

# Public Document Pack

**Argyll and Bute Council**  
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services  
Director: Nigel Stewart



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20 November 2003

## NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 28 NOVEMBER 2003** at **10:30 AM**, 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 1 August 2003 (PAGES 1 - 4)
4. **PROGRESS REPORT ON EXTERNAL AUDIT REPORTS 2000/1**  
Report by Internal Audit Manager (PAGES 5 - 8)
5. **PROGRESS REPORT ON EXTERNAL AUDIT REPORTS 2001/2**  
Report by Internal Audit Manager (PAGES 9 - 18)
6. **EXTERNAL AUDIT REPORTS 2002/3**  
Report by Internal Audit Manager (PAGES 19 - 44)
7. **PMP EXTERNAL AUDIT REPORTS 2002/3**  
Report by Internal Audit Manager (PAGES 45 - 68)
8. **PROGRESS ON INTERNAL AUDIT PLAN 2003/4**  
Report by Internal Audit Manager (PAGES 69 - 74)
9. **AUDIT SCOTLAND FOLLOW UP REVIEW OF INTERNAL AUDIT**  
Report by KPMG (PAGES 75 - 76)

**10. HMI REPORT 2002/3**

Report by Internal Audit Manager (PAGES 77 - 82)

**11. THE SMITH REPORT (GUIDANCE FOR LOCAL AUTHORITIES)**

Report by Internal Audit Manager (PAGES 83 - 88)

**12. MISSION STATEMENT AND TERMS OF REFERENCE**

Report by Internal Audit Manager (PAGES 89 - 94)

**13. CIPFA - AUDIT COMMITTEE PRINCIPLES IN LOCAL AUTHORITIES IN SCOTLAND**

Report by Internal Audit Manager (PAGES 95 - 142)

**14. AUDIT OF ANNUAL ACCOUNTS 2002/3: MEMBERS LETTER/AUDIT OF ACCOUNTS AND CERTIFIED ACCOUNTS**

Members are requested to bring with them the papers previously circulated for the Council meeting on 26 November 2003

**AUDIT COMMITTEE**

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

Contact: Melissa Jones

Tel. No. 01546 604406

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,  
LOCHGILPHEAD on FRIDAY, 1 AUGUST 2003**

**Present:** Councillor Gary Mulvaney (Chair)

Councillor John McAlpine	Councillor Elaine Robertson
Councillor John Tacchi	Graham Michie
Councillor Donald MacMillan	Vincent Bradbury

**Attending:** Stewart McGregor, Director of Finance  
Charles Reppke, Head of Democratic & Community Services  
Ian Nisbet, Internal Audit Manager  
Steve Keightley, KPMG  
Brian Haworth, Audit Scotland

The Chairman ruled that the business dealt with at item 8 of this Minute be taken as a matter of urgency by reason of the need for the Committee to consider the report prior to the meeting of the Strategic Policy Committee on 7 August 2003.

**1. MINUTES**

- (a) The Committee approved the minutes of the Audit Committee of 21 February 2003 as a correct record.
- (b) The Committee approved the minutes of the Audit Committee of 30 May 2003 as a correct record and endorsed the recommendations as contained in the note of the inquorate meeting of the same date.

**2. ANNUAL ACCOUNTS 2002/03 - UNAUDITED**

The unaudited accounts had been submitted to the Council on 25 June 2003 and sent to the Controller of Audit immediately thereafter in order to comply with legislative requirements.

The Audit Committee had been asked to note the improved level of the General Fund Reserve, adherence to budgets (particularly Education), the new statement on Internal Financial Control and the financial position of the Building Maintenance DLO.

**Decision**

1. To note the submission of unaudited accounts within statutory timescales
2. To note the generally satisfactory financial position with the exception of the Building Maintenance DLO. Concerns relating to the returned deficit of £0.204m were raised.
3. That the Council be requested to continuously monitor the financial performance of the Building Maintenance DLO during the current year.

4. To express the gratitude of the Committee to the Director of Finance and his staff for the preparation of the annual accounts and in particular, to praise all staff involved in ensuring adherence to the Education budget.

(Ref: Reports by Director of Finance dated 18 June and 20 June 2003, submitted).

