926	Adjustments Not Involving Movement in Funds	21,086
492	(Increase)/Decrease in Stocks	(20)
-774	(Increase)/Decrease in Debtors	4,937
-4,259	Increase/(Decrease in Creditors)	10,785
17,472	Revenue Activities Net Cash Flow	36,025

3. Analysis of Net Debt

	As at 31 March 2001 £'000	As at 1 April 2000 £'000	Cash Flow £'000
Cash at Bank and in Hand	1,922	795	1,127
Bank Overdraft	(2,765)	(2,315)	(450)
Increase in Cash and Cash Equivalents	(843)	(1,520)	677
Debt due within one year	(1,095)	(29,765)	28,670
Debt due after one year	(207,659)	(184,996)	(22,663)
Total Debt	(208,754)	(214,761)	6,007
Total	(209,597)	(216,281)	6,684

4. Reconciliation of Movement in Cash to Net Debt

1999/2000 £'000		2000/01 £'000
(254)	Increase / (Decrease) in Cash in Period	677
(6,750)	Increase / (Decrease) in Debt Financing	6,007
(7,004)	Movement in Debt in Period	6,684
(209,277)	Net Debt as at 1 April 2000	(216,281)
(216,281)	Net Debt as at 1 April 2001	(209,597)

Audit Committee, 26 July 2001

Note on Revenue Budget Monitoring 2000/2001

Head of Accounting

Budget monitoring is a simple concept and in principle is no different from its title. It is merely monitoring of the budget. It should be an ongoing process whereby budget holders continually assess the impact of business decisions and activities on the budget they are accountable for. A budget holder is the person who is accountable for a given budget. It is usual to formalise budget monitoring whereby there is periodic reporting to the highest level of management of budgetary performance at given points in time.

When Was it Done

In Argyll and Bute Council formal reporting of budget monitoring took place on a monthly basis from 30 June 2000. The budget monitoring reports as at 30 June and 30 September were submitted to the relevant central committee and Policy and Resources Committee. The report as at 31 January 2001 was circulated to all central committee chairpersons and the Leader. The monthly reports were submitted/circulated to the corporate management team.

What Was Prepared

The submission to central committees comprised a financial statement and variance explanation schedule for the departments reporting to that committee. The submission to Policy and Resources Committee comprised reports as outlined above from departments reporting to Policy and Resources Committee together with an overall financial summary. The submission to corporate management team comprised the overall financial summary. The reports circulated to central committee chairpersons and Leader for 31 January comprised the overall financial summary together with the financial statement and variance explanation for the relevant committee.

What Did It Tell Us

The financial statement allows a comparison of budgetary performance to date and the projected outturn or forecast position for the whole year. Details of actual and budget for the year to date were given along with the resulting variance. Do we appear to be over or under spent against budget for the year to date? For the whole year details of the projected outturn or forecast and full year budget were given along with the resulting variance. Do we look as if we will be over or under spent against budget for the full financial year? The financial statement was prepared at what is known as objective head level. Objective heads are the main service areas identified separately in the budget book

of the Council. Primary Schools is an example of a service head within Education. An example of a financial statement is attached.

The variance explanation provides explanations of certain variances shown on the financial statement. Variance explanations are prepared by directors as their explanation of the variances in their budget. Their purpose is to show where there is an over or under spend, what has caused it, why it arose and the what is being done to overcome it. The format of the variance explanation schedule requires the author to identify the monetary amount of the variance for both year to date and projected outturn or forecast, where the variance is ie which area of the budget, why the variance has arisen, what action is being taken in respect of the variance and what the implications of that action will be. Details of the impact on the following years budget were also requested to highlight ongoing budgetary problems. An example of a variance explanation schedule is attached. A set of criteria was set to identify when a variance required to be explained. The criteria were as follows:

For the year to date –

One of the objectives in setting variance reporting thresholds was to avoid variance explanation schedules become too bulky and to focus on key areas. On this basis attempts were made to restrict variance explanation schedules to one side of A4. This was not always possible given the extent of variances in some departments. A threshold for year to date variance reporting was set at £100,000.

For the projected outturn –

Variances on objective/service heads of more than £50,000 over or under and also variances of more than plus/minus 5% had to be reported. In practice departments tended to report on all movements in projected outturn at a service/objective head level. The £50,000 and objective/head were selected as the thresholds which required committee approval for virement.

How Was It Done

A timetable for budget monitoring was prepared at the start of the financial year which noted the key dates in the formal reporting process. The key stages in the process were.

Close of accounting period in the financial ledger,
Finance generate reports from financial ledger immediately following close of accounting period (DES generated their own reports),
Departments review actual, budget and projected expenditure,
Departments prepare budget journals to amend Forecast Budget in line with changes in projected annual expenditure,
After deadline for completion of budget journals Finance generate reports in style of financial statements referred to above,

Departments then finalise variance explanation schedules based on financial statements for submission to Finance, Finance collated final printing of financial statements and variance explanations for circulation.

A copy of the detailed monthly timetable is attached.

Who Does What

Finance was responsible for ensuring accounting period is closed in accordance with timetable.

Finance generated financial ledger reports for the period end. (DES generated their own reports).

Departments were responsible for reviewing these reports and making further enquiries to allow them to understand their budgetary position at the period end. Then assessing the impact of the year to date position on the projected expenditure for the full financial year and also next financial year. Having identified changes to projected outturn departments were then responsible for preparation of budget journals.

Finance was responsible for posting budget journals prepared by departments and then generating the financial statement to allow departments to finalise variance explanations.

Departments were responsible for preparation of variance explanations.

Finance collated and circulated final reports to corporate management team and committees.

Other Issues

Departments phased their budgets over each period in the financial year. The accuracy of year to date actual to budget comparisons is directly affected by the accuracy of budget phasing. If budget phasing is inaccurate it is difficult to differentiate between real variances and those which are simply timing differences due to inaccurate budget phasing. Inaccurate budget phasing can highlight variances that are timing differences and not real expenditure pressures and also conceal real variances and expenditure pressures. Procedures were available for departments to update/amend budget phasing during the year.

Throughout the financial year reference was made in budget monitoring reports for Education and Transportation and Property Services that improvements were required before the budget monitoring reports for these departments could be fully supported.

Education did not use the budget journal facility to reflect all the variances highlighted in their variance explanation schedule. As a result the financial ledger position in terms of projected outturn was often different from the variance explanations. One off adjustments were made, by the Head of Accounting, to the face of the financial statement for Education to ensure the financial statement agreed to the variance explanation schedule.

A report was approved by the corporate management team on 5 June 2000 highlighting a number of improvements to budget monitoring procedures. For a variety of reasons these were never fully implemented.

Future Developments

A project to achieve improvements in the budget monitoring procedures was approved by the corporate management team on 2 July 2001. This project will see the creation of 5 mini projects to identify and implement improvements in budget monitoring within each of the front line service departments and also central support services. The progress of this project will be overseen by a steering group comprising the Chief Executive and Director of Finance. An extract of the objectives and actions associated with this project is attached.

Critical Areas

The accuracy and relevance of budget monitoring is largely dependent on the undernoted elements :

Accuracy of budget setting ie budgets set in cost centres where actual expenditure is incurred,

Accuracy of budget phasing so that real variances are flagged and time is not wasted investigating timing differences caused by poor profiling,

Timely processing and recharging of transactions to avoid distorting the budget phasing,

An understanding of the operational aspects of the service/department,

Sufficient knowledge of the financial ledger and associated reporting tools and being able to identify the information required to manage the budget and then being able to extract it,

Driving budget monitoring down and through the service/department so that budget holders at all levels are included in the process rather than a simple top down exercise.

The facility to model year to date costs to get accurate forecasts of projected outturns.

Adequate resources in the department to provide explanations of variances.

Budgets in the right place and accurately phased. Knowing what to look out for and getting the right reports to the right budget holders. Budget holders investigating and explaining variances. Being able to forecast projected outturn.

Summary

The Audit Committee is concerned with the adequacy of the Council's system of internal controls. In terms of budget monitoring variances from budget arose at the end of the financial year that had not been reflected through budget monitoring reports. In addition budget monitoring reports for Education and Transportation and Property contained comments to the effect that improvements in procedures were required in these departments before the budget monitoring reports for these departments could be fully supported. Given these circumstances it is evident there is room for improvement in this element of the Council's overall system of internal controls. This is acknowledged by the action already taken in establishing a project under the direction of the Chief Executive and Director of Finance to achieve improvements in budget monitoring. A successful outcome to this project should secure an improvement in budget monitoring and the system of internal controls.

11 July 2001

**ARGYLL AND BUTE COUNCIL
EDUCATION & FINANCE**

REVENUE BUDGET MONITORING

1 INTRODUCTION

- 1.1 A revenue budget monitoring exercise as at 30 September 2000 has been completed.
- 1.2 Attached to this report are a financial statement which compares the year to date and projected outturn expenditure to budget for each service objective head.
- 1.3 Also attached is a variance explanation schedule which details the major variances arising, the reason for the variance, any action taken or proposed and any impact on next years budget.
- 1.4 The overall projected outturn is in line with budget. Although there are a number of expenditure pressures compensating savings have been identified.
- 1.5 Following the Education Committee of 7 September 2000 it was reported that mismatches existed between ledger codes used for budget setting and recording actual expenditure and income and that work was underway continuing to resolve the matter. Although progress has been made on resolution of the mismatches work is not yet fully complete. Work in both Education and Finance will continue in order to ensure the revenue budget monitoring projections of Education can be fully supported.

2. RECOMMENDATION

- 2.1 Note the revenue budget monitoring report and variance explanation.

Bruce West
Head of Accounting
27 July 2000
report/1novbwrevenuebudgetmonitoringeduc

Objective Summary - Education Department



Period: September_00-01

	YEAR TO DATE POSITION				PROJECTED FINAL OUTTURN				Previous Outturn £000s	Variance From Prev £000s
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	YTD Var %	Projected Outturn £000s	App Annual Budget £000s	Projected Variance £000s	Proj Var %		
Service Strategy & Regulation	387	383	(5)	-1%	445	445	0	0%	445	0
Pre-Primary Education	(336)	269	605	225%	350	350	0	0%	360	0
Primary Education	10,145	11,201	1,056	9%	24,454	24,288	(166)	-1%	24,454	0
Secondary Education	11,133	12,587	1,453	12%	25,953	25,905	(48)	0%	25,953	0
Special Education	1,318	1,842	524	28%	3,656	3,617	(39)	-1%	3,656	0
Education Other Than at School	(5)	42	48	113%	85	85	0	0%	85	0
Community Education	707	603	(104)	-17%	1,260	1,260	0	0%	1,260	0
Careers	17	34	17	50%	47	47	0	0%	47	0
Schools	359	0	(359)	0%	0	0	0	0%	0	0
Support Services	1,046	911	(135)	-15%	110	0	(110)	0%	0	(110)
Transport	1,566	1,385	(181)	-13%	0	0	0	-44%	0	0
Utilisation of Education 99-00 Surplus	0	0	0	0%	(110)	0	110	0%	0	110
Unallocated Adjustments	0	0	0	0%	(253)	0	253	0%	(170)	83
Total Net Expenditure for Education	26,338	29,257	2,919	10%	55,997	55,997	0	0%	56,080	83

**Revenue Budget Monitoring
Variance Explanations
For the Year to Date as at September 2000
EDUCATION Department**

YTD Variance £	Projected Outturn Variance £	Reasons for Variance	Action Taken or to be Taken	Impact of Action	Monetary Effect on Next Years Budget £
70,000	140,000	Teachers Pay Settlement 2.5% actual against 3% factored in budget.			140,000
736,000	0	Additional grant - resources for schools. Actual income received but expenditure, yet to be incurred, will be decided by headteachers.	Budgets (both income and expenditure) required. These will be added and phased.		none
96,000	0	APT&C salary year to date accrued element due to non settlement of payrise.			none
380,000	0	Budgets for employee salaries do not take account of trend in payroll skew, whereby period 1 costs are reduced by accrual (£380k) and period 12 costs increased by a similar amount (£380k).	Rephase the budget to reflect period trends.		none
396,000	0	Non payment of electricity accrual and late billings are distorting year to date actuals. Also budget phasing has to be realigned with consistent trends in actual billing.	Adjust phasing of billings in 2001-2002 budget when established.		none
295,000	0	Central Repairs & Maintenance not yet recharged	Adjust phasing of billings in 2001-2002 budget when established.		none

7	227,000	35,000	Pre 5 income phasing. Increase of £35k advised in Pre 5 Grant Income				35,000
8	167,000	0	Catering Contract not yet recharged		Adjust phasing of billings in 2001-2002 budget when established.		none
9	61,000	0	Grounds Maintenance not yet recharged		Adjust phasing of billings in 2001-2002 budget when established.		none
10	199,000	0	Equipment Furniture & Materials-phasing of spends in Excellence Fund				none
11	281,000	0	Phasing difference in Payments to other Authorities, Bursaries and Clothing Grants -charges not received.				none
12	122,000	0	Phasing of charges from SQA - billings not yet received.				none
13		(313,000)	At the time the budget was prepared an element of the Excellence Fund remained undistributed. It was assumed by Education and Finance that a share of this would be distributed to the Council. The Excellence Fund is now fully distributed and the Council's share is lower than assumed at time of budget preparation.				(313,000)
14		(50,000)	Increase in Fuel Oil price				(50,000)
15	17,000	302,000	Teaching Salaries - Further unexpected drop in pupil numbers. This includes £69,000 previously reported to committee				302,000
16		10,000	Per capita Supplies - related to drop in pupil numbers				10,000

17	100,000	Reduction in School Supplies budgets			100,000
18	126,000	Reduction in School Support budgets. These are allocated to cover losses and damage.			126,000
19	(80,000)	Additional charge claimed by commercial Services. This was not advised to Education service at time of budget construction.			(80,000)
20	50,000	Reduction in Teaching staffing provided to schools to overcome essential short term changes in pupil			50,000
21	10,000	Savings in APT&C salaries due to strike action			10,000
22	(77,000)	Increase in Pupil Transport Contract costs above inflation.			(155,000)
23	(175,000)	Non Closure of Primary Schools	The education committee decided not to close schools in response to suggestions made by the Parliamentary Committee for Education Culture & Sport. As a result discussions are still underway with the committee in order to implement the offer of support made by them. Nevertheless, the Director of Education has taken precautionary measures to ensure that should further external support be denied, the education service budget for 2000/2001 will be balanced.		(175,000)
	2,970,000				0

Draft Revenue Budget Monitoring 2000/2001

Timetable



	Responsibility	June	July	August	September	October	November	December	January	February
Period Closedown	Murray Macfarlane	05-Jul-00	03-Aug-00	05-Sep-00	04-Oct-00	03-Nov-00	05-Dec-00	05-Jan-01	05-Feb-01	05-Mar-01
Initial Reports Available from Oracle (+ 1 day)	All depts	06-Jul-00	04-Aug-00	06-Sep-00	05-Oct-00	06-Nov-00	06-Dec-00	08-Jan-01	06-Feb-01	06-Mar-01
Departments input budget journals and prepare variance explanatory narratives	All depts									
Final date for input of budget journals (+ 17 days)	All depts	20-Jul-00	21-Aug-00	21-Sep-00	19-Oct-00	20-Nov-00	22-Dec-00	22-Jan-01	22-Feb-01	22-Mar-01
Final date for posting budget journals (+ 18 days)	Accountants	21-Jul-00	22-Aug-00	26-Sep-00	20-Oct-00	21-Nov-00	27-Dec-00	23-Jan-01	23-Feb-01	23-Mar-01
Final Reports Available From Oracle (+ 19 days)	All Depts	24-Jul-00	23-Aug-00	27-Sep-00	23-Oct-00	22-Nov-00	28-Dec-00	24-Jan-01	24-Feb-01	26-Mar-01
Final date for depts to submit variance explanatory narratives (+ 20 days)	All depts	25-Jul-00	24-Aug-00	28-Sep-00	24-Oct-00	23-Nov-00	29-Dec-00	25-Jan-01	25-Feb-01	27-Mar-01
Draft Papers ready for Committee Briefing Meetings for Service Committees										
Director of Finance Briefing		26-Jul-00			25-Oct-00					
Management Team Meeting		28-Jul-00	25-Aug-00	29-Sep-00	03-Nov-00	17-Nov-00	05-Jan-01	02-Feb-01	02-Mar-01	30-Mar-01
Council Leader Briefing		31-Jul-00	28-Aug-00	02-Oct-00	06-Nov-00	20-Nov-00	08-Jan-01	05-Feb-01	05-Mar-01	02-Apr-01
Final Papers for Service Committees										
Draft Papers ready for P & R Committee Briefing Meeting		07-Aug-00								
Service Committees		16-Aug-00			15-Nov-00					
Briefing meeting for Policy & Resources Committee		17-Aug-00			16-Nov-00					
Final papers to Policy and Resources Committee		24-Aug-00			23-Nov-00					
Policy and Resources Committee		28-Aug-00			27-Nov-00					
		07-Sep-00			07-Dec-00					

Note 1

Note 2

Management Team Meeting on 06/11/00 not yet confirmed. Holiday on 16/10/00 pushes fortnightly meetings out of synch. Available August
 Dates for Committee Meetings from December 2000 onwards not yet confirmed. Available September

ARGYLL AND BUTE COUNCIL**FINANCE**

IMPROVING BUDGET MONITORING

6. SUMMARY

The Council will require improvements to its arrangements for budget monitoring following the over expenditure on Education and Transport and Property Services in 2000/2001. Adverse comments by the external auditors is also anticipated. The Council should take action now in order to achieve the improvements in budget monitoring

This report outlines proposals to establish 5 projects to identify and implement improvements in budget monitoring under the direction of a steering group. Additional resources of £43,000 are required.

7. RECOMMENDATIONS

Management Team approve the approach outlined in this report for achieving improvements in budget monitoring.

Management Team approve a virement of budget to this project of £43,000.

Each director commits to ensure that staff within their department co-operate fully with requests from the project teams given the high corporate priority attached to this task.

A steering group comprising the Chief Executive and Director of Finance be established to direct the 5 projects.

3. DETAIL**3.1 Background**

During 2000/2001 financial year expenditure on Education and Transportation and Property Service exceeded budget. The extent of the excess was not forecast through budget monitoring. It is anticipated that the Council will be severely criticised by the external auditors given the extent of the over expenditure. The auditors will probably make recommendations on areas that

require improvement. It is also anticipated that Audit Scotland will pursue with the Council the reasons for the over expenditures together with requests for details of why they arose and action taken by the Council.

The external auditors drew attention to a number of issues related to budget monitoring in their final report to members for 1999/2000.

3.2 Proposal

It will be in the Councils best interests if it is seen to take action first in securing improvements in budget monitoring.

The robustness of future budget preparation exercises will be improved if there is accurate budgeting at a cost centre basis. Decisions will be taken based on more reliable information from the bottom up.

Accurate budgeting and effective budget monitoring down to a cost centre level will be a key point under PMP audits.

The overall objectives of this are as follows:

- accurate budgets set at a cost centre level that match actual expenditure incurred,
- a framework of reporting in place that demonstrates from cost centre through to overall council wide summary the variances from budget, why they have arisen, the corrective action to be taken, the impact of this action and the impact on future years,
- budget holders at all levels should be able to demonstrate their accountability for the budgets under their management.