**3. (a) PROGRESS REPORT ON EXTERNAL AUDIT REPORTS FROM PRICEWATERHOUSECOOPERS TO THE COUNCIL FOR 2000/2001**

Internal Audit had prepared a list of all external audit management letters where recommendations remain outstanding together with details of progress made in the implementation of these recommendations.

**Decision**

1. To note the contents of the submitted report and instruct internal audit to follow up the outstanding matter.
2. In the event that the Disaster Recovery Plan is not implemented prior to the next meeting of the Committee, to request that the responsible officer attend the meeting to speak to this matter.

(Ref: Report by Internal Audit Manager dated 1 August 2003, submitted)

**3. (b) VAT RELATED ISSUES**

The Director of Finance had, at the Audit Committee on 30 May 2003, expressed concern on the delay in completing an item raised by the Council's former external auditors, PricewaterhouseCoopers. The issue related to ensuring VAT on exempt inputs does not exceed 5% of the total VAT on input. If the 5% were to be breached, the Council would lose a significant sum in VAT recovery from Customs and Excise.

An exercise to complete the calculation had now been completed and the Council had not breached the 5% limit.

**Decision**

1. To note the completion of the point on VAT partial exemption for the year 2000/2001 raised by PriceWaterhouseCoopers.
2. To instruct the responsible Financial Officer to bring forward a progress report to the next meeting on bringing the exercise up to date.

(Ref: Report by Director of Finance dated 30 June 2003, submitted)

**4. PMP EXTERNAL AUDIT REPORTS 2002/03**

A review of progress made by local management in the implementation of recommendations from the PMP External Audit Reports 2002-03 had been carried out by Internal Audit with the finding being presented to the Committee.

**Decision**

To note the contents of the submitted report and to instruct Internal Audit to follow up the outstanding matters.

(Ref: Report by Internal Audit Manager dated 1 August 2003, submitted)

**5. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS 2001/02**

Internal Audit had prepared a list for all external audit management letters produced by Audit Scotland for 2001/02 and had provided details regarding the progress made by management in the implementation of the report recommendations.

**Decision**

1. To note the contents of the submitted report and request that this be followed up by Internal Audit.
2. That information on the Oracle supplier purge process be presented to the Committee at its meeting on 28 November 2003.

(Ref: Report by Internal Audit Manager dated 1 August 2003, submitted).

**6. EXTERNAL AUDIT REPORTS 2002/03**

Internal Audit had prepared a list of all External Audit management letters where recommendations still remain outstanding and a report regarding the implementation of the recommendations was considered by the Committee.

**Decision**

1. To note the contents of the report and request that this be followed up by Internal Audit.
2. To note that issues raised in the “Moving to Mainstream – The Inclusion of Pupils with Special Educational Needs in Mainstream Schools” report may have possible significant financial implications to the Council and also to note the increased cost of providing NHS therapy services to a greater number of schools.

(Ref: Report by Internal Audit Manager dated 1 August 2003, submitted).

**7. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2003/04**

An interim progress report had been prepared covering the audit work performed by Internal Audit during the first quarter of 2003-04 which the Committee had been asked to consider.

**Decision**

To approve the progress made with the Annual Audit Plan for 2003-04 and to note that the Internal Audit Manager would provide a further report on maximising the direct audit days from the team to a future meeting.

(Ref: Report by Internal Audit Manager dated 1 August 2003, submitted).

**8. CORPORATE GOVERNANCE AND RISK MANAGEMENT**

A formal assessment of strategic business risks had been undertaken and a formal Risk Register compiled which was available for inspection.

**Decision**

To note the contents of the tabled report which will be considered by the Strategic Policy Committee on 7 August 2003.

(Ref: Report by Director of Corporate & Legal Services dated 25 July 2003, tabled)

**9. VALEDICTORY ADDRESS**

The Chairman, on behalf of the Committee, thanked the Director of Finance for his hard work and advice to the audit committee since its inception and wished him well in his retirement.

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ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE

AUDIT COMMITTEE  
28 NOVEMBER 2003

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**PROGRESS REPORT on EXTERNAL AUDIT REPORTS 2000/2001**

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**1. SUMMARY**

Internal Audit normally prepares a list of all external audit management letters where recommendations still remain outstanding. As at 31 October 2003 we are of the opinion that all recommendations have been implemented for external audit reports for 2000/2001. (See Appendix 1).

**2. RECOMMENDATIONS**

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

**3. DETAILS**

- 3.1 Internal Audit reported to the Audit Committee in August 2003 that only 1 recommendation relating to Disaster Recovery had still to be implemented by the IT Section from the Second Interim Management Letter 2000/2001. The IT Section were required to implement the following, "In order to increase system resilience it is recommended that a contingency and scenario planning exercise be undertaken. This should enable a full risk assessment to be made and a detailed disaster recovery plan to be developed. This plan should then be tested and updated on an ongoing basis".
- 3.2 The recommendation concentrated on a contingency and scenario planning exercise being undertaken with the last sentence commenting on a plan for the future.
- 3.3 As reported previously to the Audit Committee the IT Manager, Gerry Wilson presented 2 reports to the Strategic Management Team (SMT), 8 July 2003. These reports covered the planning exercise undertaken by the IT section for Disaster Recovery. The SMT subsequently agreed the reports and the disaster recovery plans for the servers and server rooms. These plans are now available on the public folder under Disaster Recovery.
- 3.4 Following reorganisation of Council departments the IT Section was amalgamated with an element of the previous Finance department to form ICT and Financial Services. In discussions with the new Head of Service it was the agreed opinion that the outstanding recommendation has now been implemented. The Head of Service stated, "The tender for disaster recovery services is being prepared and includes the requirement for at least two days testing per annum at the supplier's disaster recovery facility under a full scale disaster scenario. This will ensure that the plans are tested and updated on an ongoing basis".
- 3.5 As reported to the last Audit Committee in August 2003 only 1 recommendation remained to be implemented from the Audit Management Letter 2000/2001 regarding Partial Exemption. Internal audit can report that the consultants employed by the Council have completed the partial exemption calculations for

2001-2002 and 2002-2003 and have confirmed that both are below the 5% limit. Arrangements will now be put in place to re-tender all VAT advisory services.

**4. CONCLUSION**

Implementation of these actions will be monitored as part of our ongoing Internal Audit plan. It is not anticipated that there will be any further need to report on external audit reports for 2000 – 2001.

**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 31 October 2003.

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**APPENDIX 1****EXTERNAL AUDIT REPORTS**

<b>PwC Report Name</b>	<b>Comments Obtained from Respondents Y/N</b>	<b>Recommendations Outstanding</b>
Second Interim Management Letter 2000/2001	Y	0
Audit Management Letter 2000/2001	Y	0

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**ARGYLL & BUTE COUNCIL**  
**STRATEGIC FINANCE**

**AUDIT COMMITTEE**  
**28 NOVEMBER 2003**

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**PROGRESS REPORT on EXTERNAL AUDIT REPORTS 2001/2002**

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**1. SUMMARY**

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

**2. RECOMMENDATIONS**

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

**3. DETAILS**

- 3.1 The Council received an external audit management report from Audit Scotland entitled Regularity & Governance 2001/2002. It was previously reported to the Audit Committee that one recommendation remained outstanding. However Internal Audit is able to report that this recommendation has now been implemented.
- 3.2 Internal Audit reported at the last audit committee that there were 5 remaining recommendations to be implemented with regard to the Audit Scotland report entitled Management Report – Regularity & Governance 2001/2002. Internal Audit can report that as of 31 October 2003 there are only 2 recommendations remaining to be implemented. The 2 have implementation dates of January 2005. (See Appendix 2).
- 3.3 The 2001/02 final report to Argyll & Bute Council on the audit of Final Accounts was presented to the Council in November 2002. As at 31 October 2003 only 2 recommendations remain to be implemented. One of these has an implementation date of January 2005 and local management has given a comment on progress for the remaining recommendation. (See Appendix 3).
- 3.4 An audit memorandum for Audit of Accounts 2001/02 was presented to the Council in October 2002. The memorandum addressed matters of accounting principle not previously reported in the final report. Internal Audit can report that at 31 October 2003 all recommendations have been implemented.
- 3.5 Audit Scotland in December 2002 issued a report entitled Performance Audit of Trading Standards. The conclusion drawn was that the Trading Standards Service had performed above the Scottish average. As at 31 October 2003 out of 11 recommendations 2 remain outstanding. However, management have made some progress towards implementation and this is reflected in the appended comments. (See Appendix 4).