To achieve these objectives requires a number of actions:

- map actual expenditure 2000/2001 and budget for 2001/2002,
- re align budgets for 2001/2002 in line with incidence of actual expenditure 2000/2001,
- review and where necessary adjust phasing of 2001/2002 budgets,
- identify who the budget holders are for each cost centre,
- identify the reporting hierarchy for each department from budget holder to director,
- identify the information/reporting needs for each tier in the reporting structure/hierarchy,
- set up reports to meet reporting/information needs,
- develop a process in each department which ensures budget holders at all levels are provided with a copy of the required reports each month and demonstrates budgets have been reviewed,
- prepare thresholds for each department for budget holders to explain variances,
- develop a process for budget holders being advised of variances that require explanation and reporting back explanations,
- develop a process for budget holders feeding back to centre amendments to budget and forecast,
- develop procedures to ensure changes in costs are forecast into the ledger,
- ascertain extent of use of other information and systems (not the general ledger) during budget monitoring, evaluate this, identify areas for improvement and prepare draft improvement plan,
- assist in implementation of agreed improvement plan for other information and systems,
- consider where models can be developed to aid in forecasting outturn thereby improving projections of full year expenditure and income and prepare proposals,
- develop agreed proposal on forecasting models,
- review use of account codes,

- identify any training requirements with a draft programme to deliver training,

In carrying out the above there will be a requirement to :

- review and improve the arrangement for accounting for additional grant funding especially within Education
- prepare procedures to ensure month end clearance of roads and property recharges,
- review of budget and actual reconciliations in DMR and roads costing systems.

The following recommendations made by the external auditors in their 1999/2000 final report to members will also need to be addressed (to the extent not covered above):

- "management should continue to monitor the Council's achievement of its budgetary targets for the 2000/2001 financial year,
- management should consider improvements to budget phasing for all areas of income and expenditure,
- management should implement budget reporting variance analysis at a service level for cost inputs, members and management should consider requesting a regular monitoring report from each of the service departments reporting their progress in implementing savings targets."

Services will require to restate their budgets as part of this exercise. To fully achieve the objectives set out services should be allowed freedom to move budget between services in a department and between account codes and increase income and expenditure providing there is no change to the overall departmental net expenditure.

3.3 Project Management

It is proposed to achieve the required actions by setting up 5 separate projects. One project each for Education, Transport and Property, Development and Environment and Housing and Social Work with a further project for Central Support Services. A small project team would be allocated to each project with a project leader nominated.

The undernoted allocation of projects and staff is proposed:

Department	Project Leader	Project Staff
Education		R McMillan, Finance J Denny, Education, R Turner, Education, S McLindon, Education
Transport & Property	A Goard, Finance	D Sullivan, Finance E McNair, Finance A Brough, TPS N Ross, TPS
Development & Environment	P Cupples, Finance	B Sidaway, Finance F Walker, Finance I McDonald, DES
Housing & Social Work	M Cupples/M Moncur, HSW	A Bolwell, Finance
Central Support Services		A Brown, Finance Staff in central depts

Project leaders have still to be identified for Education and Central Support Services.

An overall responsibility for all 5 projects would rest with Bruce West, Head of Accounting.

Given the high profile attracted by the 2000/2001 outturn and the likely further interest of external auditors and Audit Scotland a steering group should be set up to monitor overall progress on the 5 projects. It is recommended that membership of this group comprise the Chief Executive and Director of Finance. Progress reports would be made to the group based on milestones per the agreed action plan for each project. Reports would also be submitted to the steering group summarising the impact of progress on the general ledger eg cost centres with actual but no budget, variances greater than say £25,000, year to date variances not reflected in forecast etc. The first task for each project would be to scope the overall requirements and prepare an action plan for approval by the steering group.

To introduce an element of quality control it is proposed to engage a firm of accountants to review the overall methodology and approach, project action plans, some progress reports and final outcomes. The purpose of this review would be to obtain a form of independent accreditation for the improvements.

Completing this review and improving budget monitoring will be a high corporate priority for the Council. The involvement of the Head of Accounting in this exercise will have consequences upon the timescale for completing the outposting of accounting staff.

3.4 Timescale

It is not possible to give a timescale now for this exercise. Each department is at a different stage. As a general comment Housing and Social Work probably require least input to achieve the necessary improvement and Central Support Services being smaller departments are also probably closer to the finishing line. Significant input is required in the other departments. Whilst improvements will certainly be in place by September it is not clear how far to completion the overall exercise will be at that time. A better indication of this will be available once action plans have been prepared.

3.5 Resources

This exercise cannot be completed within existing resources. It will require the extension of contracts for 2 temporary accountants initially to 30 September. A project leader for Education is also required to 30 September. The additional cost of temporary accountants to 30 September is £26,000 The cost of a project leader for Education is estimated at £12,000.

An allowance of £5,000 should be allowed for the quality control review.

Bruce West
Head Of Accounting
26 June 2001

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Mr James A McLellan
Chief Executive
Argyll & Bute Council
Headquarters
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30 March 2001



Dear Mr McLellan

Overview Report 1999/2000

The Commission recently considered an overview report by the Controller of Audit on issues arising from the audit of local authority accounts for 1999/2000. The Commission requests the Controller of Audit to provide such a report each year in order to review the significant issues which arise. I have pleasure in enclosing the Controller of Audit's report which has been printed together with the Commission's findings and an executive summary. As the document takes the form of a formal statutory report sufficient copies for you to send one to each member of your Council are being sent to you. We will publish the document on 4 April.

I would like to take this opportunity of complimenting councils on the timeous completion of their accounts and on the improvements which are identified in the report. Unfortunately, I must also draw attention to the general conclusion that there are councils in which basic financial controls still show weaknesses. I would simply wish to reiterate the Commission's encouragement to those councils to apply the necessary time and resources to putting these very basic requirements in place.

Yours sincerely

Professor J P Percy
Chairman

OVERVIEW REPORT



Overview of the 1999/2000 Local Authority Audits

Controller of Audit's statutory report and
Accounts Commission's findings

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The Accounts Commission

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

Audit Scotland

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Accounts Commission and the Auditor General for Scotland. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

About this publication

This publication contains the Controller of Audit's overview report on the 1999/2000 local authority audits. The report is preceded by an executive summary.

The Accounts Commission has considered the Controller's report and its findings are set out on page 1.

Accounts Commission's findings

Completion of accounts and audits

The Commission welcomes the submission for audit of the annual accounts of all Scottish councils by the due date. This is the first time this has been achieved since the deadline for the submission of accounts was brought forward to 30 June and the Commission recognises the significant achievement of the local authorities. The Commission also welcomes the earlier completion of audits but continues to be concerned that not all audits were completed by the deadline which the Commission set. Timely reporting and audit completion are significant elements in the public accountability regime for local government and the Commission will continue to press for earlier completion of audits.

Governance

Continuing weaknesses in basic accounting controls in some councils are a matter of serious concern to the Commission. The Commission commented on this matter in its findings on the overview report for 1998/99. It is disturbing to find that such weaknesses are still apparent four years from the establishment of the new unitary councils. The Commission urges those councils where these issues have arisen to ensure that adequate resources are applied to solving these problems. Progress will continue to be monitored through the audit process.

The Commission notes with concern that levels of detected fraud in housing and council tax benefits have again increased. The Commission accepts that this is a complex area but encourages the implementation of the Verification Framework and attention to internal control weaknesses in benefit-related systems.

Financial position

The Commission notes the Controller of Audit's comments on the financial position of local authorities, including the reserves held by councils and the funding of capital expenditure from current revenue. These provide a useful indication of the overall stewardship of public funds at a strategic level and the Commission endorses the Controller's view that auditors should give consideration to such matters as part of their assurance that council expenditure is soundly based.

DLOs/DSOs

The Commission welcomes the further improvement in the performance of councils' direct labour and direct service organisations.



Executive summary

Introduction

- 1 This statutory report is prepared under section 102(1) of the Local Government (Scotland) Act 1973 to advise the Accounts Commission of the main issues arising from the 1999/2000 local authority audits. It is also made available to all local authorities to enable them to assess their progress in key areas of financial stewardship and performance. The report draws on reports prepared by appointed auditors at the conclusion of their audits and agreed with individual local authorities. It focuses on the 32 main council audits and also covers the 34 'other' local authority bodies (including police and fire services) in place in 1999/2000.
- 2 The report is in two parts. The first relates to matters of a recurrent nature and shows the broad results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 1999/2000, either at individual councils or more widely.

Part 1: Annual results and trends

Completion of accounts and audits

- 3 All 32 councils submitted their 1999/2000 accounts for audit by the statutory date of 30 June. This is the first time that all accounts have been completed by that date and represents a commendable achievement by councils. The deadline for completion of 1999/2000 audits was brought forward by two months to 30 September by when 20 audits had been completed. This also represents significant progress over earlier years though there is clearly scope for further improvement.
- 4 Of the 1999/2000 audits completed at the date of the overview report the accounts of three councils were qualified in respect of four matters. This represents a notable reduction compared with previous years (1998/99: nine accounts qualified in respect of 15 matters; 1997/98: 21 accounts qualified in respect of 27 matters). Of the 34 'other' local authority bodies' audits completed, none contains qualifications.

Corporate governance/financial controls

- 5 Corporate governance has been defined as the system by which organisations are directed and controlled.
- 6 Compared with the position in other sectors (such as the NHS), progress in developing corporate governance arrangements in local authorities has been relatively slow. However, appointed auditors have reported that most councils in Scotland are now taking steps to assess and develop their corporate governance arrangements.

- 7 The Accounts Commission has endorsed the audit committee concept as an integral component of good corporate governance. While it is for each local authority to determine arrangements appropriate to its particular circumstances, the adoption and implementation of audit committee principles is regarded by the Commission as an important step in raising the standard of corporate governance in local government.
- 8 Overall, there is encouraging evidence from appointed auditors' 1999/2000 reports of an increasing move in councils towards setting up an audit committee or similar mechanism. One of the most important roles under these arrangements is to review internal and external audit reports and to monitor the implementation of their recommendations.
- 9 Similarly, following criticism in previous years' overview reports, there is evidence from appointed auditors' 1999/2000 reports of improvement in councils' internal audit arrangements. But, given councils' increasing reliance on information technology, there is a need for more specialist computer audit expertise to be available to internal audit.
- 10 While progress is being achieved on governance arrangements, there is evidence of continuing weaknesses in basic accounting controls including instances of no regular and timely accounting reconciliations. This and other instances of weaknesses in internal control have been a recurring theme in the four years since local government reorganisation. Sound financial procedures and effective controls are essential and, without them, councils cannot know if their financial procedures have been compromised, exposing them to unacceptable risk.

Financial position

- 11 Many councils utilised part of the balances they had built up in previous years to support 1999/2000 service expenditure but, overall, the total level of balances across councils was similar to 1998/99. At 31 March 2000, the total net value of General Fund balances across councils was £177 million (2.7% of net expenditure) and the total value of Housing Revenue Account balances was £113 million (9.7% of gross expenditure). Other funds amounted to £264 million but, within this total, there is a wide variation in the amounts held by individual councils.
- 12 General capital expenditure (excluding council housing) across councils in 1999/2000 was £611 million of which £97 million (16%) was financed from current revenue. For the Housing Revenue Account, capital expenditure in 1999/2000 totalled £344 million of which £104 million (30%) was financed from current revenue. Within these overall figures, there is wide variation in the extent to which councils finance capital expenditure from current revenue.
- 13 The statutory basis and purpose of reserves is not always clear and there is wide variation in the amounts held. There is also significant variation in the extent to which capital expenditure is financed from current revenue. These are areas which may warrant closer review by councils and their appointed auditors in future years.

DLO/DSO performance

- 14 Following financial problems in earlier years, the performance of councils' Direct Labour and Direct Service Organisations (DLOs and DSOs) showed further improvement in 1999/2000. For 21 councils, all DLOs/DSOs achieved the statutory break-even target and, overall, break-even was achieved at 94% of DLOs/DSOs operating in 1999/2000. However, there appears still to be scope for further improvement in the quality of financial and other performance information provided to councillors who have responsibilities for DLOs/DSOs.
- 15 More generally, there are early indications that new methods and structures being developed under Best Value initiatives may not fit easily with the ongoing statutory requirements of the compulsory competitive tendering (CCT) regime. Future audit work may help to identify the extent to which this may be an issue across councils.

Housing/council tax benefits

- 16 Councils are responsible for administering some £1.4 billion of housing and council tax benefits and receive reimbursement from the Department of Social Security through an annual claim for subsidy based on the amount of benefit granted. The benefits legislation is complex and subject to frequent modification. There is also evidence of a rising trend of fraud related overpayments. There is a requirement, therefore, for councils to review their procedures regularly in order to support the administration of benefits and minimise the risk of fraud. Given the sums involved, the inherent risks and the problems experienced, it is anticipated that this area will continue to feature significantly in appointed auditors' work programmes for 2000/01.

Financial relationships with external parties

- 17 The Code of Guidance on Funding External Bodies and Following the Public Pound, developed jointly by the Accounts Commission and the Convention of Scottish Local Authorities (CoSLA), sets out the principles of best practice for councils in establishing relationships with companies, trusts and other bodies where there is substantial local authority funding. Appointed auditors have reported that there is a need for councils to ensure closer compliance with the Code's requirements.

Audit follow-up

- 18 The appointed auditors are required to produce reports on their findings. Where action is needed they agree action plans with the local authority which specify the action required, where responsibility for action rests and a timetable for implementation. Action plans are monitored and followed-up by the appointed auditors to ensure that recommendations are implemented within agreed timescales. Individual matters may be pursued by Audit Scotland (on behalf of the Controller of Audit) and, in certain circumstances, the Controller may use his formal powers to report to the Accounts Commission.
- 19 The various measures available in terms of follow-up of audit findings provide a flexible framework for action in relation to the annual audit, stewardship of funds and governance matters.

Part 2: Matters arising during the year

Statutory reports

- 20 During 2000, the Controller of Audit prepared five statutory reports for consideration by the Accounts Commission. Two of these related to significant weaknesses in accounting procedures and financial administration at Inverclyde Council. Having considered the reports, the Commission held a public hearing at the Council's offices in August 2000 where evidence was taken from the Leader of the Council and senior officers. The Commission requested a further report on the extent to which the Council had implemented appropriate remedial action by 31 December 2000. This report was submitted to the Commission in February 2001 and is currently under consideration. The Controller's report on Dumfries and Galloway Council concerned contracts for the provision of residential care for older people in homes which were owned and formerly run by the Council. The Commission acknowledged the innovative nature of the arrangement and that, in the event, the transition had been achieved successfully. But it stressed the need for all councils to ensure that options and risks are properly assessed, that appropriate governance arrangements are in place and that consistent and full information is provided to councillors when considering changes to the method of service delivery.

General accounting issues

- 21 As in previous years, appointed auditors continued to comment adversely on some councils' progress in complying fully with the capital accounting requirements. The main focus of attention in 1999/2000 was the failure by several councils to undertake a full revaluation of assets within the five year timescale specified by the Accounting Code of Practice (ACOP). In most cases this did not impact on the auditors' opinion on the accounts but the 1999/2000 accounts of Clackmannanshire Council were qualified in this regard. In addition some appointed auditors continue to report weaknesses in procedures for maintaining asset registers.
- 22 The Accounting Code of Practice also specifies the nature of the information which local authorities need to disclose in their accounts in relation to pensions costs. In general, appointed auditors have reported that few local authorities complied fully with these requirements in 1999/2000. But appointed auditors have indicated that authorities are seeking actuarial advice to ensure that the disclosure requirements are met. Appointed auditors have reported a particular issue concerning the firefighters' pension scheme, an unfunded 'pay as you go' scheme. A large number of firefighters who joined the service in 1974 will be eligible for retirement in 2004, which may place additional pressure on the resources of fire authorities.

Matters arising at individual councils

- 23 At Fife Council a failure to reconcile information held on the valuation roll and in the non-domestic rates system led to an error and consequently a delay in receipt of central government grant which cost the Council around £1 million in interest. This illustrates the real dangers to councils of not conducting accurate and regular accounting reconciliations.

- 24 West Dunbartonshire Council identified £509,000 of non-recoverable housing benefit overpayments resulting from problems experienced in introducing a new computer system. This highlights for councils the importance of appropriate monitoring and control arrangements during the implementation phase of new computer systems, particularly in areas such as benefit payments where problems can have financial consequences.

Specific value for money findings

- 25 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. This work may culminate in the publication of national reports, management papers and management handbooks. Councils are expected to use these to challenge their current levels of performance and take action to achieve the standards of the best.
- 26 Exhibit 1 summarises the value for money reports published by the Accounts Commission relating to study work undertaken during 1999/2000.

Exhibit 1: Reports published on 1999/2000 study topics

Study topics	Publication date
Benchmarking refuse collection: a review of councils' refuse collection services	April 2000
Safe and sound: a study of community safety partnerships in Scotland	May 2000
Managing rent arrears: getting the balance right	June 2000

- 27 The refuse collection study found that there have been substantial productivity improvements in councils' refuse collection services since the Commission's last review in 1990. The cost of refuse collection has risen from £90 million in 1990 to £98 million in 1998/99, a 9% increase, which is less than the rate of inflation. Over the same period, the tonnage of refuse collected increased by 14%, the number of employees fell by 44% from 4,800 to 2,700 and the number of vehicles fell by 25%.
- 28 The report concluded that councils will have to give waste management a higher priority if they are to meet government recycling and landfill targets, as set out in the National Waste Strategy. This will involve them developing an effective waste management strategy, in partnership with other councils and agencies, and allocating sufficient funding to support expensive but environmentally desirable, collection and recycling activities.
- 29 The study into community safety partnerships found that multi-agency partnerships led by councils and involving many different organisations, such as police and fire services, health boards and hospital trusts, have been set up across Scotland to tackle jointly problems such as anti-social behaviour, domestic violence, crime and reducing accidents and injuries.

- 30 A joint study between the Accounts Commission and Scottish Homes provided a snapshot of the extent to which all councils and a representative sample of Registered Social Landlords (RSLs) were implementing good practice in managing rent arrears. Overall the RSLs sampled performed better, by meeting more of the good practice standards than councils. This helped RSLs to achieve lower levels of rent arrears.
- 31 The report concluded that the £44 million rent arrears bill in Scotland could be reduced by as much as £8 million if councils and RSLs adopted better management practices to prevent and recover rent arrears. Councils could reduce their arrears from £37 million to £31 million and RSLs from around £7 million to £5 million.

Best Value

- 32 Appointed auditors have the task of assessing the progress made by each council in terms of meeting the expectations set out in the Performance Management and Planning (PMP) framework. The PMP audit assesses a council's approach to Best Value under ten criteria related to the four key questions identified by the Best Value Task-Force.
- 33 For 1999/2000 each council selected three services for review. Appointed auditors validated the self-assessments and agreed with each council what improvements would be made to the PMP framework in each of the selected services. The Accounts Commission published a progress report in October 2000 ('*Making Progress with Best Value*') which provided a snapshot of councils' performance management and planning arrangements, based on the PMP audit.
- 34 Despite the overall positive picture, there were three aspects of performance management and planning where many councils were making limited progress:
- identifying the costs and benefits of different options for service delivery, and evaluating the current service against these
 - linking budgets and other resources to key service priorities
 - reporting a full and accurate picture of service performance to decision-makers.
- 35 Best Value also requires councils, over a five-year period, to subject all of their activities to a rigorous review that incorporates the '4Cs' – challenge, compare, consult, compete. This process will help councils to be sure that they are doing the right things and achieving Best Value. About a quarter of councils had made little progress with their programme of Best Value reviews at the time of the audit. In a small number of councils, it also appeared that services were waiting until a Best Value review was undertaken before effort was put in to achieving continuous improvement.

Performance indicators

- 36 In 1999/2000 councils, fire brigades and police forces, were required to report their service standards against 72 statutory performance indicators (PIs). These indicators cover a wide range of services and highlight both the variation in performance between councils and change in performance over time. National reports were published in January and February 2001.

- 37 Over the last year, Audit Scotland has worked to improve the usefulness of the indicators by ensuring that they focus on outputs wherever possible, that they reflect national rather than local targets (which are better reflected in local performance reporting), and that they are easily interpreted. Councils welcomed these developments in their responses to the Commission's annual consultation.

Controller of Audit's report

Introduction

- 1.1 The Accounts Commission is responsible for securing the audit of Scottish local authorities. This involves it in appointing auditors to conduct the audit of councils and 'other' local authority bodies (including police and fire services), either from commercial accounting firms or from its own staff (who transferred to Audit Scotland on 1 April 2000). Issues arising from the audits are reported by the appointed auditors to the Controller of Audit who, in turn, reports to the Commission. The Commission also promotes value for money and is responsible for ensuring the annual publication of performance information about councils.
- 1.2 Under section 102(1) of the Local Government (Scotland) Act 1973, the Commission can require the Controller of Audit to report on matters arising from local authority audits. This report has been prepared in response to a request from the Commission under that section of the Act. It covers the 1999/2000 financial year and has been prepared principally from information contained in reports prepared by appointed auditors at the conclusion of their audits and agreed with individual local authorities. Where appropriate I have supplemented this with other relevant, contextual information. A number of issues from the appointed auditors' reports are being pursued with individual local authorities as part of the on-going follow up work undertaken by Audit Scotland.
- 1.3 In 1999/2000, there were 66 local authority audits in Scotland: 32 councils and 34 'other' local authority bodies. At the date of this report (28 February 2001) 29 of the 32 councils and 20 of the 34 other bodies' audits have been reported by their appointed auditors. The outstanding council audits are East Renfrewshire, City of Edinburgh and Inverclyde. The East Renfrewshire and City of Edinburgh audits are effectively complete; the Inverclyde audit for 1999/2000 has been delayed because of problems in previous years' audits. In preparing this report I have taken account of any material items relating to these outstanding audits which have been drawn to my attention by the appointed auditors. When these audits are completed, the appointed auditors will report to the individual local authorities and to me.
- 1.4 This report therefore covers all the significant issues arising out of the 1999/2000 local authority audits. While focusing on the 32 main council audits, references to specific topics affecting the 'other' local authority bodies are included where appropriate.
- 1.5 This report is in two parts. The first part relates to matters of essentially a recurrent nature and shows, through the annual audit findings, the broader results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 1999/2000, either at individual local authorities or more widely.

Part 1: Annual results and trends

This part covers:

- Completion of accounts and audits
- Corporate governance/financial controls
- Financial position
- DLO/DSO performance
- Housing/council tax benefits
- Financial relationships with external parties
- Audit follow-up

2 Completion of accounts and audits

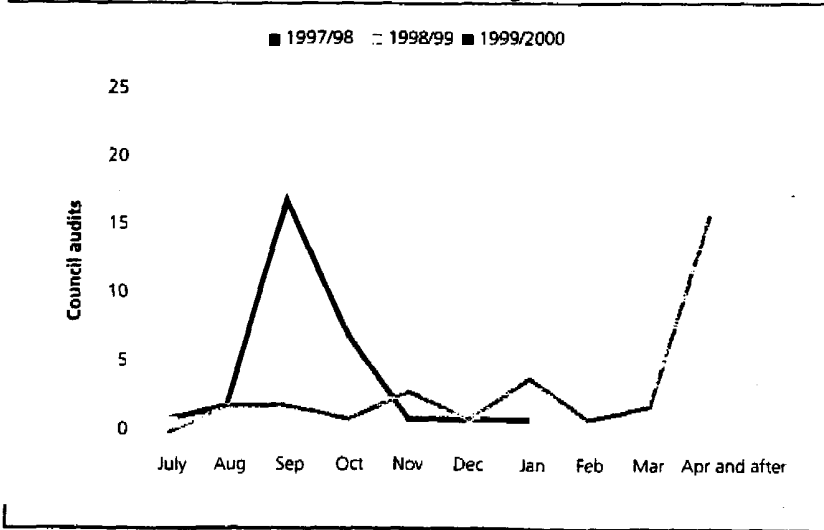
- 2.1 The Local Authority Accounts (Scotland) Regulations 1985, as amended, require local authorities to submit their annual accounts for audit by 30 June in the next financial year. All 32 councils in Scotland achieved the statutory deadline. This represents a further improvement over earlier years, as shown in Exhibit 1.

Exhibit 1: Date by which councils' accounts were available for audit

Date	Cumulative totals		
	1999/2000	1998/99	1997/98
30 June (statutory date)	32	29	23
31 July		30	25
31 August		32	29
30 September			32

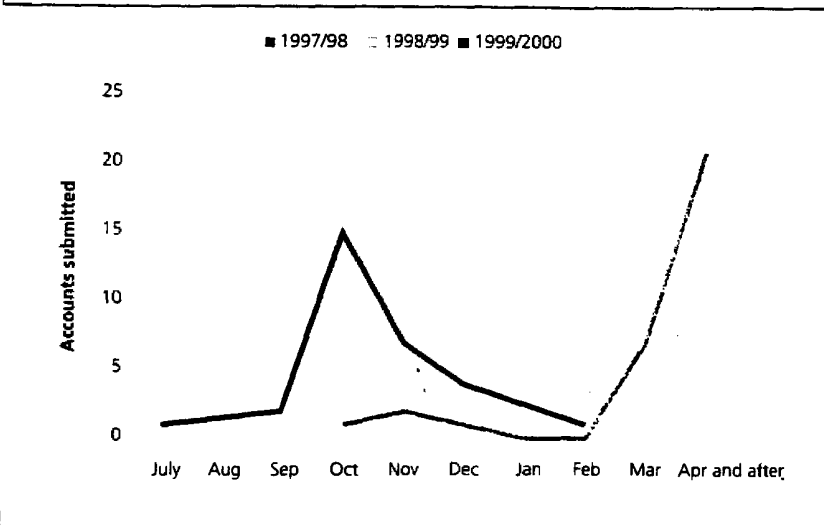
- 2.2 Under their terms of appointment, auditors were required to complete the 1999/2000 audits by 30 September 2000. Exhibit 2 shows the dates by which the 1999/2000 accounts were signed off by auditors and compares the position with previous years.

Exhibit 2: Date by which audit certificates were signed 1997/98 - 1999/2000



2.3 The sign-off date is important because it signals the completion of the audit of the accounts. Twenty accounts (63%) were signed off by 30 September 2000. Having received the appointed auditor's certificate, councils can proceed to publish their audited accounts, thereby reporting to their taxpayers on financial stewardship and performance. Exhibit 3 shows the dates on which audited accounts were submitted by the appointed auditors to the Controller of Audit.

Exhibit 3: Submission of audited accounts to the Controller of Audit 1997/98 - 1999/2000



2.4 The dates for the submission of audited accounts confirm that performance in 1999/2000 was better than previous years. However, Exhibits 2 and 3 indicate that, on average, there was a delay of about one month between sign-off by the appointed auditors and the date on which the accounts were submitted to the Controller of Audit. This appears to be due in part to the time taken by councils to produce the final version of the accounts. In some cases, councils' published annual reports may follow even later.

2.5 The deadlines for the completion of accounts and audits are challenging. The performance of councils in completing their accounts by the statutory date was commendable. Overall, the performance of appointed auditors in completing audits represents a significant improvement over previous years, but there is clearly scope for further improvement. Exhibit 4 sets out the action needed by councils and appointed auditors to build upon the progress achieved in 1999/2000.

Exhibit 4: Action required to achieve audit deadlines

There is a need for *councils* to:

- ensure that the accounts presented for audit, including all disclosure notes, comply fully with the Code of Practice on Local Authority Accounting (ACOP)
- ensure that working papers in support of the accounts are complete and are available in accordance with a timetable agreed in advance with their appointed auditors
- minimise the time between completion of the audit and the availability of the printed/published accounts.

There is a need for *appointed auditors* to:

- agree a timetable for the conduct and completion of the audit with the council
- ensure that audit staff are available and that other areas of audit responsibility do not impact on council audits
- ensure that interim audit work is completed and reported in advance of final accounts work
- draw to the attention of councils significant issues arising from the audit as soon as these are identified.

2.6 Of the audits completed at the date of this report, the accounts of three councils were qualified in respect of four matters. Details are contained in Exhibit 5. This represents a notable reduction compared with previous years (1998/99: nine accounts qualified in respect of 15 matters; 1997/98: 21 accounts qualified in respect of 27 matters). None of the 34 'other' local authority bodies' accounts for 1999/2000 received to date contains qualifications.

Exhibit 5: Qualifications in 1999/2000

Council	Reason for qualification
Clackmannanshire	<ul style="list-style-type: none"> ■ The Council failed to carry out asset revaluations.
East Dunbartonshire	<ul style="list-style-type: none"> ■ The appointed auditors were unable to satisfy themselves as to the adequacy of the bad debt provision for rent arrears.
Shetland Islands	<ul style="list-style-type: none"> ■ Lack of evidence to substantiate the comparative figures included in the 1999/2000 cash flow statement. ■ Disagreement about the way in which the Council had accounted for a property transaction in a previous year.

- 2.7 Other significant issues may arise during the course of a local authority audit which, while not affecting the auditor's opinion on the accounts, may need to be included within the audit certificate. These explanatory paragraphs (headed 'Failure to comply with statutory requirement' in the audit certificate) allow the appointed auditor to draw attention to important issues without qualification of the audit opinion.
- 2.8 Of the audits completed to date, ten councils' accounts contain 'failure to comply' paragraphs in respect of 15 issues (13 on Direct Labour/Service Organisation related matters, including the failure to achieve the statutory break-even target, and two non-Direct Labour/Service Organisation related matters, concerning local authority borrowing powers and capital expenditure limits). This represents a reduction on the 1998/99 position for all councils when 19 accounts carried 21 'failure to comply' references.

3 Corporate governance/financial controls

Audit Committees

- 3.1 In the last decade there have been significant developments in governance and risk management in both the private and public sectors. In 1992, the Cadbury Committee defined corporate governance as the system by which organisations are directed and controlled and identified openness, integrity and accountability as its three core principles.
- 3.2 Compared with the position in other sectors (such as the NHS), progress in developing corporate governance arrangements in local authorities has been relatively slow. However, the appointed auditors have reported that most councils in Scotland are now taking steps to assess and develop their corporate governance arrangements.
- 3.3 The Accounts Commission has endorsed the audit committee concept as advocated by the Cadbury Committee as an integral component of good governance. While it is for each local authority to determine arrangements appropriate to its particular circumstances, the adoption and implementation of audit committee principles is regarded by the Commission as an important step in raising the standard of corporate governance in local government. Exhibit 6 highlights the main functions of an audit committee and Exhibit 7 contains an extract from the McIntosh Report on local government supporting the establishment of audit committees.

Exhibit 6: Functions of the audit committee

The functions of the Audit Committee should include:

- to review with management the adequacy of the internal control systems
- to review with management the adequacy of policies and practices to ensure compliance with relevant statutes, directions, guidance and policies
- to review with management compliance with relevant standards or codes of corporate governance
- to review with management the financial statements
- to ensure that the internal audit function is properly resourced and has appropriate standing within the council
- to review the activities of the internal audit function ...
- to manage ... all aspects of the council's relationships with the external auditors.

Source: 'Corporate Governance: A Framework for Public Service Bodies', CIPFA

Exhibit 7: Audit Committees: an extract from the 'McIntosh Report'

"... we see a bigger role for councillors in scrutinising the performance and governance of their authorities. We see particular advantage in the creation of audit committees, drawn from outside the political leadership and working on a non-partisan basis, to provide independent reassurance to the council and its electorate that the council's resources are used properly and cost-effectively"

Source: 'Moving Forward, Local Government and The Scottish Parliament' June 1999

- 3.4 In 1999/2000 auditors reported that several councils had established or were considering the establishment of an audit committee, or similar mechanism, to monitor the operation of the overall system of financial control. Some councils are considering a wider remit to include issues relating to expected standards of behaviour, codes of conduct, and policies on the arrangements for the prevention and detection of fraud and corruption. Overall, there is encouraging evidence from appointed auditors' reports of an increasing move towards setting up audit committees or adopting audit committee principles.
- 3.5 One of the most important roles that audit committees (or their equivalent) can undertake is to review reports from their internal and external auditors and monitor the implementation of audit recommendations. If the audit function is to be effective it is vital that action is taken to address weaknesses identified through the audit process. The responsibility for the operation of a sound system of internal control lies with council members and senior management and is an important part of their stewardship of public funds. Effective governance arrangements will assist them in discharging this responsibility.

Internal audit

- 3.6 There is some evidence from appointed auditors' reports that improvements have been made in councils' internal audit arrangements, following criticism in previous years' audit reports. In particular, it appears that internal audit staff are undertaking less non-audit work.
- 3.7 One of the main issues, which continues to be highlighted by appointed auditors in their 1999/2000 final reports, is the lack of specialist computer audit expertise available to councils' internal audit departments. Some authorities have reported problems in recruiting and retaining suitably qualified and experienced staff in this area. However, given the reliance placed on computerised systems for all aspects of councils' business it is important that arrangements are in place to ensure that appropriate controls exist in computerised systems and that these controls are operating effectively.
- 3.8 In response to the concerns highlighted in last year's overview report, the Accounts Commission is conducting a review of internal audit in Scottish local government. The overall objectives of the study are set out in Exhibit 8. The results of the Commission's study are due to be published in summer 2001.

Exhibit 8: Overall objectives of Commission's study on internal audit

The Accounts Commission is currently undertaking a review of internal audit in Scottish councils. The overall objectives of the study are to:

- undertake a 'health check' of all council internal audit services against accepted good practice
- identify the key features of an effective internal audit function
- disseminate good practice among councils
- make recommendations that help councils to provide a Best Value internal audit service.

Internal control issues

- 3.9 Appointed auditors continue to report weaknesses in basic accounting controls including, in several instances, the absence of regular and timely reconciliations between key financial systems and the financial ledger.
- 3.10 While it was recognised that there would be a period following local government reorganisation when difficulties arising from inherited financial systems would have to be addressed, it is disappointing to note that in 1999/2000, the fourth year following reorganisation, appointed auditors continue to express concern about the absence of fundamental accounting controls. Reconciliations between subsidiary systems and the main financial ledger are an essential mechanism for early identification of errors or, possibly, fraud. As indicated elsewhere in this report, the absence of reconciliations can have serious financial consequences for local authorities.

Exhibit 9: Basic accounting controls - bank reconciliations

Reconciliation is the process of matching two separate records of transactions to provide assurance as to the accuracy and integrity of financial procedures. In the case of bank reconciliations, which are among the most fundamental reconciliations, the balance on the financial ledger is matched with the balance on the bank statement provided by the bank. Items required to achieve balance are identified and, where appropriate, investigated.

In the absence or late production of this basic reconciliation, councils cannot determine whether the accuracy or integrity of their financial procedures have been compromised and are therefore exposed to unacceptable risk.

- 3.11 In addition to late or absent reconciliations, appointed auditors have also commented on weaknesses in other fundamental internal controls in a number of financial systems including: lack of segregation of duties, lack of controls to ensure goods are received before invoices are paid and lack of adequate access controls for primary computerised systems. These issues have been highlighted at several authorities and have featured in previous overview reports. In some cases appointed auditors have reported the lack of timely and effective action by councils in response to previous identification of such issues in both external and internal audit reports. This highlights the importance of having effective governance arrangements in place to ensure that audit recommendations are acted upon within acceptable timescales.

4 Financial position

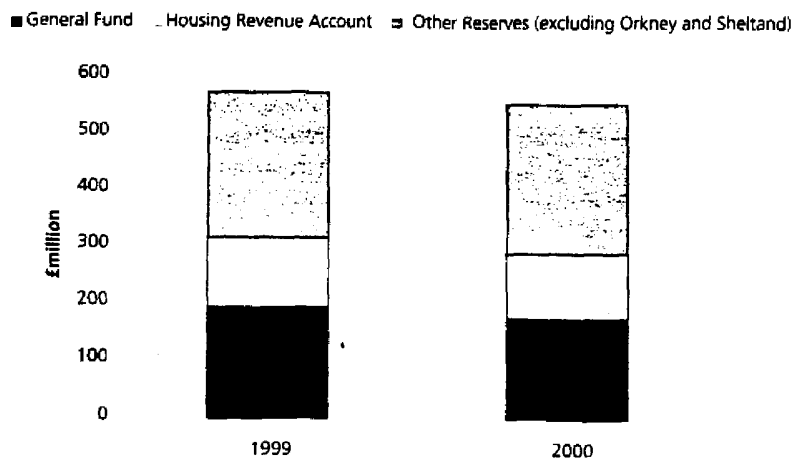
Revenue

- 4.1 Councils' revenue expenditure is financed from three main sources: government grants (which includes yields from non-domestic rates), council tax and fees and charges. About 80% of financing for local government expenditure (net of fees and charges) comes from central government grant, and council tax funds about 15%. Expenditure on council housing is met mainly from rents.
- 4.2 Income and expenditure on council services other than housing is reflected in the General Fund. The Housing Revenue Account (HRA) records transactions relating to the provision of council housing. The HRA is 'ring-fenced' in that councils may not subsidise council housing activities from the General Fund.
- 4.3 During 1999/2000, 20 councils had in-year deficits on the General Fund totalling £46.8 million. The remaining 12 councils had surpluses in 1999/2000 totalling £28.7 million. Taking account of balances brought forward from 1998/99, the General Fund of 30 councils closed the year in surplus and the accounts of two councils (East Ayrshire and North Ayrshire) had relatively small deficits. The total net value of General Fund balances across councils at 31 March 2000 was £177 million which represents 2.7% of total General Fund net expenditure (31 March 1999: £195 million, 3.1% of total General Fund net expenditure).
- 4.4 The closing balances on Housing Revenue Accounts show that 27 councils were in surplus at 31 March 2000 and five had a nil balance. The total value of Housing Revenue Account balances across councils at 31 March 2000 was £113 million which represents 9.7% of total Housing Revenue Account gross expenditure (31 March 1999: £121 million, 10.4% of total Housing Revenue Account gross expenditure).

Reserves

- 4.5 In addition to the General Fund and Housing Revenue Account, councils hold other funds. The total value of these funds at 31 March 2000 was £264 million (1999: £258 million). The principal elements of this are renewal and repair funds, insurance funds and useable capital receipts but there is a wide variation in the amounts held by councils. These totals exclude significant balances held by Orkney and Shetland Islands Councils arising principally from harbour related activities.
- 4.6 The total level of councils' reserves is shown in Exhibit 10. In 1999/2000 councils utilised reserves in support of General Fund and Housing Revenue Account expenditure but, overall, the level of balances was relatively unchanged from 1998/99.