**4. CONCLUSIONS**

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

**5. IMPLICATIONS**

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

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

Ian Nisbet  
Internal Audit Manager 31 October 2003.  
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## APPENDIX 2

Argyll & Bute council - 2001/2001

### ACTION PLAN – REGULARITY & GOVERNANCE 2000/2001

Page/P ara Ref	No	Recommendation	Responsible Officer	Action	Date	Update as at 30/10/03
10/8	4	<p>Management should consider the appropriateness of the staffing structure of internal audit.</p> <p style="text-align: center;"><i>Priority: Medium</i></p>	<p>Previously the responsibility of S. McGregor now passed to the Head of Strategic Finance.</p>	<p>The Council recently reviewed the structure of Internal Audit and entered into a partnership for Internal Audit with KPMG for a 3-year period. It is not proposed to review the structure prior to the end of the partnership.</p>	January 2005	Will be reviewed nearer the implementation date
11/11	6	<p>Management should consider the relative independence of internal audit and current reporting lines.</p> <p style="text-align: center;"><i>Priority: Medium</i></p>	<p>Previously the responsibility of S. McGregor now passed to the Head of Strategic Finance.</p>	<p>Internal Audit has access to the Director of Finance, the Chief Executive and the Chairman of the Audit Committee.</p> <p>However this will be reviewed at the termination of the Internal Audit partnership with KPMG</p>	January 2005	Will be reviewed nearer the implementation date

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## APPENDIX 3

### Action Plan

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Update at 30/10/03
		Management response	Who by	When by	
8/24	<b>Non-operational assets.</b> The Council should review all non-operational assets to assess whether these assets are contributing to the achievement of one or more of the Council's policy objectives for a service.	Finance and Estates will review the non-operational assets with a view to reclassifying those assets, which are to contribute to a service's objectives.	M Miller	31/03/2003 for 2002/03 Annual Accounts	New proposed date of March 2004.
14/25	<b>Internal audit.</b> The Council should review the current structure and reporting arrangements of Internal Audit.	The Council recently reviewed the structure and reporting arrangements of Internal Audit and entered into a partnership for Internal Audit with KPMG for a 3 year period. It is not proposed to review the structure prior to the end of the partnership.	Previously the responsibility of S. McGregor now passed to the Head of Strategic Finance.	January 2005	Will be reviewed nearer the implementation date.

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1. IMPROVEMENT AGENDA - TRADING STANDARDS

Col.1 Description of the planned improvement action.	Col. 2 What problem is this action addressing?	Col.3 What is this improvement intended to achieve? This should be both specific and measurable.	Col.4 What are the key project milestones for this improvement?	Col.5 What information will you use to assess that intended benefits have been achieved?	Col.6 Which of the headings in PF 11 does the improvement action relate to?	Col.7 Update at 31 October 2003.
Update policies for core activities.	Existing policies are dated and relate to previous structure.	Will provide current, clear guidance for officers.  Will provide information for service users.	Compile list of updates required.  Identify priorities.  Redraft key policies.  Issue new policies to officers.	Comparison of A&B policies v 'model' TS service  Feedback from officers  Feedback from service users.	Internal management processes.  Policy impact on stakeholders.	This is still in the process of being completed.
10. Details of targets for performance and results to be included within Public Protection Annual Report.	Results of performance against target is not always made public in a systematic way.	Results available to consumers and traders in readily accessible form.	Publish a Public Protection Report, detailing amongst other things targets and performance outcomes annually.	Customer feedback.	Customer service. External Relationships.	The Head of Service has scheduled this item to be presented to committee in January 2004.