Exhibit 10: Councils' total reserves



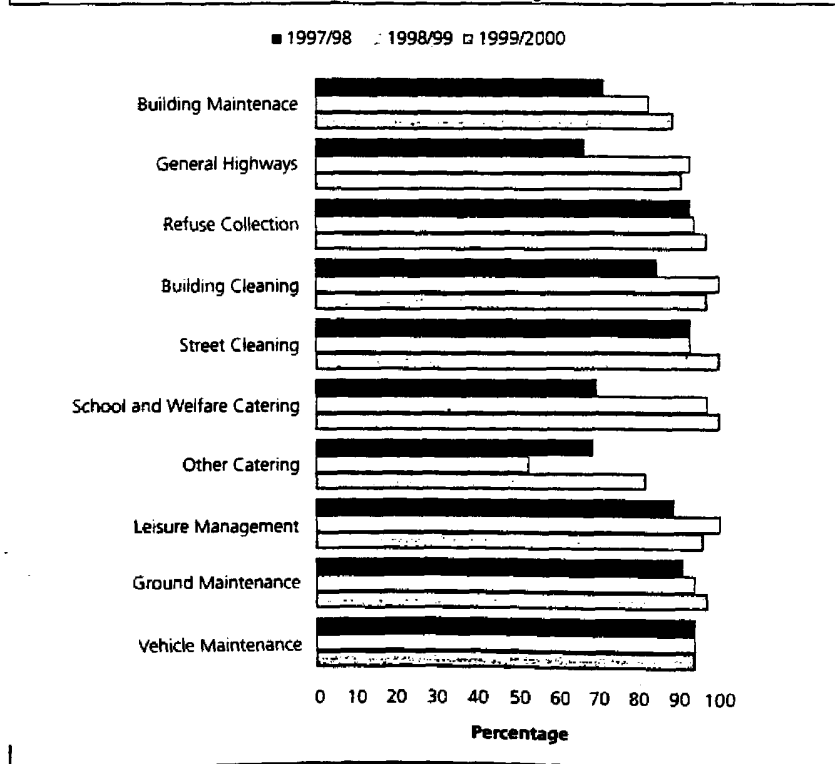
Capital

- 4.7 Capital expenditure by councils is controlled by Scottish Ministers under section 94 of the Local Government (Scotland) Act 1973 and related regulations. Councils are provided with consent to incur expenditure under broad service headings. Capital expenditure is mainly financed by borrowing which allows costs to be spread over future years in order to match the benefits from the expenditure incurred. However, councils can decide to fund capital expenditure from revenue. This increases the capital spending capacity but the expenditure falls to be met in full by council taxpayers or council tenants in the year in which the expenditure is incurred.
- 4.8 Total General Fund capital expenditure in 1999/2000 across all councils was £611 million, of which £97 million (16%) was financed from current revenue. For the Housing Revenue Account, capital expenditure in 1999/2000 totalled £344 million of which £104 million (30%) was financed from current revenue. Within these overall figures, there is wide variation in the extent to which councils finance capital expenditure from current revenue. This is particularly evident on the Housing Revenue Account where the amount of capital expenditure financed from current revenue in 1999/2000 ranged from nil to over 50%. About a third of all councils in Scotland financed more than 40% of Housing Revenue Account capital expenditure from current revenue in 1999/2000.
- 4.9 In summary, councils held reserves totalling about £550 million at 31 March 2000. The statutory basis and purpose of these is not always clear and there is wide variation in the amounts held. There is also significant variation in the extent to which capital expenditure is financed from current revenue. These are areas which may warrant closer review by councils and their appointed auditors in future years.

5 DLO/DSO performance

- 5.1 The main statutory provisions governing the operation of councils' Direct Labour Organisations (DLOs) and Direct Service Organisations (DSOs) under Compulsory Competitive Tendering (CCT) are contained in the Local Government, Planning and Land Act 1980 and the Local Government Act 1988 respectively, and in related secondary legislation.
- 5.2 In consequence of local government reorganisation in Scotland (which was effective from 1 April 1996), CCT was largely suspended. With the development of the Best Value regime, there has been an extension of the moratorium on existing CCT activity. Only construction work in excess of £500,000 is currently required to be exposed to competition under CCT. However, councils are still required by statute to prepare a detailed specification and calculation of the charge to be made by their DLOs and DSOs for carrying out work. They are also required by statute to maintain accounts and to break-even for each defined category of work.
- 5.3 Following reports by councils of substantial deficits, and weaknesses in financial management in DLOs/DSOs in 1997/98, the Controller of Audit made a statutory report to the Accounts Commission in September 1998. This provided an independent assessment of the management and performance of DLOs/DSOs across all councils. A follow-up report on the 1998/99 position was published in August 1999.
- 5.4 Exhibit 11 summarises financial performance against the statutory break-even target in 1999/2000 and compares this with 1998/99 and 1997/98.

Exhibit 11: DLOs/DSOs achieving the break-even target

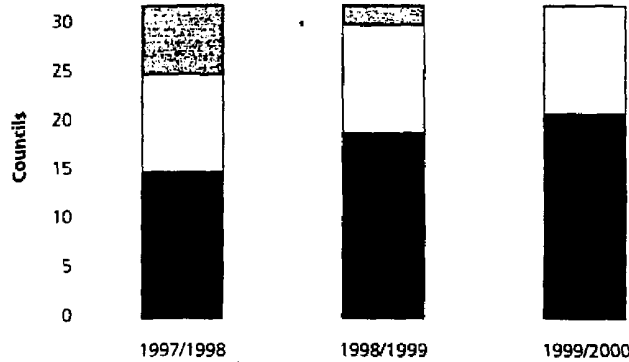


- 5.5 The DLO/DSO results for 1999/2000 show further improvement over recent years with 94% of all DLOs/DSOs in Scotland achieving the statutory break-even target compared with 91% in 1998/99 and 82% in 1997/98.

- 5.6 Overall, surpluses across all DLOs/DSOs in 1999/2000 totalled £43.4 million (1998/99: £42.7 million, 1997/98: £32 million). Deficits for the year totalled £1.7 million (1998/99: £4.7 million, 1997/98: £15 million).
- 5.7 Exhibit 12 shows a continuation of the trend of an increasing number of councils where all their DLOs/DSOs achieved the statutory break-even target.

Exhibit 12: DLO/DSO deficits in councils

■ No DLO/DSO deficits ▨ 1 to 3 DLOs/DSOs with deficits ■ Over 3 DLOs/DSOs with deficits



- 5.8 A recurring theme in the Controller's reports on DLOs and DSOs was the need for councils to improve the quality of performance information essential for the effective management of DLO/DSO activities. This was also the subject of a value for money study by the Accounts Commission whose report 'Understanding our business – management information for DLOs and DSOs and other operational services' was published in December 1999. The main points from this report are summarised in Exhibit 13.

Exhibit 13: 'Understanding our business' - summary

Councillors:	The report highlighted the roles and responsibilities of councillors in relation to DLOs/DSOs, and the information they need to meet these responsibilities.
Council officers:	The report highlighted the roles of the chief executive, corporate management team and finance director, the importance of effective partnership working between clients and contractors and between internal suppliers and contractors, in building a corporate approach to DLOs/DSOs.
Managing the business:	The report highlighted the importance of business planning, and the need for good management information in managing the operation of DLO/DSO businesses.

- 5.9 As part of their 1999/2000 audits, appointed auditors reviewed councils' progress in implementing the good practice points set out in the Commission's report. Overall, appointed auditors indicated that councils had made good progress in this area. However, they indicated that there was scope for further improvement in the content and format of business plans and in the financial and performance information provided to councillors with

responsibilities for DLOs/DSOs. In some cases, appointed auditors indicated that training for councillors on their roles and responsibilities in relation to DLOs/DSOs and the interpretation of financial information may assist in securing further improvement in this area.

- 5.10 In one particular case (Glasgow City Council), the appointed auditor noted that, following a Best Value review in 1999/2000, the Council restructured its vehicle related activities. This led to all functions relating to vehicle operation being provided by the DSO and subject to a unitary charge. As a result the income recorded in the statutory revenue account related substantially to charges for vehicle provision rather than to the statutorily defined activity of repair and maintenance of vehicles. Also, the charges relating to the defined activity were not separable from other charges. As a result, the appointed auditor qualified his opinion on the DSO financial statement. This particular example may point to a wider issue in that Best Value initiatives in services still subject to the CCT legislation may lead to the development of approaches which are not easily reconciled with the statutory accounting requirements which remain in force.

6 Housing/council tax benefits

- 6.1 Councils are responsible for administering housing and council tax benefits and receive reimbursement from the Department of Social Security (DSS) through an annual claim for subsidy based on the amount of benefit granted. The annual subsidy claim is subject to audit certification and appointed auditors must be satisfied that councils' underlying systems for calculating and granting benefit are sound. In addition, the Benefit Fraud Inspectorate (BFI) examines and reports on how local authorities administer housing and council tax benefit, with particular reference to the prevention and detection of fraud. Audit Scotland works with the BFI to develop complementary roles and avoid unnecessary duplication of work. This relationship is governed by a memorandum of understanding.
- 6.2 The DSS has drawn up a Verification Framework which attempts to improve councils' prevention of claimant fraud, sets out the information which should be collected before benefit is paid and specifies the minimum standards of evidence and the checks that must be made throughout the life of a claim. Compliance with the Framework is not compulsory but councils which implement it receive additional funds from DSS.
- 6.3 The housing and council tax benefit system is complex, involves a high volume of transactions and is susceptible to claimant fraud. The levels of detected fraud in 1999/2000 in terms of number and value have increased from 1998/99 and are set out in Exhibit 14. Adoption of the Verification Framework should help prevent fraud and error by verification of initial entitlement and regular review of high risk claims. Appointed auditors continue to report that some authorities have not yet fully implemented the Verification Framework. In addition, the systems for administering benefits in some authorities exhibit general internal control weaknesses of the type highlighted in section 3 of this report.

Exhibit 14: Housing benefit/council tax benefit fraud detected

	1999/2000	1998/99	1997/98
Number of frauds	12,243	10,409	13,867
Value of fraud related over-payments	£6.9 million	£5.4 million	£4.2 million
Estimated benefits paid by councils	£1.4 billion	£1.3 billion	£1.2 billion

- 6.4 The legislation relating to housing and council tax benefits is complex and subject to frequent modifications. There is a requirement, therefore, for councils to review regularly their procedures in order to support the administration of benefits. A number of councils have experienced difficulty in this area and an example of the problems which can arise is described in section 12 of this report in relation to one particular council. Given the sums involved, and the problems experienced, it is anticipated that this area will continue to feature significantly in appointed auditors' work programmes for 2000/01.

7 Financial relationships with external parties

- 7.1 The Code of Guidance on Funding External Bodies and Following the Public Pound, developed jointly by the Accounts Commission and the Convention of Scottish Local Authorities (CoSLA), sets out the principles of best practice for councils in establishing relationships with companies, trusts and other bodies where there is substantial local authority funding. The Code was supplemented by operational guidance issued by CoSLA in 1998.
- 7.2 The overall objective of the Code is set out in Exhibit 15.

Exhibit 15: 'Following the public pound'

'The principles of openness, integrity and accountability apply to councils in their decisions on spending public money which are subject to public record and external audit. These principles should also apply to funds or other resources which are transferred by councils to arms-length bodies such as companies, trusts and voluntary bodies'.

Source: Accounts Commission/CoSLA 'Code of Guidance on Funding External Bodies and Following the Public Pound' May 1996

- 7.3 The appointed auditors assess how councils are dealing with this issue, by reviewing councils' arrangements and comparing these with the guidance contained in the Code.
- 7.4 Following earlier reviews of progress, appointed auditors have reported a number of areas where action is required by councils to ensure closer compliance with the Code's requirements. These are set out in Exhibit 16.

Exhibit 16: Areas to be addressed to achieve closer compliance with the Code

There is a need for councils to:

- ensure that the Code's requirements are extended to all relationships where substantial funding agreements exist
- ensure that the roles and responsibilities of supervising council officers are clearly defined. More generally, there is a need for council members and officers who represent the council's interests in external bodies to be properly advised of their responsibilities, in relation to the external body and the council. Where appropriate, this should be supported with relevant training for members and officers.
- ensure that robust monitoring arrangements are in place. Having established these arrangements, there is a need for councils to ensure that evidence is available to confirm that these are working in practice. These include arrangements for monitoring service level agreements (which set out the rights and responsibilities of both parties to the agreement) and for monitoring the use of grant monies provided by the council to external bodies (to ensure that the funds are being used for the purpose intended).

8 Audit follow-up

- 8.1 The appointed auditors of the 66 local authority bodies in Scotland are required to produce reports on matters arising from their audits. Where the auditors have concluded that action needs to be taken to make the improvements necessary in response to their findings, they have agreed or will agree action plans with the local authority which specify the action needed, where responsibility for action rests and a timetable for implementation. Implementation of the actions plans is monitored and followed-up by the appointed auditors.
- 8.2 In cases where remedial action has not been agreed or where the local authority has been slow to implement agreed action, Audit Scotland may pursue the matter directly with the authority (on behalf of the Controller of Audit). The Controller of Audit may also use his formal powers to report to the Accounts Commission on any matter arising from the audit.
- 8.3 The various measures available in terms of follow-up of audit findings provide a flexible framework for action in relation to the annual audit of accounts, stewardship of funds and governance matters. The approach adopted in following-up value for money work is set out later in this report.

Part 2: Matters arising during the year

This part covers:

- Statutory reports
- Year 2000 compliance
- General accounting issues
- Matters arising at individual councils
- Specific value for money findings
- Best Value
- Performance indicators

9 Statutory reports

- 9.1 During the year to 31 December 2000, five statutory reports were prepared for consideration by the Accounts Commission. These are set out in Exhibit 17.

Exhibit 17: Statutory reports in 2000

2000/1	Complaint relating to the accounts of Glasgow City Council
2000/2	Inverclyde Council ~ Audit of Accounts 1997/98
2000/3	Overview Report on the 1998/99 Audits of Local Authorities
2000/4	Comments on Inverclyde Council's Formal Response to Statutory Report 2000/2
2000/5	Dumfries and Galloway Council: Externalisation of Residential Homes for Older People

Inverclyde Council

- 9.2 At its meeting on 5 July 2000, the Accounts Commission considered the two statutory reports on Inverclyde Council (S.R. 2000/2 and S.R. 2000/4). The Commission was concerned about reports of significant weaknesses in the Council's financial procedures and the arrangements for preparing accounts and other matters which were indicative of a poor standard of financial administration and control within the Council.
- 9.3 In August 2000 the Commission held a public hearing at the Council's offices at which evidence was taken from the Leader of the Council, the Chief Executive, the Director of Resource Services and the Director of Social Work and Housing. In its subsequent findings, the Commission expressed concern about the serious continuing shortcomings in financial management and stewardship in Inverclyde Council and instructed the Controller of Audit to report early in 2001 on the extent to which, by 31 December 2000, the commitments set out in the Council's action plan had been achieved.
- 9.4 Based on a review by the Council's appointed auditors, the Controller reported in January 2001 that there was a need for urgent action on the part of the finance department to address the remaining issues, in particular accounting reconciliations, which are fundamental to proper financial

administration. The report concluded that the action proposed by the Chief Executive in addressing these matters and the outstanding action points from previous audit reports was of critical importance. In particular, the report stated that it was essential that key vacancies in the finance department were filled and that all bank reconciliations were brought up to date by the end of the 2000/01 financial year, to ensure proper control of the Council's finances and to avoid potential delays in the preparation and audit of the annual accounts for that year.

Dumfries and Galloway Council

- 9.5 This report concerned two contracts entered into by Dumfries and Galloway Council for the provision of residential care for older people in homes which were owned and formerly run by the local authority.
- 9.6 The main purpose of this report was to identify those aspects of the externalisation process which demonstrated the opportunity to follow better practice in future similar exercises, whether undertaken by Dumfries and Galloway Council or other local authorities.
- 9.7 In considering the report the Accounts Commission acknowledged that the externalisation of residential homes was an innovative policy proposal at a time when the Council was coping with the aftermath of local government reorganisation and a difficult financial situation. The Commission recognised that the externalisation process was completed, and the transition to the new arrangement achieved, smoothly and sensitively with minimum disruption to residents and with the new facilities being delivered to the expected standard.
- 9.8 The Commission also stressed the need to ensure that options and risks are properly assessed and that appropriate governance arrangements are in place. When major policy initiatives are undertaken there is a need for proper appraisal of options based on consistent and full information given to council members and for the processes of the authority to be transparent with sufficient information in the public domain to enable citizens to hold the authority to account.

Exhibit 18: Dumfries and Galloway Council: concerns highlighted by the Commission

- The option appraisal process both at the initial stage of the project and later did not cover all possible options including further purchasing from the independent sector.
- In reviewing how the authority had estimated the future demand for residential care it was not readily apparent how the impact of care in the community had featured in the authority's long term assessment.
- During negotiations the terms of the proposed contract changed significantly from the basis of the original invitation to tender, but the authority did not appear to have considered the possibility of retendering at any stage.
- The financial implications of recommendations put before members, and the likely ultimate impact of their decisions, were not always made clear by officers.
- The authority should have satisfied itself that the quality and cost of capital works undertaken was consistent with the estimates produced during the negotiations and with the final contract prices.

- 9.9 The Commission commended the fundamental procedures recommended in the statutory report and stated that it expects councils to observe them when reviewing and/or changing methods of service delivery.

10 Year 2000 compliance

- 10.1 In the year 2000 local authorities along with all other organisations worldwide, faced the risk that computer systems would be seriously affected by the millennium date change – a syndrome known as the Millennium Bug. Local authorities had prepared for the event and invested significant amounts in ensuring that their services were not disrupted.
- 10.2 At the critical dates of 31 December 1999/1 January 2000 local authorities experienced no significant effect on their services from the threatened Millennium Bug. Investment in service continuity planning, system testing and system upgrades undertaken to counter the Millennium Bug ensured that services were fully maintained at the required level. Since 1 January 2000 no further millennium compliance problems have emerged.

11 General accounting issues

Capital accounting

- 11.1 With effect from 1 April 1994 the Code of Practice on Local Authority Accounting (ACOP) introduced a new system of capital accounting for local authorities. The system is designed to ensure that most categories of fixed assets are stated in the accounts at current value and that annual charges to service revenue accounts more closely reflect the cost of using assets. To ensure that costs associated with fixed assets are kept up to date, ACOP requires assets to be revalued at least every five years. An essential element of the capital accounting system is an up to date and accurate asset register.
- 11.2 As in previous years, appointed auditors continue to comment adversely on some councils' progress in complying fully with the capital accounting requirements. The main focus of attention in 1999/2000 was the failure by several councils to undertake a full revaluation of assets within the five year timescale specified by ACOP. In most cases this did not impact on the auditors' opinion on the accounts but, as noted in section 2 of this report, the 1999/2000 accounts of Clackmannanshire Council were qualified in this regard. In addition some appointed auditors continue to report weaknesses in procedures for maintaining asset registers.
- 11.3 Evidence from appointed auditors' reports suggest that many councils do not charge depreciation on buildings and infrastructure assets on the grounds that they have been subject to regular repair and maintenance to extend the asset's useful life in its existing use. Appointed auditors have commented adversely on the quality of the information that councils have produced in support of this policy of non-depreciation. For the year to 31 March 2001, ACOP requires that the test of whether assets should be depreciated rests solely on councils being able to demonstrate that any depreciation charge would not be material.
- 11.4 A further recurring theme in appointed auditors' reports relating to capital accounting is the need for councils to ensure that expenditure is properly and consistently classified as between revenue and capital, in accordance with generally accepted practice set out in ACOP.

Pensions accounting

- 11.5 ACOP specifies the nature of the information which local authorities need to disclose in their accounts in relation to pension costs. Disclosure includes information on unfunded schemes and discretionary payments granted by individual councils under the Local Government Pension Scheme. ACOP

requires a statement to be included in the accounts showing the total cost of future pension obligations in respect of unfunded pension payments.

- 11.6 In general, appointed auditors have reported that few local authorities complied fully with these requirements in the 1999/2000 accounts as to do so would have required actuarial calculations and arrangements were not in place to produce these. Appointed auditors have indicated that authorities are seeking actuarial advice to ensure that these disclosure requirements, and additional disclosures required by ACOP for 2000/01 accounts are met. (The 2000 ACOP applies to accounts for 2000/01 and requires disclosure of future liabilities relating to discretionary elements awarded.)
- 11.7 The firefighters' pension scheme, which applies across Scotland, is an unfunded scheme, with current pensions being paid from scheme members' contributions in the year. Any shortfall between payments from members and payments to pensioners is met from the relevant authorities' revenue accounts. Each fire authority's budget for pension costs is based on actual expenditure in the previous three years. However, a potential problem may exist as a large number of firefighters who joined the service following a recruitment drive in 1974 will be eligible for retirement in 2004. Discussions are ongoing between the relevant authorities and the Scottish Executive concerning the funding of this liability.

Public/private partnerships/PFI

- 11.8 There are a number of public/private partnerships (PPP) and public finance initiative (PFI) contracts at various stages of completion in councils in Scotland.
- 11.9 Appointed auditors are reviewing the processes by which councils are progressing their interests in these schemes and, where appropriate, are providing preliminary views on the proposed accounting treatment (in particular whether the scheme will result in 'on-balance sheet' or 'off-balance sheet' treatment).
- 11.10 In particular, auditors have identified cases where development costs relating to PPP/PFI schemes have been capitalised. This is contrary to ACOP's requirement which specifies that development costs should be written off to revenue as they are incurred.

12 Matters arising at individual councils

Fife Council

- 12.1 As indicated earlier in this report, the absence of key accounting reconciliations can expose councils to the risk of error. A situation which occurred at Fife Council serves to illustrate the serious consequences arising from late detection of an error which would have been identified from the regular and accurate reconciliation of information held on the valuation roll (maintained by the assessor) and the non-domestic rates system (maintained by the Council's finance department).
- 12.2 During 1996/97, the assessor revalued several properties and passed details of the revised rateable values to the Council's finance department. The new values were correctly entered on the non-domestic rates system but one of the original entries, which should have been removed, was not. This meant that the value of the non-domestic rates levy was overstated. Consequently figures included in the submissions to central government which formed the basis of

the calculation of Revenue Support Grant (RSG) for 1997/98 and 1998/99 were incorrect. RSG for 1997/98 was underpaid by £10.8 million and by £6.2 million for 1998/99.

- 12.3 Although the errors in the non-domestic rates levy were subsequently notified to central government, and the shortfalls in RSG were recovered, the appointed auditor reported that the delay in receipt of the payment cost the Council approximately £1 million in interest foregone. In April 2000, the Scottish Executive informed the Council that future RSG would not be rescheduled to compensate for this.
- 12.4 The appointed auditor attributed the error mainly to weaknesses in internal control systems (lack of appropriate reconciliations), staffing and computer software problems encountered following local government reorganisation, and the delay in producing the 1996/97 accounts for audit. These are issues which have been highlighted in this and previous local government overview reports. As stated in Part 1, there is an urgent need for councils to take action to ensure that these issues are addressed, where they still exist, in view of the serious consequences illustrated by this example.

West Dunbartonshire Council

- 12.5 The appointed auditors of West Dunbartonshire Council reported that the Council had identified £509,000 of non-recoverable housing benefit overpayments resulting from problems experienced in introducing a new computer based system.
- 12.6 A review of all benefit cases was undertaken due to doubts about data accuracy at the time of the introduction of the new system. This resulted in revised benefit notification letters being produced but in many cases claimants received multiple letters indicating changes to their benefit payments. The Council temporarily suspended the issue of notification letters to enable rectification of the position but the problem continued for longer than expected and the Council was slow to review the position. As a result, many claimants did not receive notification of changes in their entitlement to benefit. In these circumstances, the housing benefit regulations determine that councils cannot recover overpayments from claimants.
- 12.7 The problems experienced by the Council highlight the importance of having in place appropriate monitoring and control arrangements, particularly during the implementation phase of a new computerised system. In a separate report on the issue the appointed auditors identified the following factors as contributing to this problem.
- The timetable for implementation of the new system and staff training was inadequate.
 - Responsibility for benefits, which was part of an integrated council tax and benefit system, lay with the Council's social work and housing department. There was limited formal communication with other departments, including finance.
- 12.8 The appointed auditors also reported that there were delays in reporting the financial implication of the problem to elected members. The Council's response to this was that the scale of the problem was only capable of being quantified as investigations proceeded.
- 12.9 The appointed auditors reported that, while there were a number of key controls operating at a detailed level, there was a lack of high level management controls to enable early identification of a major problem.

13 Specific value for money findings

- 13.1 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. This work may culminate in the publication of national reports, management papers and management handbooks. Councils are expected to use these to challenge their current levels of performance and take action to achieve the standards of the best.
- 13.2 Exhibit 19 summarises the value for money reports published by the Accounts Commission relating to study work undertaken during 1999/2000.

Exhibit 19: Reports published on 1999/2000 study topics

Study topics	Publication date
Benchmarking refuse collection: a review of councils' refuse collection services	April 2000
Safe and sound: a study of community safety partnerships in Scotland	May 2000
Managing rent arrears: getting the balance right	June 2000

In addition to these national reports, management papers dealing with risk management (Shorten the odds); using gap analysis to improve service quality (Can't get no satisfaction), the management of data within councils (Common data, common sense); and building an information portfolio, (Getting to know your services) were published. A self-assessment management handbook, Commissioning community care services for older people was also published.

- 13.3 Appointed auditors conduct local follow-up action to ensure that councils implement appropriate improvement action in response to the recommendations contained in the Commission's value for money reports.

Benchmarking refuse collection: a review of councils' refuse collection services

- 13.4 This benchmarking study was conducted to assist councils to achieve Best Value in their refuse collection services. All councils in Scotland have been provided with national benchmarking information, including operational and financial data. Refuse collection managers are using this information to challenge current levels of service performance and take action, where appropriate, to improve performance.
- 13.5 The study found that there have been substantial productivity improvements in councils' refuse collection services since the Commission's last review in 1990. The cost of refuse collection has risen from £90 million in 1990 to £98 million in 1998/99, a 9% increase, which is less than the rate of inflation. Over the same period, the tonnage of refuse collected increased by 14%, the number of employees fell by 44% from 4,800 to 2,700 and the number of vehicles fell by 25%.

- 13.6 Key study findings included:

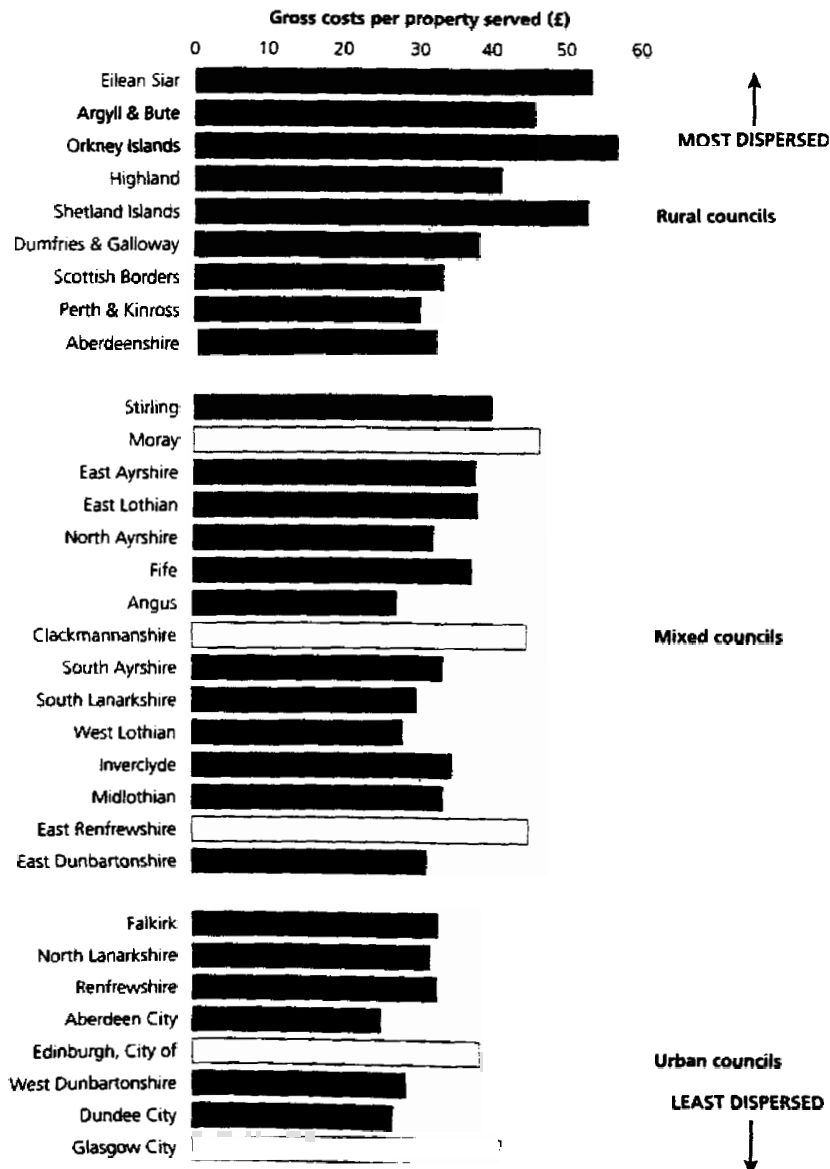
- Commercial refuse services cost Scottish councils an estimated £30 million a year but only £20 million is collected in charges leaving a £10 million shortfall to be paid by council tax payers. It is the Scottish Executive's policy for councils to recover all costs associated with the collection and disposal of commercial waste but it seems that around half of the 32 councils are not recovering all of these costs.

The Accounts Commission is urging councils to reduce this subsidy by ensuring that their charges fully cover the cost of collection and disposal and by taking action to reduce the number of commercial premises which dump refuse and avoid payment altogether.

- Most councils' refuse collection costs range from £30 - £40 per property per year (Exhibit 20). However, five councils: Moray, Clackmannanshire, East Renfrewshire, City of Edinburgh, and Glasgow City, are highlighted in the report for having collection costs which are higher than expected. The Commission wants these councils to find out why their collection costs are higher and take appropriate action.

Exhibit 20: Annual gross cost of mainstream refuse collection per property served

The cost of collection tends to increase with population dispersion, although there is variation among family groups.



Note: Mainland councils with higher than expected collection costs are highlighted.

Source: Local audit returns

- Scottish councils recycled only 3.8% of waste in 1998/99, well below the government's year 2000 target of 25%. Councils which carry out separate collections, for example of paper, tend to have higher recycling levels but many councils have withdrawn or are considering withdrawing this service because of reductions in the market price for recycled materials.

13.7 The report concluded that councils will have to give waste management a higher priority if they are to meet government recycling and landfill targets, as set out in the National Waste Strategy. This will involve them developing an effective waste management strategy, in partnership with other councils and agencies, and allocating sufficient funding to support expensive but environmentally desirable, collection and recycling activities. However, the Scottish Executive has a strategic role to play and should consider how it can assist councils to meet recycling targets.

13.8 Appointed auditors have agreed improvement action plans with their local councils and will be monitoring the implementation of these plans.

Safe and Sound: a study of community safety partnerships in Scotland

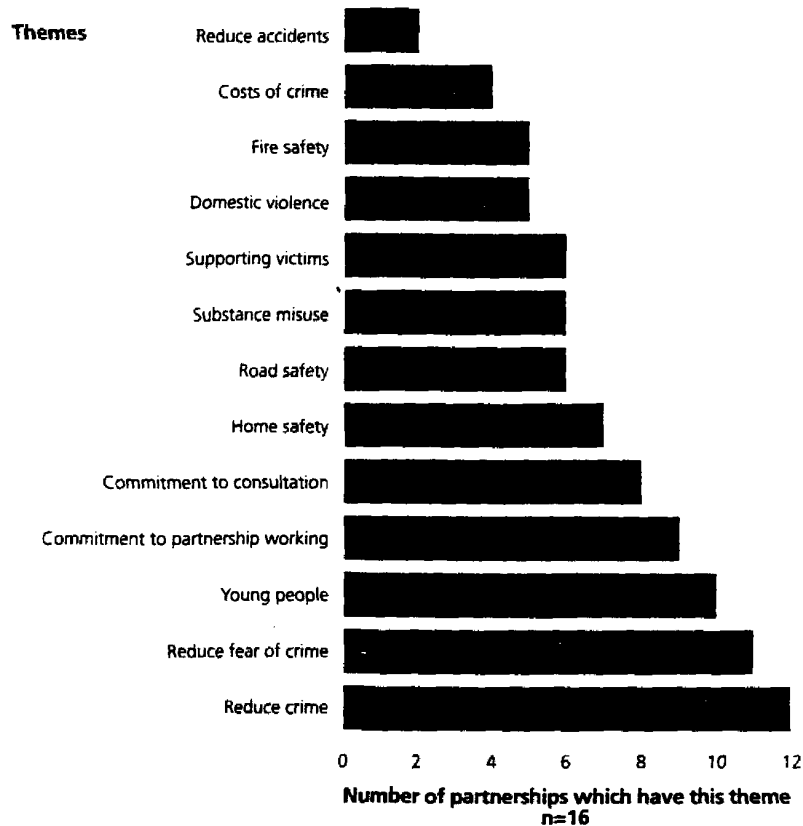
13.9 Improving community safety is about creating safer places to live, work and visit, without fear or risk of harm. Many different agencies are involved in dealing with the impact of unsafe environments on individuals and communities. Investment by one agency to reduce risks is likely to bring benefits, not only to the community and the investing agency, but also to a range of other organisations.

13.10 Effective partnerships are a central mechanism for improving safety and reducing risk in communities. This study looked at how community safety partnerships have progressed in Scotland, and the extent to which the Scottish Executive guidance '*Safer communities in Scotland*' has been implemented. It highlights good practice and recommends steps that partnerships should take to improve their effectiveness.

13.11 The study found that multi-agency partnerships led by councils and involving many different organisations, such as police and fire services, health boards and hospital trusts, have been set up across Scotland to tackle jointly problems such as anti-social behaviour, domestic violence, crime and reducing accidents and injuries. Exhibit 21 shows the common themes emerging from a review of the strategic priorities and objectives from 16 partnerships.

Exhibit 21: Community safety partnership themes

The common themes emerging from a review of 16 partnership strategies.



Source: Audit Scotland fieldwork

13.12 Most partnerships are still at an early stage of development and many need to take further action if they are to tackle effectively local problems in the long term. The report makes recommendations to help partnerships work more effectively in the future. These include:

- *Links to community plan* – community safety partnerships should ensure that they have clear organisational and reporting links to the local authority's community planning framework.
- *Community safety audits* – partnerships should agree a phased plan for acquiring the information they need to identify common safety problems, and the causes of those problems.
- *Setting objectives* – strategic priorities should be based on evidence and translated into measurable objectives.
- *Measuring progress* – partnerships should establish a baseline from which progress will be measured and targets set, agree a set of strategic performance indicators reflecting their local priorities and review progress.
- *Resource planning* – partnerships should develop clear, long-term resource plans to underpin their strategies.

- 13.13 A number of councils have invited their appointed auditors to assess independently the progress being made by their community safety partnerships and to assist them in developing effective performance measures.

Managing rent arrears: getting the balance right

- 13.14 Rent arrears is an increasing problem for many councils and registered social landlords (RSLs). At 31 March 1999, the total rent arrears due from council tenants was £37.2 million (3.3% of the gross rent due). At the same date, the total rent arrears due from mainstream RSL tenants was £6.8 million (2.6% of gross rent due).
- 13.15 This joint study with Scottish Homes provided a snapshot of the extent to which all councils and a representative sample of RSLs were implementing good practice in managing rent arrears, in early 2000. Overall the RSLs sampled performed better, by meeting more of the good practice standards than councils did. This helped RSLs to achieve lower levels of rent arrears.
- 13.16 The top-performing councils identified in the report are Aberdeen City, Argyll & Bute, City of Edinburgh, Moray, North Lanarkshire, South Lanarkshire and West Lothian. Councils identified as needing to take significant steps to improve their management of arrears are Angus, Fife, Orkney Islands, Renfrewshire and South Ayrshire.
- 13.17 The report highlights key measures that landlords can take to improve their management of rent arrears. They should, for example:
- Make contact with tenants within two weeks of the first missed payment (currently 52% of councils and 29% of RSLs do not do so)
 - Interview tenants by the time tenants are eight weeks in arrears with their rent (at present 48% of councils and 24% of RSLs do not do so)
 - Take proper account of the tenant's ability to pay when making formal arrangements to repay arrears (currently 45% of councils and 33% of RSLs do not do so).
- 13.18 At a broader level the study calls for landlords to:
- Give rent collection a high priority
 - Give clear leadership and support to staff in implementing arrears procedures, including evictions
 - Provide needs-based training and good IT systems to support staff in doing their jobs effectively
 - Improve liaison between councils and RSLs, particularly in relation to housing benefit issues
 - Adopt as targets the levels of rent arrears currently being achieved or bettered by 25% of councils and RSLs (Exhibit 22).

Councils	Targets	
	% of gross rent due	% of net rent due
city and urban areas	3.1%	7.0%
semi-urban and rural areas	1.7%	3.0%
Maintstream RSLs	% of gross rent due	% of net rent due *
semi-urban and rural areas	1.5%	n/a

* The Accounts Commission Performance Indicator measures current tenant rent arrears as a percentage of the net rent due (ie, total rent due less housing benefit). RSLs do not currently collect the information to enable them to calculate this figure.

Source: Study data analysis

13.19 The report concluded that the £44 million rent arrears bill in Scotland could be reduced by as much as £8 million if councils and RSLs adopted better management practices to prevent and recover rent arrears. Councils could reduce their arrears from £37 million to £31 million and RSLs from around £7 million to £5 million.

13.20 Appointed auditors are following up the action taken by councils in response to the national study report recommendations. Scottish Homes is monitoring the action taken by RSLs.

14 Best Value

Background

- 14.1 Best Value in Scotland was introduced in 1997. It requires all councils to increase accountability, to deliver the best quality services possible within the resources available and to pursue continuous improvement. Best Value applies to all the activities carried out by councils.
- 14.2 The Best Value Task Force set out the performance management and planning (PMP) arrangements that it expected all councils to be putting in place to help incorporate Best Value as a way of working. Each council is expected to be showing clear evidence of achievement against the Best Value attributes set out in Exhibit 23.

Exhibit 23: The PMP framework and assessment criteria

- Commitment to Best Value and acceptance of four key principles (accountability, ownership, continuous improvement, transparency)
- Political and senior management leadership.
- Performance management and planning framework (PMP).
- Programme of service reviews.
- Public Performance Reporting (PPRg).
- Commitment to equality issues.

Source: Best Value Task Force final report, para 1.6

- 14.3 Meeting this set of expectations is not an end in itself. These attributes underpin a council's ability to improve services and strengthen accountability. They allow a council to focus its activity more effectively on the priorities of the citizens and communities it serves, and enable it to make best use of its resources in addressing these priorities.
- 14.4 Appointed auditors have the task of assessing the progress made by each council in terms of meeting the expectations set out in Exhibit 23. The PMP audit framework assesses a council's approach to Best Value under ten criteria that are organised under the four key questions identified by the Task Force (Exhibit 24).

Exhibit 24: The PMP framework and assessment criteria

Q1	How do we know we're doing the right things?
1	We understand the needs, expectations and priorities of all our stakeholders
2	We have decided on the best ways to meet these needs, expectations and priorities
3	We have detailed plans for achieving our goals
4	Our plans are clearly based on the resources we have available
Q2	How do we know we're doing things right?
5	We make best use of our available resources
6	We make best use of our people
7	We monitor and control our overall performance
8	We have sound financial control and reporting
Q3	How do we plan to improve?
9	We actively support continuous improvement
Q4	How do we account for our performance?
10	We provide our stakeholders with the information they need about our services and performance and listen to their feedback
<p>Note: These criteria have been updated for the 2000/2001 PMP Audit</p>	

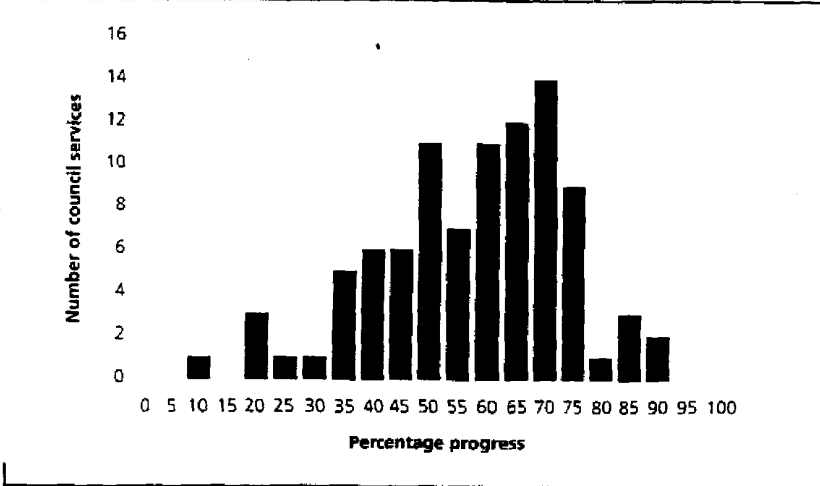
- 14.5 For 1999/2000 each council selected three services for review. Appointed auditors validated the self-assessments and agreed with each council what improvements would be made to the PMP framework in each of the selected services. Appointed auditors examined only nine of the ten PMP criteria, with Public Performance Reporting (PPR - criterion 10) being excluded because councils had only recently agreed their approaches with the Scottish Executive. In future years, PPR will be included and appointed auditors will be examining the extent to which the agreed improvements have been implemented.
- 14.6 The Accounts Commission published a progress report in October 2000 (*Making Progress with Best Value*) that provided a snapshot of councils' performance management and planning arrangements, based on the PMP audit. Councils had the freedom to select which of their services would be audited, and some services were known to be making more progress than others. The findings from the audit are therefore not a representative sample

of all council services. However, they do give an indication of the progress being made. The key findings from the audit are set out below.