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**ARGYLL & BUTE COUNCIL**  
**STRATEGIC FINANCE**

**AUDIT COMMITTEE**  
**28 NOVEMBER 2003**

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**EXTERNAL AUDIT REPORTS 2002 – 03.**

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**1. SUMMARY**

Internal Audit has prepared a list for all external audit management letters/reports produced by Audit Scotland for 2002/03. (See Appendix 1). Internal Audit has performed a review of the progress being made by management in implementing the recommendations arising from these letters/reports, the results are detailed below.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 The Council received an Audit Scotland management report entitled Regularity & Governance (1) 2002/2003. This report covers the nature and extent of the Council's involvement with external funding bodies. A review by Internal Audit of this reports recommendations as at 31 October 2003 indicates that there are 2 recommendations to be implemented. (See Appendix 2).

3.2 Audit Scotland issued a report August 2003 entitled Management Report, Regularity & Governance (2) 2002/03. Appendix 3 covers both the reports executive summary and action plan. The report generated 22 recommendations and as at 31 October 2003 based on management responses 9 have been implemented. This leaves 13 to be implemented, 5 have implementation dates before the end of 2003, the remaining 8 recommendations fall into 2004, management comments have been obtained and appended.

3.3 Audit Scotland issued a Performance Audit Report in July 2003 entitled Management of Community Equipment and Adaptations. Appendix 4 covers both the reports executive summary and action plan. The report generated 24 recommendations and as at 31 October 2003 based on management responses, 3 have been implemented. This leaves 21 with implementation dates stretching from December 2003 to August 2004. Management have reported ongoing progress towards the agreed implementation dates.

3.4 As part of external audit duties Audit Scotland completed an annual return to the Local Government Studies Directorate covering the Councils Performance Indicators (PIs). Appendix 5 covers the letter sent by Audit Scotland to the Portfolio Manager at Audit Scotland and details the findings of their review. The audit of this Councils PIs is a joint exercise between Audit Scotland and Internal Audit. As a result Internal Audit has produced a report and the findings from the Audit Scotland letter have been incorporated into an action plan for management.

**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 31 October 2003.  
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**ACTION PLAN Following the Public Pound**

No.	Recommendation	Responsible Officer	Action	Date	Progress as at 30/06/03
3	Financial and non-financial performance measures should be defined for funded organisations above a significant value.  <i>Medium Priority</i>	Bruce West Head of Accounting	Will develop measures for financial and non-financial performance in conjunction with departments – led by finance but will require departmental input.	30 September 2003	Anticipated to be complete end of November 2003.
4	A monitoring procedure should be prepared to ensure that available performance measures are collected and reported.  <i>Medium Priority</i>	Bruce West Head of Accounting	Will develop reporting procedures following development of performance measures as outlined in recommendations – led by finance but will require departmental input.	31 October 2003	Anticipated to be complete end of November 2003.

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# **Argyll & Bute Council 2002/03**

## **Management Report**

### **Regularity & Governance (2)**

Brian Howarth, ACMA – Senior Audit Manager, Audit Scotland  
7th Floor, Plaza Tower, East Kilbride, G74 1LW  
T 01355 619200 F 01355 619201

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## 1. Executive Summary

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### Introduction

- 1.1 We conduct our audit in accordance with Audit Scotland's Code of Practice. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.
- 1.2 Interim audit activity, is largely concerned with undertaking reviews of selected systems. Our approach in 2002/2003 sought to obtain assurance, by systems review and testing, together with discussion with officers, as to the existence and effectiveness of a number of controls considered essential to ensure that reliance could be placed on the operation of the identified systems.
- 1.3 This report summarises the findings from our audit work and, where appropriate, makes recommendations to strengthen existing controls or otherwise address any identified weaknesses. It should be noted that the weaknesses recorded are only those which came to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses that may exist.
- 1.4 Our review covered the Council's regularity and governance arrangements including the financial position and budgetary control within the Education Department and the Building Maintenance DLO, the arrangements for engaging management consultants and the corporate governance framework.
- 1.5 This is our second regularity and governance report of 2002/2003.

### Summary of Main Findings

- 1.6 **Education Department Budgetary Control.** The Education Finance Team, Accounting Services Manager, Head of Accounting and Director of Finance have initiated significant improvement in the budgetary control process within the Education Department during 2002/2003. Further improvements are planned during 2003/2004 and many of our own findings are already reflected within an internal Action Plan. The main issues for further improvement include:
  - ◆ the development of a Council-wide budgetary control procedures manual;
  - ◆ a review of the DMR Scheme of Delegation;
  - ◆ the re-basing of non pay budgets and the refinement of budget profiling;
  - ◆ alerting cost-centre budget holders to year end overspend forecasts on budget reports;
  - ◆ introducing a system of follow-up of agreed remedial actions where variances re-occur;
  - ◆ internal monitoring of unreturned responses from budget holders; and
  - ◆ extending training opportunities to Head Teachers and other budget holders.