Main messages from the PMP Audit (1999/2000)

14.7 Overall, there was clear evidence of commitment to Best Value in councils. Most of the 96 services audited had made progress in developing and implementing performance management and planning arrangements. About two thirds of services achieved overall 'progress scores' of between 50% and 75% (Exhibit 25).

Exhibit 25: Progress in implementing a PMP framework



14.8 Around one in six services had made greater progress. These were:

Dundee City Council	Social Work Libraries and Community Information
City of Edinburgh Council	Housing Leisure Management
Moray Council	Economic Development
North Lanarkshire Council	Housing & Property Services Catering Services
Perth & Kinross Council	Leisure & Cultural Services
Renfrewshire Council	Housing Management Community Care Finance (Accounting & budgeting)
Scottish Borders Council	Leisure & Recreation
South Lanarkshire Council	Housing Services Social Work Services to Older People
Clackmannanshire Council	Chief Executive's Services
Falkirk Council	Corporate Services
Inverclyde Council	Legal Services

14.9 Conversely, one in six services had made limited progress and still have considerable work to do to develop their performance management and planning arrangements.

14.10 Despite the overall positive picture, there were three particular aspects of performance management and planning where many councils were making limited progress:

- identifying the costs and benefits of different options for service delivery, and evaluating the current service against these
- linking budgets and other resources to key service priorities
- reporting a full and accurate picture of service performance to decision-makers.

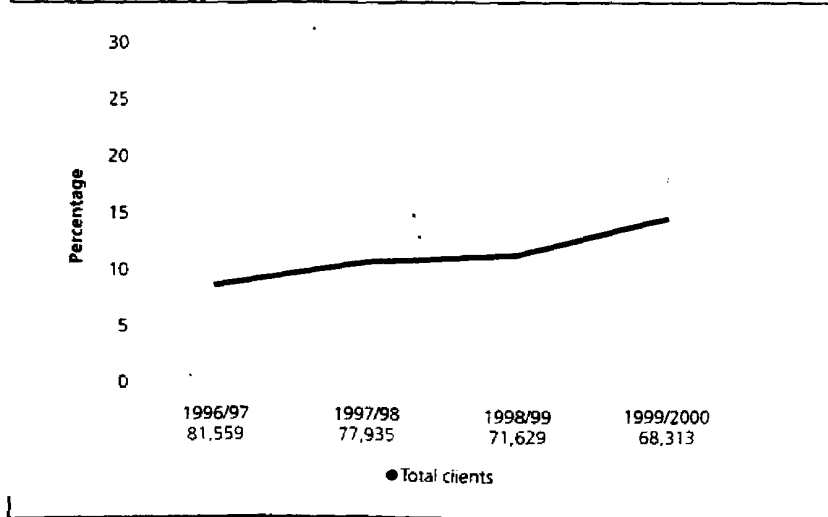
14.11 These aspects of PMP are particularly important to the delivery of Best Value and it is important that further progress is made.

14.12 Best Value also requires councils, over a five-year period, to subject all of their activities to a rigorous review that incorporates the '4Cs' – challenge, compare, consult, compete. This process will help councils to be sure that they are doing the right things and achieving Best Value. About a quarter of councils had made little progress with their programme of Best Value reviews at the time of the audit. In a small number of councils, it also appeared to be the case that services were waiting until a Best Value review was undertaken before effort was devoted to achieving continuous improvement.

15 Performance indicators

- 15.1 Since 1993/94, councils have been required to provide information on how well they are carrying out their activities. Councils have to publish the information in local newspapers by 30 September each year.
- 15.2 The Local Government Act 1992 places upon the Accounts Commission the duty each year to direct local authorities to publish information which will, in the Commission's opinion, assist in the making of appropriate comparisons – by reference to the criteria of cost, economy, efficiency and effectiveness – between:
 - the standards of performance achieved by different authorities in a financial year
 - the standards of performance achieved by authorities in different financial years.
- 15.3 In 1999/2000 councils, fire brigades and police forces, were required to report their service standards against 72 statutory performance indicators (PIs). These indicators covered a wide range of services and highlight both the variation in performance between councils and change in performance over time.
- 15.4 National reports relating to the indicators were published in January and February 2001 and distributed widely.
- 15.5 Some of the findings arising from the reports were that:
 - the proportion of residential places for elderly people in single rooms and the number of assessed people receiving respite care both improved on previous years
 - the number of people receiving home care has fallen each year since 1996/97 but the proportion receiving high levels of care (ie more than ten hours per week) rose to nearly 15% (Exhibit 26).

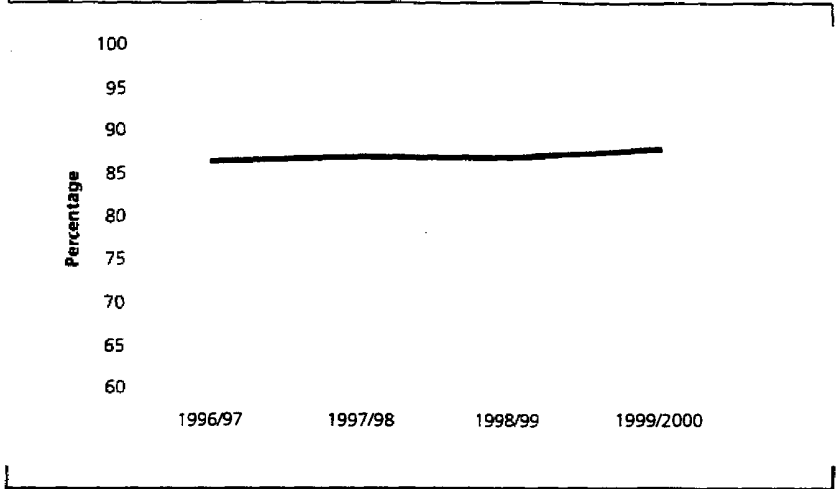
Exhibit 26: The total number of people receiving home care services and the proportion receiving at least 10 hours per week



- the overall level of crime cleared-up in 1999/2000 by Scotland's police forces again improved slightly to just over 43%
- the performance of fire brigades in meeting the targets for attending fires in the high, substantial and moderate risk category areas all deteriorated, compared with recent years

- the proportion of housing repairs classified by several councils as emergencies remains high - over a third of all repairs in seven councils
- tenants' rent arrears continued to increase, standing at 8.4% at the end of the year
- 60% of council house re-lets took longer than four weeks, and the rent lost due to empty houses cost councils £31.5 million
- the time taken to deal with special educational needs assessments improved to 30 weeks
- the level of waste recycling remained at about 5%
- the level of council tax collected at the end of the financial year stands at 88%. The percentage of council tax collected within the year has improved only very slowly since 1996/97 (Exhibit 27). The Commission has expressed concern over a number of years about the low levels of council tax collection.

Exhibit 27: The proportion of council tax for the year that was collected in the year



- the proportion of councils' invoices paid on time (generally within 30 days) remains at only just over 70%.

15.6 Over the last year, Audit Scotland has worked to improve the usefulness of the indicators by ensuring that they focus on outputs wherever possible, that they reflect national rather than local targets (which are better reflected in local performance reporting), and that they are easily interpreted. Councils welcomed these developments in their responses to the Commission's annual consultation.

15.7 Audit Scotland is continuing to work with the Society of Local Authority Chief Executives, CoSLA and the Scottish Executive to develop guidance for use by a range of bodies aimed at improving performance information.

*Review of Internal Audit Service:
Report for Argyll and Bute Council*

Professor Arthur Midwinter

1. Purpose

1.1 The purpose of this report is to advise the Council regarding its internal audit service. My remit is to review the current structure, resources, tasks and reporting arrangements for the internal audit function, through analysis of existing documentation, consultation with users and staff, benchmarking with comparable authorities and to assess the options for development. The approach meets the principles of the Executive's Best Value initiative.

1.2 This report sets out my findings and recommendations for change. Our initial agreement suggested the final report would take account of Audit Scotland's national VFM study and local audit guide, but there has been some slippage with that timetable, and it is not yet in the public domain. I have, however, had access to the draft report, which is mainly concerned with matters of professional practice. I propose, therefore, to produce a supplementary report for the Council assessing the implications of the national report when it is available.

1.3 I am comfortable working within the context of Best Value principles for the review. Best Value is not a new approach, but one which builds on the corporate planning, VFM and competitive tendering experience of the past, and formalises them into a statutory requirement. It advocates a rational management framework with objectives, options and performance

management, using techniques and concepts such as clear service specification and performance monitoring, with a new emphasis on continuous improvement.

1.4 I am less comfortable with some of the assumptions and language of the BV advocates, which often assumes that a perfectly consistent hierarchy of objectives is feasible. Authorities are complex organisations which can be more rational, but not fully rational, and judgement remains necessary as information will remain imperfect. Language such as 'stakeholders' or '4Cs', is slick consultancy speak, and I prefer clear, simple language which sets out the arguments, issues and evidence on which recommendations are made. The four Cs – challenge, compare, consult and complete - simply mean that the review should demonstrate there is a need for the function; compare internal audit arrangements with authorities with similar characteristics; consult with clients of the service; and appraise the alternative means of delivering it. In theory, this approach could be comprehensive and time consuming, in practice I shall concentrate on the realistic options. The remainder of the report is structured around the four analytical elements of a Best Value review;

1.5 In completing the fieldwork and background research, I have been greatly assisted by members of the councils staff, the Accounts Commission and Price Waterhouse Coopers. The judgements and recommendations made, however, are my responsibility.

2. *The Need for an Internal Audit Function*

2.1 The first issue to address is the core one – is an internal audit function necessary. Authorities in England have a statutory duty to provide an internal audit function, but in Scotland, the statutory requirement is for every authority:

“to make arrangements for the proper administration of their financial affairs and shall secure that the proper officer has responsibility for their affairs”

2.2 Internal audit is widely regarded as an essential element of such proper administration in terms of professional practice, and CIPFA has issued an internal audit code of practice. The function is indeed a long standing one reflecting the British tradition of promoting probity in the management of the public finances, through ensuring authorities had efficient systems of accounting, authorisation and financial control; and that expenditure is legally incurred on approved services.

2.3 Some high profile examples of misuse of funds in the 1990s resulted in a renewed emphasis on promoting internal audit through the creation of audit committees as key mechanisms of sound corporate governance. The recent emphasis on Best Value has reinforced the need for internal audit, which has the skills to participate in BV reviews.

2.4 Internal audit is an independent appraisal function established by management to review the system of internal controls. To be effective it must be distinct from and independent of the institution's external audit provision, and should have no executive responsibility. Its primary focus is

on internal control systems, particular risk management, but IA can also undertake VFM studies and special investigations. The council will wish to ensure that it is receiving a service which meets professional standards; to establish and implement objectives and targets for the service (if these do not exist); and to compare its service with other authorities.

2.5 The need for independence is central to the status of Internal Audit, and their capacity to appraise the internal control system. The council will wish to be assured that its system of internal control gives a reasonable assurance that assets are safeguarded, waste or inefficiency avoided, reliable financial information produced, and value for money continuously sought. The internal control system is the whole system of controls, financial and otherwise, established to carry on the business of the council in an orderly manner, ensure adherence to council policies, safeguard its assets and secure the accuracy of records. This requires Internal Audit to adopt a systems-based approach to evaluation (a system is a set of related activities designed to operate together to achieve a planned objective).

2.6 It is not the function of audit to question policy, but it should consider the process by which decisions have been reached, and the mechanisms for meeting objectives. The council should wish to conform to the standards of *the public audit model* developed by CIPFA and supported by Audit Scotland, which requires arrangements which guarantee audit independence, and advocates a wider role and extended scope for audit. A good internal audit service is an important means of holding the executive and management to account, for their stewardship and use of public money. Increasingly, audit committees are being developed as the mechanism for

reporting such activity, and the Council has now established such a committee.

2.7 Audit Scotland in its Internal Audit Guide regards internal audit as an integral element of proper financial administration, to ensure propriety, regularity and value for money. Rigorous internal controls are needed to:

- ensure that the councils resources are applied in the manner, and on the activities intended;
- deter fraud and impropriety;
- ensure the effective use of resources.

Internal audit aids management by objectively examining, evaluating and reporting to management on the adequacy of internal control arrangements, and increasingly by participating in corporate working on promoting and implementing the Best Value initiative. In my view, an effective internal audit department works closely with departments in undertaking its functions.

2.8 The Controller of Audit has expressed continuing concern over the internal audit arrangements in Scotland's councils. His 1998-99 overview report found evidence of:

- *inadequate resourcing* of the internal audit function;
- involvement in *non-audit* work;
- *inadequate planning*;
- shortcomings in *reporting*;
- inadequate *access to specialists*, e.g. IT auditors

Its VFM study seeks to highlight such problems. His subsequent report found 'continuing weaknesses in basic accounting controls' four years after reorganisation. Sound financial procedures and effective controls are essential to proper financial stewardship of public funds. It is clear that the council would be failing in its fiduciary duty if it did not have an effective internal audit function, and that function requires appropriate resources and an appropriate quality of staff. Therefore, the case for local government continuing to provide such a function is overwhelming.

3. *Benchmarking*

3.1 All authorities have distinctive characteristics which affect spending and service delivery. For benchmarking purposes, and the broad judgements required in comparing authorities, it is better to concentrate on a few key variables. I have therefore selected three rural authorities of similar population size and poverty levels (see Table 1), the key factors which drive authorities activities and costs. At the request of one of those authorities, we have not identified them.

3.2 The Controller of Audit's report expressed concern over the adequacy of resourcing for internal audit purposes. An internal report has suggested that the council's *per capita* audit costs are around average for Scotland. We would expect the council's costs to be significantly higher as small rural authorities face diseconomies of scale. The councils position relative to the Scottish average, however, is of limited relevance in assessing the adequacy of its funding. Of greater value is a comparison with councils in similar

circumstances. The benchmarking exercise quantifies financial costs, the staffing positions, workload and range of tasks.

3.3 On costs, the council spends *less* per capita than two of the benchmark authorities; and the same as the third. To reach the average for the group, it would need to spend some £19k more. (see Table 2) It has less qualified staff but more support staff, and it undertakes more audit days than two of the benchmark councils. In last year's budget, the Council had to fund a further £69k of audit work from a private firm, because of staffing turnover and ill-health. This was funded at Audit Scotland rates, minus the overhead charge – net £280 per day, from savings elsewhere in the finance budget.

3.4 The main difference in the range of work undertaken is in VFM/BV analysis. One of the benchmark authorities includes a VFM perspective in all routine reports; whilst the other allocates 45 days. One authority allocates 55 days per annum to audit BV Review processes; the other expects BV work to develop. In the third authority, IA undertakes VFM work to assist with the corporate/departmental VFM programme. This requires 300 audit days, involving 1.5 FTE staff. The Five Year Plan however, recognises that the development of the Best Value regime may require further changes in the audit and VFM function. The section also provides 90 consultancy days to the Chief Executive and departments on referral from them.

3.5 In summary, Argyll and Bute spends less than its comparators; utilises less qualified staff; and concentrates on core audit work: Some

reconsideration of workload is clearly necessary, given the problems of staffing recruitment and retention the authority has faced in recent years, leading to criticisms from external audit over staff diversion into non-audit work.

4. Consultation

4.1 The Treasury and Cash Manager, the Support Services Manager, and the Amenity Services Manager were interviewed, and were generally favourably disposed towards Internal Audit, and its role was well understood. One interviewee defined it precisely –

‘The role of IA is to give guidance on financial systems and procedures, and to deal with internal fraud. Its approach is preventative, seeking to identify weaknesses and adapt accordingly, for if procedures are good, the prospect of risk decreases’.

4.2 The Chief Internal Auditor is highly regarded as having delivered improvements in a rigorous and professional way – leading to tightening of controls, and of handling ‘fraud’ cases well. The IA approach is informal, consultative and supportive, and they provide draft reports for discussion with departments before finalising the audit. The CIA was described as a “thinking auditor” who is being forced by circumstances to accept a more limited role. The IA approach was compared favourably with those of external contractors, who often ‘make impractical recommendations’, or list faults but fail to deliver ‘remedies and solutions’. The IA division should have a wider role in reporting findings from specific systems and spreading good practice across the authority. In practice, the CIA spends much of his time on *core audit* work, and less than is necessary on *managing* the function.

4.3 The IA staff by contrast felt they were of low status within the authority, in part due to their lack of experience, staff turnover etc, and that departments saw them as playing a regulatory role, rather than a consultancy role. Junior staff clearly have faced difficult problems in undertaking audit functions, but remain enthusiastic.

4.4 The staffing problems of IA are common to Finance as a whole, which uses four accountants on an agency basis. Unfilled posts put pressure on the work programme, and there is a continuing reliance on external staff.

5. *Options for Development*

5.1 These problems clearly have implications for the options open to the council in the future development of the service. The position is one of a lack of qualified staff with problems of retention; a lack of specialist skills necessary to develop the VFM/PI/BV initiatives; and underfunding of the service, but over-ambition in the workload. In the longer term, there would be benefits of direct provision, in terms of potential for wider corporate working, but given problems of recruitment, direct provision will remain problematic.

5.2 There are therefore *three* realistic options for service delivery; *direct provision*; *partnership*; or *outsourcing*. The key question is which of these will best meet the two key criteria for evaluation, namely the *cost* and *effectiveness* of service provision.

5.3 In terms of *cost*, the current budget is less than the comparator councils, in part because of the greater incidence of junior staff. Full outsourcing for the existing number of audit days would cost, at the Audit Scotland rates, over £300k. This could be reduced by cutting the number of days, but this might not allow the expansion of VFM//BV work which is desirable for the council's corporate development. Some councils outsource the *management* of the audit programme and others outsource core audit work. The comparator councils rely on direct provision.

5.4 In the short term, the only feasible approach is the *partnership* approach, with elements of the work contracted out, and elements undertaken in-house to permit the skills development which is essential. In the NHS, joint provision between boards on the basis of service level agreements is common, but not in local government. This may be a possibility in the longer term.

5.5 The council, therefore, needs a short term solution *and* a longer term strategy to tackle its recruitment problems. In the short term, it has little realistic alternative (given recent resignations) to continuing with a mixed economy of provision. The CIA should examine the existing workload, identify those tasks which internal audit do well and provide better VFM and then produce an audit plan that allows for some external support. This will have financial implications as private consultancy firms rates are more expensive than direct provision.

5.6 In summary, the council at the moment is underfunding the audit function relative to similar authorities. This, combined with staffing problems, has meant the work programme has not met the standards expected in the CIPFA Code of Audit Practice. Recommendations for improvement of audit practice will be made in the forthcoming Audit Scotland report. The council lacks access to VFM/IT skills in use elsewhere, and this deficit must be addressed. In the short-run, this can only be delivered in a partnership arrangement which includes a training dimension to develop the necessary managerial VFM and IT skills in the Council's staff in the longer term. External contractors bring benefits of wider knowledge of practice, but direct provision offers greater scope to promote corporate development. The *partnership* approach is the only feasible option in cost terms in the short-run. Moreover, the CIA should assess the overall training needs of his unit to assure the council it is meeting their training needs to secure a quality audit service.

6. *Conclusions and Recommendations*

6.1 There is a clear ongoing need for an internal audit function.

6.2 In contrast with comparator councils, Argyll and Bute commits less resources; employs fewer qualified staff; concentrates on core audit work; and lacks the VFM/BV skills necessary to meet new pressures.

6.3 The existing IA function is seen as an improvement on the past, and as having helpful and positive approach.

6.4 IA staff feel undervalued, and are inexperienced

6.5 There is little real alternative in the short term to continuing in a partnership mode with external contractors.

6.6 The research shows that the council is not deriving maximum benefit from the internal audit function, because of problems of recruitment and retention, and lack of qualified staff to undertake the emerging VFM/BV/IT work. In the years ahead, the Audit Committee will generate additional work for Internal Audit, including a role in advising the Committee on the implications of Accounts Commission VFM reports and on the adequacy of its BV regime. In addition, the council would itself benefit by IA participation in the Best Value Review Process to deliver improvements in efficiency and service delivery.

6.7 I would therefore advise the council to –

- (a) *increase* the IA budget by around £80k to allow improvements to be made, recognising that this will reflect the high cost of using private firms compared with direct provision in the short term.

- (b) *review* the IA plan, reducing the total number of core audit days; making provision for a VFM perspective in audit activity; and developing performance assessment and BV appraisal work. The council needs to identify a key player – possibly the CIA – who will develop the managerial and VFM/BV roles within the service.

- (c) *negotiate* a 3 year partnership agreement with an appropriate external contractor to ensure continuity of provision meantime; including managing the function, and some training in management/VFM/BV techniques.
- (d) *revisit* the issue in three years time, to assess whether partnership or direct service delivery is the way ahead for the council;
- (e) The CIA should continue as at present *to report* to the FD as his line manager, to maintain corporate identity, but must have the right to report directly to the Chief Executive and the Audit Committee, if in disagreement with the FD.

6.5 These changes will fulfil four pressing needs;

- strengthen the councils financial controls and enhance its BV work;
- reassure the community that the council recognises the need for sound arrangements in its financial arrangements;
- provide a positive response to the concerns of Audit Scotland; and
- demonstrate the council's commitment to Best Value principles to the Scottish Executive.

6.6 These recommendations will ensure that the council meets its statutory duty to secure the efficient administration of its financial affairs, and allow it to respond positively to the development of Best Value in future.

Table 1: Comparator Authorities

	Population	Sparsity*	Urban Lane Length	Income Support per person
Argyll and Bute	90,000	68.5	884	124
Council A	110,000	43.8	882	125
Council B	86,000	71.2	800	108
Council C	105,000	71.5	840	99

* Urban Settlement Pattern: % of population living in settlements <10,000 people.

Table 2: Comparative Data

	Costs per Capita (£)	Audit Days (Number)	Qualified Staff (FTE)
Argyll and Bute	1.87	1087	2 (1 vacant?)
Council A	2.30	1841	5
Council B	1.87	853	3
Council C	1.94	950	3
Weighted Average Of Comparator	2.04	1247	3.7

FINAL REPORT ON 2000/2001 AUDIT PLAN

1. SUMMARY

A final report covering audits performed by Internal Audit during 2000 – 01 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 which were carried out in the financial year 2000 – 01. The objective of the report is to advise members of the final status of each audit. The audits for 2000 – 01 were performed by either Internal Audit or in partnership or separately by PricewaterhouseCoopers (PwC) who were retained in order to help Internal Audit ensure compliance with the 2000 – 01 audit plan. The audits are listed in Appendix 1 under audit category, auditor and final comment.

3.2 The audits are categorised as follows:

- Core Financial Systems Audits,
- External Audit works carried out by Internal Audit for PwC,
- Departmental Audits,
- Special Investigations and
- Cancelled Audits.

3.3 A total of 24 audits were planned. Out of this total 4 audits were deferred. Of the remaining audits:

- 18 final reports issued with implementation plans agreed and actioned.
- 2 audits by PwC concerning Payroll & DMR Budgeting remain at draft stage but are being resolved.

3.4 Of the 20 audits for 2000 - 01:

- 12 were completed by Internal Audit,
- 5 were completed jointly by Internal Audit partnering PwC and
- 3 were completed solely by PwC.

3.5 Additional to the above Internal Audit completed a total of 13 special investigations in 2000 – 01.

4. CONCLUSIONS

The audit plan for 2000 – 01, was completed by the 31st March 2001, with the exception of 4 audits.

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 25 June 2001.
25junfinalreport26jul

CORE AUDITS	Auditor	COMMENTS
Purchase Ordering	Internal Audit Section & PwC	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Payroll	Internal Audit Section & PwC	FINAL DRAFT REPORT ISSUED. IMPLEMENTATION PLAN BEING AGREED.
Sundry Debtors	PwC	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Tendering Procedures	PwC	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Council Tax	Internal Audit Section & PwC	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
EXTERNAL AUDIT WORK		
	*****	*****
Year End Stock DES & TPS	Internal Audit Section	SIGNED OFF BY EXTERNAL AUDIT.
Performance Indicators	Internal Audit Section	SIGNED OFF BY EXTERNAL AUDIT.
Housing Benefit Grant Claim	Internal Audit Section & PwC	SIGNED OFF BY EXTERNAL AUDIT.
DEPARTMENTAL AUDITS		
	*****	*****
Council House Sales	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
DMR Unit	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Planning Application Fees	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Stock of Material and Control	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Housing & Car Loans	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Bank Reconciliation's	PwC	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Travel and Subsistence	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Housing Grants	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Reports and Information	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
Social Work Specific Grant Applications	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.
DMR Unit Budgeting	PwC	FINAL DRAFT REPORT ISSUED. PwC TO ARRANGE FINAL MEETING..
Social Work Specific Grant Income	Internal Audit Section	FINAL REPORT ISSUED. IMPLEMENTATION PLAN AGREED.

SPECIAL INVESTIGATIONS	AUDITOR	COMMENTS
Revenues Investigation – Finance	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Building Materials –TPS Helensburgh	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Roads Materials - Oban TPS	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Building Materials –TPS Helensburgh	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
DES Expenses Claim Review	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
DES Filters Enquiry	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Finance -Payroll	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Final Out Turn Budget Monitoring TPS	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Kintyre Community Education Centre	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Dunoon Swimming Pool	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
IT - Server Enquiry	Deloitte & Touche	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Registrars Enquiry	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
Primary School - Lochnell	Internal Audit Section	FINAL REPORT AGREED. ACTION PLAN IMPLEMENTED.
CANCELLED AUDITS	*****	*****
Cost Monitoring & Control	N/A	External audit reviewed this area for 99/2000. Therefore reduced need for audit.
Systems Life Cycle	N/A	Abandoned due to Industrial Action and deferred until 2001 -2002.
Collection of Fines	N/A	Abandoned due to Corporate & Legal staff busy dealing with Fastlane Arrests. Audit deferred to 2001 - 2002.
Scottish Office Recharging	N/A	PricewaterhouseCoopers regarded audit as not necessary as 2000 - 2001 was last year of recharging.

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2001/2002

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit during the first quarter of 2001 – 02. The objective of the report is to advise members of the progress with the audit plan. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The Committee is asked to approve the annual audit plan for 2001 - 02.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2001 – 2002. The objective is to advise members of the progress with the audit plan. The audit reference, the audit name, start date, planned completion date, percentage completion, audit completion date, auditor and comments are given for each audit.

3.2 Although a total of 26 audits have been planned for this financial year, the appended report shows that External Audit work has been the principal activity for Internal Audit for the first quarter of this financial year. This has been due to year-end requirements.

3.3 Additional to the above, special investigation audit work has been performed in the first quarter covering two areas. One of these investigations is still ongoing. (See Appendix 1).

3.4 It is envisaged that Core Financial Systems and Departmental Audits will commence in the second quarter.

4. SUMMARY OF 1st QUARTER AUDIT ACTIVITIES FOR 2001 - 2002

4.1 The 2001-02 audit plan was based on 7 members of staff. At this time Internal Audit has 4 members of staff. However steps have been taken to employ 3 contract professional staff to help with the progression of the audit plan from the beginning of quarter two for two months.

4.2 A total of 5 weeks training for each member of staff was highlighted for this financial year. A training needs plan will be required to be put together following Dr Arthur Midwinter's report on Internal Audit. In the meantime additional training has been secured through Internal Audit staff joining other Scottish Local Authority internal audit staff for an introduction to audit professional training week. Glasgow City Council, Internal Audit, hosted the event with the course delivered by the Institute of Financial Professional Accountants (IPFA). Further joint training is planned for later in the year.

- 4.3 External Audit works predominately fall into the first quarter of the financial year. A total of 212 days was allocated for this work within the 2001 – 02 audit plan. Of the 212 a total of 40 days were budgeted for year-end stock audit work. The actual audit days taken totalled 37. A total of 80 days were budgeted for performance indicator audit work. The actual days taken totalled 80. This leaves a remainder of 40 days for the Housing Benefit Grant Claim audit, which is scheduled for September 2001 and 55 days for Stock Monitoring throughout the remainder of the financial year.
- 4.4 A total of 120 days were set-aside in the audit plan for Contingency/Special Investigations in the audit plan for 2001 - 02. The actual days incurred on this type of audit work for the first quarter totalled 42 days. This therefore leaves a balance of 78 available Contingency/Investigation days for the remaining financial year
- 4.5 Follow up Review visits have been performed by Internal Audit in respect of the PwC Final Report to Members for 1999/2000. These visits confirmed that the respective departmental management had implemented 18 of the 19 recommendations contained in the external audit report. The 1 remaining recommendation concerning DES, Libraries was reported previously to the Audit Committee in March 2001 with an explanation as to why it will take longer to implement.
- 4.6 Of the 50 days allocated within the audit plan for Follow up Review 8 days were used for the above task. The remainder of days will be used for other follow up reviews to ensure that audit report recommendations have been actioned by management.
- 4.7 Within the audit plan presented to the Audit Committee it was indicated that a total of 42 days had been set-aside for a risk assessment review in partnership with the Councils external auditors. This review was scheduled for March 2001. Unfortunately due to year-end pressures this has not yet taken place but is scheduled for the coming months.
- 4.8 At present no Departmental Audits have taken place due to External Audit work requirements. However, these audits will commence in quarter two and throughout the remainder of the financial year.
- 4.9 At present none of the 5 Core Financial Systems Audits identified for this financial year have been carried out due to External Audit work requirements. However, these audits will commence from the beginning of quarter two and onwards.

5. CONCLUSION

Progress is being made on audits planned for 2001 – 02.

6. IMPLICATIONS

- | | | |
|-----|----------------------|---|
| 5.1 | Policy: | Update on audit plan for 2001 – 02. |
| 5.2 | Financial: | The audit plan is based on existing budgeted provision. |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

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

Ian Nisbet
Internal Audit Manager 25 June 2001.
25junprogreport26jul

REF	AUDITS	AUDIT STARTED	AUDIT COMPLETE	AUDIT DUE COMPLETION DATE	% COMPLETE	Budgeted Auditor Days	Actual Audit Days	Remaining Days	Auditor	Comments
External	Stock Taking Y/End TPS	28-Mar-01	11-May-01	14-May-01	100	92	37	55	Internal Audit	Signed off by PWC. The remaining days will be used for stock monitoring for DSO/DLO.
External	Housing Benefit Grant Claim					40		40		
External	Performance Indicators	30-May-01	13-Jul-01	13-Jul-01	100	80	80	0	Internal Audit	Signed off by PWC
					EXTERNAL AUDIT WORKS	212				
Core	Budgetary Control				CORE AUDITS	213		213		
Core	Capital Contracts					40		40		
Core	Creditors Payments					53		53		
Core	Housing & Council Tax Benefits					40		40		
Core	General Ledger Operations					40		40		
					DEPARTMENTAL AUDITS	450		450		
CE15	Car Leasing					30		30		
TPS51	Contract Vetting					20		20		
TPS49	Contractors conditions Tendering etc					20		20		
CLS02	Collection of Fines & Fixed Penalties					20		20		
ED05	Secondary Schools					30		30		
ED20	School Meals Income					30		30		
DES02	Waste Disposal (Income)					20		20		
DES01	Refuse Collection (Income)					20		20		
FD27	Fixed Asset Management					30		30		
FD26	Loans Fund					30		30		
HSW14	Elderly Accommodation					30		30		
HSW15	Home Care (Income)					30		30		
HSW09	Unified Benefits Systems - Housing					20		20		
IT09	Review of Adhoc Systems in Front Line Depts					20		20		
IT08	Disaster Recovery Procedures Proposal					20		20		
TPS35	DLO Roads Job Planning & Manpower Alloc					20		20		
TPS28	Parking, Piers & Ferry Income					20		20		
VFMD1	Stock Holding v Direct Purchase					30		30		
					Contingency/Investigations	120		78		
AS133	Phone Bills	24-Apr-01	Ongoing			0	35	0	Internal Audit	Ongoing Investigation
AS134	Insurance Claim	01-Jun-01	11-Jun-01	11-Jun-01	100	7	7	0	Internal Audit	Final Report Issued
					Follow up Review	50				
AS119	99/00 Final Report to Members	02-Apr-01	10-Apr-01	10-Apr-01	100	50	8	42	Internal Audit	Review Finalised. Letter to PwC. The remainder of days will be used for other follow up reviews.
					Risk Assessment	42		42		
TOTAL DAYS						1087	167	920		

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
26th JULY 2001

**PROGRESS REPORT on EXTERNAL AUDIT REPORTS TO COUNCIL FROM
1999/00 TO PRESENT**

1. SUMMARY

A series of follow up reviews have been conducted by Internal Audit to ensure that the recommendations contained in the PricewaterhouseCoopers (PwC) Final Report to Members for 1999/2000 had been implemented. Appended to this document is a list of reports received from PwC since the 1999/2000 Final Report to Members. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The contents of this report are noted.

3. DETAILS

3.1 Internal Audit reported to the Audit Committee in March 2001 that Internal Audit had accepted management assurances that implementation had taken place on 14 of the 19 recommendations contained in the Final Report to Members. These assurances and an exception report listing the remaining 5 recommendations still to be implemented, were reported to the Audit Committee in March 2001.

3.2 Testing has now been carried out by Internal Audit and we can report that 18 of the 19 recommendations have now been implemented.

3.3 The only recommendation still outstanding from the Final Report to Members 1999/2000 relates to a performance indicator qualification recommendation placed on DES, Libraries. This matter was reported and discussed at the previous Audit Committee meeting in March 2001. Internal Audit will continue to monitor progress with implementation of this recommendation.

3.4 Appendix 1 details the reports that have been received by the Council from external audit since the Final Report to Members 1999/2000. The list uses the following headings, title of report, the month it was received, whether management comments have been collected and the date when the implementation plan was sent back to the external auditors.

3.5 No follow up review has been performed on the last report as it is yet to be finalised. Testing will take place as part of our Follow up Review programme for 2001 – 02 to ensure recommendations have been actioned.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by 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 25 June 2001.
25junprogreport26jul

PwC Report Name *	Month Received *	Comments Obtained from Respondents Y/N	Month Implementation Plan sent back
Systems Audit Management Letter 1999/2000	Aug-00	Y	Dec-00
Interim Audit Management Letter 1999/2000	Oct-00	Y	Mar-01
Final Audit Management Letter 1999/2000	Nov-00	Y	Jun-01
Interim Audit Management Letter 2000/2001	Feb-01	Y	Not yet returned



**Anti-Fraud
and
Anti-Corruption
Strategy**

**DRAFT DOCUMENT
FOR
CIRCULATION & DISCUSSION**

23 November 2000



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ANTI-FRAUD AND ANTI-CORRUPTION STRATEGY

1. INTRODUCTION

- 1.1 We (the Council) employ approximately 6,500 staff and have a revenue and capital budget of over £206 million gross. As with other large organisations, the size and nature of our services puts us at risk to loss due to fraud and corruption both from within the council and outside it.
- 1.2 We are committed to making sure that the opportunity for fraud and corruption is reduced to the lowest possible risk, and we will deal with the risks in a firm and controlled manner
- 1.3 An important part of this approach is introducing an anti-fraud and anti-corruption strategy, which we will use to advise and guide members and staff on our approach to the serious issues of fraud and corruption. This document provides an overview of our policy in this matter and includes a 'fraud response plan' which provides more detailed guidance on how to deal with fraud and corruption.
- 1.4 The main message is that we expect all members, employees, consultants, contractors and service users, to be fair and honest, and to give us any help, information and support we need to deal with fraud and corruption.
- 1.5 The strategy set out in this document covers the following areas:
 - Our written rules
 - How we expect our members and employees to behave
 - Preventing fraud and corruption
 - Detecting and investigating fraud and corruption
 - Training

2. OUR WRITTEN RULES

- 2.1 We have a number of procedures and rules to make sure that our financial, working and organisational procedures are properly controlled. These are an important part of our internal control process, and it is important that all members and staff know about them.
- 2.2 The most important of these are as follows:
 - Contract Standing Orders
 - Financial Regulations
 - Code of Conduct for Councillors
 - Code of Conduct for Employees
 - Public Interest Disclosure Procedure ("Whistleblowing" Procedure)

- The Code of Governance for DLO/DSOs
 - Defalcation Procedures
 - Employees' Conditions of Service
 - Scheme of Delegations
- 2.3 Individual departments have also introduced their own measures, which are designed to control their activities. Examples include accounting control procedures, working manuals and operating procedures.
- 2.4 Directors must make sure that all staff have access to these rules and regulations and that staff receive suitable training.
- 2.5 Members and employees must make sure that they have read and understood the rules and regulations that apply to them, and act in line with them.
- 2.6 If anyone breaks these rules and regulations the Council may take formal action against them. In respect of employees this may include terminating their employment with the Council and it will be the responsibility of the relevant manager to investigate and to initiate any such process. In respect of Members, it will be the responsibility of the Monitoring Officer to report matters to the Standards Committee.

3. HOW WE EXPECT COUNCIL MEMBERS AND EMPLOYEES TO BEHAVE

- 3.1 We expect all people and organisations who are in any way associated with us to be honest and fair in their dealings with us and our clients and customers. We expect our members and employees to lead by example in these matters.
- 3.2 Our Codes of Conduct for members and employees set out an approach to work that is both honest and fair. Members and employees must act in line with the codes at all times.
- 3.3 Our Members and employees have an important role in dealing with fraud and corruption and we will encourage our staff and members to inform us if they suspect a case of fraud.
- 3.4 We will deal with all information fairly and as far as possible confidentially. Our fraud response plan attached (Appendix 1) gives more advice on this issue for staff.
- 3.5 The Committee on Standards in Public Life set out seven guiding principles that apply to people who serve the public. A number of our Codes already incorporate these principles (which are attached at Appendix 2) and we will develop our working behaviour around these principles.

- 3.6 We expect our Directors to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Council's Financial and Security Regulations already provide for this and also that the Chief Executive in consultation with the Director of Corporate & Legal Services and the Director of Finance may refer matters to the police if he suspects any criminal activity has been carried out.

4. PREVENTING FRAUD AND CORRUPTION

- 4.1 We believe that if we are to beat fraud and corruption, we must prevent it from happening in the first place. It is essential that we have clear rules and procedures, within which members, employees, consultants and contractors can work. These include the main corporate rules, which are set out in section 2.
- 4.2 We must regularly review and update our written rules.
- 4.3 Directors must make sure that suitable levels of internal check are included in working procedures, particularly financial procedures. It is important that duties are organised so that no one person can carry out a complete transaction without some form of checking process being built into the system.
- 4.4 We must follow our procedures when employing new staff. If possible, we must check the previous employment records of anyone we are considering employing. This applies to both temporary and permanent staff.
- 4.5 We are committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible, we will be prepared to help and exchange information with other Councils and organisations to deal with fraud.
- 4.6 This kind of work needs to be tightly controlled particularly in relation to data protection issues. The Internal Audit Section will control exchanges of information.
- 4.7 We have confidential facilities available for people to give us information that may prevent fraud and corruption. These include a dedicated telephone, which members of the public can use to give us information about specific services.
- 4.8 We will make sure that full details of reporting facilities are widely published to the public, members and employees, and that all information we receive in this way is investigated and dealt with.