- 
- 1.7 The Authority has identified a range of 22 actions to achieve £2.4 million of savings and efficiencies during 2003/2004 in order to maintain financial balance with the Education Service.
- 1.8 **Building Maintenance DLO Budgetary Control.** We found that there is regular and full budgetary reporting to the Commercial Operations Board on the DLO's financial position. The DLO forms part of the Transportation and Property Department. We undertook a general review of budgetary control in the Department and identified the need to improve the budgetary instructions given to officers, improve variance reporting, specify levels of variance which should be investigated, implement a system to identify persistent adverse variances and ensure action has been taken and to make suitable training available.
- 1.9 The Building Maintenance DLO has again recorded a deficit. In the financial period to 31 March 2003, the deficit is £186,000. Business Plans exist in relation to recovery actions, but we considered that the reporting of the achievement of identified actions could be improved. The Council has set challenging financial targets for 2003/2004, which will be difficult to achieve. A decision has been taken to consider alternative means of delivery if the financial position has not improved by the end of the third quarter of 2003/2004.
- 1.10 **Management Consultants.** Most contract and tendering exercises relate to building and maintenance contracts. These areas have been recently reviewed by Internal Audit and our audit review therefore examined arrangements to engage management consultants. A number of recommendations have arisen from this review. These include:
- ◆ an officer should be assigned responsibility for regularly reviewing Contract Standing Orders to ensure that they are EU compliant and represent the latest developments in tendering practice; and
  - ◆ improving records of the value and details of tender bids on opening and of evaluations of tenders.
- 1.11 Given the sensitive nature of public sector tendering exercises, the potential for challenge and the frequency with which these issues are generally subject to audit investigation as a result of external complaint, the system controls should be carefully applied.
- 1.12 **Governance Framework.** Overall we found that Argyll & Bute Council could demonstrate the existence of a fairly comprehensive and robust control framework. We did however identify some areas for improvement, the most important of these include the introduction of:
- ◆ clearly defined capital investment control guidelines;
  - ◆ formal capital project management disciplines;
  - ◆ regular reviews of policies, procedures and control frameworks, particularly the Standing Orders, Scheme of Delegation and Financial and Contract Standing Orders;

- ◆ a formal risk assessment and Risk Management Strategy;
- ◆ an IM&T Strategy which covers the finance directorate and all significant financial systems;
- ◆ documented financial operating procedures for all significant and fundamental systems; and
- ◆ an organisation-wide register of risk, based on a robust prioritisation methodology (risk ranking and cost-benefit analysis). This has been introduced during 2003/2004.

1.13 Although this report includes a number of specific recommendations to strengthen internal controls, it is the responsibility of management to decide the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.

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

1.15 The Action Plan which sets out the agreed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.

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

## 2. Action Plan

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
1	A Council wide budgetary control procedures manual should be produced and circulated to all budget holders.	High	Head of Strategic Finance	This recommendation will be actioned as part of an overall review of budgetary monitoring. Council wide procedure should be supplemented by service-specific guidance to reflect the diversity of operations	31 March 2004	Ongoing
			Accounting Services Managers		31 March 2004	Ongoing
2	The DMR Scheme of Delegation should be reviewed to ensure it is consistent with the Council's general Scheme of Delegation.	Medium	Sharon MacDonald	Already planned as part of next steps within Education Review	31 December 2003	Ongoing out to consultation with Head Teachers
3	The 2003/2004 budget setting process should consider re-basing all non-pay budgets.	Low	Sharon MacDonald	This is the process that will be followed every year	31 October 2003	Completed
4	The basis of budget profiling should be examined in 2003/2004.	Low	Sharon MacDonald	Already Completed at June 2003.	Completed	Completed
5	Consideration should be given to identifying year-end projected overspends on cost centre monitoring reports.	Medium		This information will be included.	31 August 2003	Ongoing at the present time as there have been no projected outturn variances.
6	A process of follow-up should ensure that agreed actions have implemented where adverse variances continue to re-occur.	High	Accounting Services Managers	Adoption of variance reporting and action onto Departmental Management Team minutes.	Immediate	Completed
7	The Finance Team should monitor the return rate and follow up any missing monitoring forms.	Low	Education Accounting Services Manager	Procedure already in place at June 2003	Completed	Completed