5. DETECTING AND INVESTIGATING FRAUD AND CORRUPTION

- 5.1 You should read this section with our fraud response plan (Appendix 1) and our Prosecution Policies (Appendices 4 and 5).
- 5.2 Under our Codes of Conduct and Financial Regulations employees must report any suspected cases of fraud and corruption to the appropriate manager, or, if necessary, direct to the Head of Internal Audit. Reporting cases in this way is essential to the anti-fraud and corruption strategy and makes sure that:

- suspected cases of fraud and corruption are investigated properly;

- The fraud response plan is carried out properly;
 - There is a standard process for dealing with all suspected cases of fraud and corruption; and
 - People and our interests are protected.
- 5.3 In addition, the Council's Public Interest Disclosure Procedure ("Whistleblowing" Policy) (Appendix 3) is intended to encourage and enable staff to raise serious concerns which may relate to fraud or corruption or other matters. Where matters of fraud are concerned the procedure provides for the Monitoring Officer to refer matters to or involve Internal Audit. Employees reporting concerns in this way are afforded certain rights of protection as set out in the policy.
- 5.4 In relation to matters of fraud or corruption the head of Internal Audit will work with the Monitoring Officer and, where necessary, the Chief Executive to decide on the type and course of the investigation. This may include reporting the matter to the relevant prosecuting authorities. We will carry out our disciplinary procedures where appropriate, but we will ensure that any internal proceedings do not prejudice any criminal investigation.
- 5.5 In cases relating to Housing Benefits and Council tax Fraud the action taken will follow the prosecution policy outlined in Appendix 5. All other instances of fraud the action taken will follow the prosecution policy outlined in Appendix 4.
- 5.6 The Accounts Commission has powers to request or carry out an investigation into fraud and corruption.

6. TRAINING

- 6.1 We understand that the key to introducing a successful anti-fraud and anti-corruption strategy and making sure it continues to apply will depend on programmed training and the way all our employees respond.
- 6.2 We support the provision of training for our employees who are involved in, or managing, internal control systems to make sure that their responsibilities and duties are regularly reviewed and reinforced.
- 6.3 We are also committed to training and developing our employees who are involved in investigating fraud and corruption, and we will provide suitable training.

Appendix 1

Fraud Response Plan



Compiled by Internal Audit

1. INTRODUCTION

- 1.1 Argyll and Bute Council is committed to the highest possible standards of openness, probity and accountability in all affairs. It is determined to develop a culture of honesty and opposition to fraud and corruption.
- 1.2 In line with that commitment, the Council's Anti-Fraud and Anti-Corruption Policy outlines the principles we are committed to in relation to preventing, reporting and managing fraud and corruption.
- 1.2 This Fraud Response Plan reinforces the Council's robust approach by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud or corruption. It also outlines how the Council will deal with such complaints.

2. WHAT DO WE WANT TO KNOW ABOUT?

- 2.1 This Plan is intended to be implemented where suspicions of fraud or corruption have been raised.

Fraud is defined as:

"The intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain".

Corruption is defined as:

"The offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person".

- 2.2 Fraudulent or corrupt acts may include:

- | | |
|------------------------------|---|
| Systems Issues | ie, where a process/system exists which is prone to abuse by either employees or public, (eg Housing Allocations) |
| Financial Issues | ie, where individuals or companies have fraudulently obtained money from, or which properly belongs to, the Council, (eg invalid invoices/work not done, Housing Benefit fraud) |
| Equipment or Resource Issues | ie, where Council material or equipment is misappropriated or misused other than for Council purposes (eg Council vehicles, computer equipment, building materials). |

APPENDIX 2

The Seven Principles of Public Life

Selflessness

Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making appointments, awarding contract, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties to take steps to resolve conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

APPENDIX 3

PUBLIC INTEREST DISCLOSURE POLICY

1. INTRODUCTION

1.1 Argyll & Bute Council is committed to the highest standards of openness, probity and accountability. These high standards are coupled with a positive approach to enabling employees and others who become aware of wrongdoing, improper conduct or other failures of a substantive nature to bring attention to their concerns. The Council's Public Interest Disclosure Policy is, therefore, designed –

- To set out a process for the investigation of certain disclosures of information which are made in the public interest;
- To provide protection from reprisal or victimisation for individuals who make such disclosures in good faith; and
- Thus to provide a genuine recourse for legitimate representations without encouraging a climate in which they become malicious, trivial or routine.

1.2 There are existing procedures in place which enable employees of the Council to raise a grievance relating to their own employment. The Public Interest Disclosure Policy is designed to deal with matters which fall outwith the scope of the Grievance or Disciplinary Procedures

2. SCOPE

2.1 In the context of the work of Argyll & Bute Council, a “qualifying disclosure” means any disclosure of information which, in the reasonable belief of the person making the disclosure, tends to show one or more of the following –

- (a) That a criminal offence has been committed, is being committed or is likely to be committed,
- (b) That a person has failed, is failing or is likely to fail to comply with any legal obligation to which he/she is subject,
- (c) That a person has failed, is failing or is likely to fail to comply with any obligation as to their conduct or otherwise imposed on that person by –
 - The National Code of Local Government Conduct
 - The Argyll & Bute Council Code of Conduct for Members
 - The Argyll & Bute Code of Conduct for Officers

- The Argyll & Bute Council Protocol governing relations between Members and Officers
 - The Council's Standing Orders, Contract Standing Orders, or Financial and Security Regulations.
- (d) That the health or safety of any individual has been, is being or is likely to be endangered.
- (e) That the Council has committed, is committing or is likely to commit to a course of action which is unlawful
- (f) That the Council has taken, is taking, or likely to take a course of action, or there has been a corresponding failure, which is likely to give rise to a finding of maladministration on the part of the Council
- (g) That information tending to show any matter falling within any of the preceding paragraphs has been, is being or is likely to be deliberately concealed.

A qualifying disclosure is made in accordance with this policy if the person –

- (a) Makes the disclosure in good faith
- (b) Reasonably believes that the information disclosed, and any allegation contained in it, are substantially true
- (c) Does not make the disclosure for purposes of personal gain
- (d) In all the circumstances of the matter, believes it is reasonable for the person to make the disclosure.

3. SAFEGUARDS

- 3.1 The Council recognises that taking a decision to report a concern of the type covered by this policy can be a difficult one, not least because of the fear of reprisal. The Council makes it clear that it will not tolerate any reprisals under any circumstances and will take action to protect a person who makes a qualifying disclosure.
- 3.2 If a disclosure is made in good faith but is not confirmed by subsequent investigation, no action will be taken against the person making the disclosure. The Council will, however, protect itself, its Members and Employees against malicious allegations and will take appropriate action against any person who makes such an allegation. The Council will also take such reasonable steps which may be open to it to minimise the impact on any of its Members or Employees of an allegation which is either malicious or unfounded.

- 3.3 Nothing in this Policy means that if a person is already the subject of any action or procedure against them (including in the case of employees, disciplinary procedures) that those procedures will necessarily be halted as a result of a disclosure made under this policy.

4. CONFIDENTIALITY

- 4.1 In a culture of openness, and against the Council's stated policy that it will protect a person who may make a disclosure in good faith and in the public interest, and to assist any investigative process, it is clearly desirable that the person who makes a disclosure should be prepared to do so on an attributable basis. The Council will, however, take reasonable steps, but cannot guarantee, to protect the identity of a person who makes a disclosure and does not wish his or her name to be disclosed, subject to the following factors –
- (a) The seriousness and nature of the issues raised
 - (b) The likelihood of confirming any allegation from other attributable sources
 - (c) The need for evidential statements as part of any investigation
 - (d) The credibility of the allegation, and, in all the circumstances, the need to allow a person against whom an allegation is made to test the veracity and substance of it
 - (e) The likelihood, in all the circumstances, of unwarranted reprisals being directed against a person who makes a disclosure.
- 4.2 The Officer conducting the investigation will, however, take all necessary steps to ensure that the name of a person who makes a disclosure is not disclosed to others within the Council except, strictly, on a need to know basis in order to further the due completion of the investigation and the Council's response to it. (See paragraph 5 below)
- 4.3 The Council will not disclose in any public document the name of any person who makes a disclosure, nor will the Council disclose that person's name to any third party outside the Council except –
- Where an offence may have been committed and there is considered to be an obligation to report that to the Police or Procurator Fiscal, or to co-operate with enquiries instituted by the Police or the Fiscal
 - Otherwise where there would be any failure on the part of the Council to comply with any legal obligation on them.
- 4.4 Allegations expressed anonymously will not normally be considered. In exercising any discretion to consider any anonymous allegation, the factors which will be taken into account are –

- The seriousness and nature of the issues raised
- The credibility of the concerns
- The likelihood of confirming the allegations from other attributable sources

5. DISCLOSURES AND THEIR INVESTIGATION

- 5.1 As noted earlier, this Policy is designed to provide recourse for legitimate representations to be made about wrongdoing, improper conduct or other failure of a substantive nature. Any person making a disclosure in terms of this Policy should do so to the Council's Monitoring Officer. The Monitoring Officer will decide –
- (a) Whether the matter is one which should be dealt with under the Council's Grievance or Disciplinary Procedures, and, if so, will refer the matter to the appropriate Officer.
 - (b) Whether the matter is one which should be dealt with under any Complaints or other procedure of the Council, and, if so, will refer the matter to the appropriate Officer.
 - (c) Whether the matter is one which should be investigated in terms of this Policy and, if so, will conduct an investigation in terms of this Policy.
 - (d) In the absence of an investigation in terms of this Policy, what other action, if any, should be taken.
- 5.2 Notwithstanding and without prejudice to the statutory obligations placed on the Monitoring Officer, for the purposes of this Policy the function of the Monitoring Officer is to investigate a disclosure of information, and any allegation contained in it, relating to any matter contained in paragraph 2 of this Policy.
- 5.3 The purpose of an investigation under this Policy will be to determine which of the following findings is the case –
- (a) That there is no evidence of any failure to comply with any of the matters set out in paragraph 2 above,
 - (b) That no action needs to be taken in respect of the matters which are the subject of the investigation
 - (c) That any matter which is the subject of investigation can be remedied by compliance with any recommendations which are made in the report of the investigation

- (d) That there is evidence of a failure on the part of a Member of the Council in relation to any of the matters referred to in paragraph 2 above in which case, with the exception of a matter in respect of which a criminal offence may have been committed, the report of the investigation will be referred to the Council's Standards Committee which will consider what action, if any, should be taken
- (e) That there is evidence of a failure on the part of an Officer of the Council in relation to any matter referred to in paragraph 2 above, in which case the report of the investigation will be referred to the Chief Executive who will determine what action, if any, should be taken
- (f) That the matters which are the subject of the investigation should be referred to the Council's Standards Committee, otherwise.

5.4

For the purpose of conducting an investigation in terms of this Policy, the Monitoring Officer –

- (a) May conduct the investigation personally, or may authorise another person to do so
- (b) May obtain information from such persons and in such manner, and make such enquiries, as she/he thinks fit
- (c) May require any Officer or Member to provide such information or explanation as may be necessary for the purpose of conducting the investigation
- (d) Must give any person who is the subject of any allegation which is being investigated the opportunity or opportunities to respond to and comment on any allegation and must, in the course of any interview, allow that person to be accompanied by any other person
- (e) May require any Officer or Member holding or accountable for any document or record (held in any medium) relating to the investigation access to such document or record.
- (f) May, to assist the investigation, obtain advice from any person inside or outside the Council who is qualified to give it.

5.5

A copy of any report of any investigation must be given to any Member or Officer of the Council who is the subject of the report before the report is finally disposed of by the Monitoring Officer as set out in paragraph 5.3 above.

6. CONSIDERATION OF REPORTS BY STANDARDS COMMITTEE

6.1 In considering any report brought before it in terms of Paragraph 5.3(d), the Standards Committee will –

- (a) Provide the opportunity for the Member, together with any other person whom the Member wishes to accompany or represent him/her, to appear before the Committee;
- (b) Hear oral or consider written evidence from persons who may have provided evidence in the course of the investigation, and any other witnesses whom either the Member concerned or the Standards Committee consider it desirable to hear or receive evidence from;
- (c) Consider such written documents as may be brought before them, including any so brought by the Member concerned, or any other document which the Committee considers it necessary for them to consider.

The Standards Committee will hold any hearing(s) in private unless the Member concerned requests that it be held in public.

7. DECISIONS AND RECOMMENDATIONS OF STANDARDS COMMITTEE

7.1 The Standards Committee is to decide whether or not there has been a failure on the part of any Member who is the subject of a report in terms of Paragraph 5.3(d), with the exception of a matter in respect of which a criminal offence may have been committed until any criminal proceedings have been disposed of.

7.2 Where the Committee decides that there has been no such failure on the part of any Member of the Council it will give notice to that effect to the Member concerned.

7.3 Where the Committee decides that there has been such a failure as is mentioned in Paragraph 7.1 above, the Committee must decide whether the nature of the failure is such that either –

(a) The Committee is to advise the Member concerned that there has been a failure on his or her part, and specify the details of that failure; or

(b) Submit a report to Council, which report will be considered in public, advising that there has been a failure on the part of a Member concerned, specifying the details of that failure, which report may include a recommendation that any one of the following courses of action should be taken by the Council –

(i) That a Member concerned be afforded the opportunity of apologising to the Council in respect of the failure; or

(ii) That a Member concerned should be the subject of a resolution of censure expressing the Council's disappointment that there has been a failure on the part of a Member concerned; or

(iii) That the Council remove a Member concerned from any one or more positions of office to which the Member was appointed by the Council or any of its Committees or Sub-Committees, and/or that the Member be removed from membership of any one or more Committee or Sub-Committee of the Council; or

(iv) That the Council passes a resolution that it has no confidence in a Member concerned, and inviting that Member to consider his or her position as a Member of the Council.

7.4 Before submitting a recommendation in terms of paragraph 7.3(b) to the Council, the Standards Committee will provide a copy of their report, including any recommendation contained in it, to a Member concerned.

7.5 In considering a recommendation in terms of paragraph 7.3(b) the Council will afford an opportunity to a Member concerned to make a statement to the Council, and it will not be open to the Council to pass a resolution which would, in respect of a Member concerned, be more onerous than the course of action recommended by the Standards Committee.

PROSECUTION POLICY

The Council is committed to preventing fraud and corruption and has developed an 'Anti-Fraud and Anti-Corruption Policy' in order to minimise its occurrence.

The Council will constantly monitor its systems and amend procedures as required.

This procedure does not supersede other internal disciplinary codes implemented by the Council and internal offenders (eg Council employees or Councillors) will be liable to general disciplinary procedures as well as prosecution.

General

The Council's policy on fraud is to:

- deter it in the first instance;
- detect it quickly;
- investigate it efficiently; and
- prosecute offenders when appropriate.

In most cases, the Chief Executive in consultation with the appropriate Director, will decide if reporting the matter to the Police is appropriate. In exceptional circumstances the Internal Audit Manager may refer matters to the Police direct without prior consultation with the Chief Executive.

In deciding whether a fraud should be reported to the Police the following factors will be taken in to account.

1. The extent of the fraud/corruption in financial terms
2. The sufficiently and appropriateness of evidence
3. Whether the public interest will be served

In general, all cases will be reported to the Police.

Housing Benefit and Council Tax Benefit Fraud

To assist staff involved in this area, specific procedural guidelines have been established. (See Appendix 5).

APPENDIX 5

HOUSING BENEFIT AND COUNCIL TAX BENEFIT FRAUD

FRAUD DETECTION AND PREVENTION

1. Argyll and Council is fully committed to ensuring that Housing Benefit and or/or Council Tax Benefit is awarded only to those claimants who have an entitlement and that reasonable procedures and processes are in place to verify the circumstances of claimants before making any awards.
2. The Council is committed to developing and implementing measures to prevent and detect benefit fraud.
3. The Council has invested resources in establishing a team of Benefit Fraud Officers dedicated to the identification, investigation and prevention of benefit fraud. That team will work with and, where appropriate under the terms of the Data Protection Act, make use of information available from other agencies such as the Benefits Agency, Department of Social Security, Inland Revenue as well as other departments of the Council to detect and prevent benefit fraud.
4. All Council staff involved in the administration of benefits will periodically be given fraud awareness training with a view to them having a role in the identification of potentially fraudulent claims which must be passed to the team of Benefit Inspectors for investigation.

BENEFIT FRAUD PROSECUTION

5. The Council recognises that the submission of incorrect or incomplete information by an individual or individuals in order to fraudulently obtain benefit is a criminal offence and that consideration will be given to preparing cases for submission to Strathclyde Police or direct to the Procurator Fiscal's Office for prosecution.
6. Where payments of benefit have been considered as having been fraudulently obtained the Benefit Fraud Team Leader will, where the value of the benefit obtained exceeds a threshold level, submit the papers relating to alleged fraud to the Unified Benefits Section for consideration as to whether the case should be referred to Strathclyde Police or direct to the Procurator Fiscal's Office. In considering further action the Benefit Fraud Team Leader will use the following criteria
 - a) Has a good prima facie case been established
 - b) That there is sufficient evidence of false information
 - c) That there is sufficient evidence of criminal intent
 - d) There is a clear record of the investigation:
 - clear reports have been compiled at every stage in the investigation
 - all information provided by the external sources has been recorded in a manner which is acceptable as evidence
 - supporting documentary evidence has been obtained
 - all information has been obtained fairly
 - e) A prosecution would be in public interest because of its deterrent value.

- f) Social factors to be considered include the age and disability of the offender or of a close relative , family circumstances, etc.
- g) Health problems to be considered include any serious/terminal illness or disability of the claimant, partner or other member of the household.
- h) Literacy problems to be considered include, illiteracy, dyslexia, language/learning difficulties.
- h) Also taken into consideration would be any previous offences against the Council.

ADMINISTRATION PENALTIES

- 7. The Council will consider financial penalties, as an alternative to a criminal prosecution, in cases where the criteria for prosecution have been fulfilled but the offender's personal circumstances indicate that a financial penalty would be a suitable solution.
- 8. This provision is in accordance with the Social Security Administration (Fraud) Act 1997 which allows the Authority to administer a penalty (currently 30% of the amount of benefit fraudulently obtained). The Council will recoup the administrative penalty payments in addition to any repayments of the overpaid benefit.
- 9. If the financial penalty is not accepted by the offender as the alternative remedy, then the matter will be referred back by pursuit of a criminal prosecution as will any case where a claimant had agreed to pay an administrative penalty but subsequently fails to keep to the agreement.
- 10. The Benefit Fraud Team Leader with the delegated responsibility for authorising administrative penalties shall be the Unified Benefits Manager.

A FRAUDULENT CLAIM BY AN EMPLOYEE OR MEMBER OF THE COUNCIL

- 11. Any identified case of benefit which involves an Employee of the Council will, in addition to the actions outlined above, also be a subject of the Council's Disciplinary Procedures. In such instances, the case will be brought to the attention of the Internal Audit Manager who may consider whether or not to have his/her section participate in the investigation and disciplinary process.
- 12. Any identified case of fraud which involves a Member of the Council will be referred immediately to the Internal Audit Manager who will arrange for the participation of Internal Audit Section in the investigation. The Internal Audit Manager will then refer the case to the Chief Executive. The Monitoring Officer will refer the matter to the appropriate Committee.

13. It will be the responsibility of the Unified Benefit Manager to advise the Internal Audit Manager immediately it becomes apparent that a fraudulent act may have been committed by an Employee or Member of the Council.

The Council will ensure that all persons who are the subject of an investigation into suspected benefit fraud will be treated fairly and courteously at all times.