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
8	Training events for budget holders should cover the completion of monitoring forms and the level/detail of response required.	Low	Head of Strategic Services	This recommendation is accepted and will be incorporated as part of an overall review of budget monitoring procedures.	31 March 2004	Ongoing
9	The Human Resources Department should confirm that they have discontinued the practice of reissuing post numbers.	Low	Principal Officer Personnel (Education)	As detailed.	Immediate.	Completed
10	Budget and Finance training should be made available to Head Teachers and other budget holders perhaps combined with the launch of a Council wide budgetary control manual.	Low	Accounting Services Managers	This recommendation is accepted and will be incorporated as part of an overall review of budget monitoring procedures. Some training may take place earlier.	31 March 2003	End of Dec 03.
11	All budgetary control reports should be reviewed to ensure that variances are identified.	High	Accounting Services Managers	As detailed	31 December 2003	End of Dec 03.
12	Departmental management should identify the levels at which budget to actual variances should be investigated and comment obtained.	High	Accounting Services Managers	As detailed	31 December 2003	Completed
13	Reporting to the Commercial Operations Board should identify progress in respect of actions contained in the Business Plan.	High	Neil Leckie	As detailed	On-going	On-going
14	A detailed action plan should be prepared to support the actions contained in the DLO Business Plan. This should identify responsible officers and key timescales.	High	Neil Leckie	As detailed	On-going	On-going



No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
15	An officer should be given designated responsibility for regularly reviewing the Contract Standing Orders to ensure that they reflect EU Directives and good practice..	Medium	The Head of Democratic & Governance Services will assume this role	As detailed	Immediate	Completed
16	Staff with responsibility for maintaining the tender opening register should be reminded of the need to record details of all bids on opening	Medium	Head of Democratic & Governance Services	Memo to tender opening staff	Immediate	Completed
17	The basis and reasons for qualitative assessments of bids should be carefully recorded and retained. Standing Orders should clearly state this requirement.	Medium	Head of Democratic & Governance Services	This will be addressed in the new Standing Orders to be adopted by the Council.	31 October 2003	It is intended that new Standing Orders will come before the Council by the end of 2003. The delay arises from the structured review.
18	Capital investment control guidelines should be reviewed and revised.	Medium	Per Internal Audit Reports	This recommendation summarises a variety of action points identified in two in internal audit reports on capital contracts and contract tendering and vetting. Action plans have been completed for both audits and a responsible officer, action and implementation date agreed for each point. Internal audit will follow up this up in accordance with normal procedures.	Per Internal Audit Reports	Follow up Review
19	Capital project management should be reviewed and consistent controls introduced.	Medium	Per Internal Audit Reports	As above	Per Internal Audit Reports	Follow up Review

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
20	Review dates should be set for key policies procedures and control framework documents. This includes Standing Orders and Financial Regulations.	Medium	Director of Corporate Services	Council will endorse a strategy of regular reviews	31 October 2003	To be included as part of review process.
21	A comprehensive IM&T Strategy should be prepared.	Low	Heads of Service	The Finance Department disappears as part of the Council-wide reorganisation. An IMT strategy for finance functions will be prepared following the reorganisation.	30 September 2004	An ICT strategy group with Heads of Service from each of the new departments is being set up. This has been agreed by the SMT so there is ongoing progress.
22	A risk register should be completed and reviewed annually.	Medium	Susan Mair, Head of Legal Services	Risk Register complete as at July 2003. Annual reviews will take place.	Complete. On-going	Complete and On-going

# **Argyll & Bute Council – 2002/03**

## **Performance Audit Report Management of Community Equipment and Adaptations**

Brian Howarth ACMA – Senior Audit Manager, Audit Scotland  
7th Floor, Plaza Tower, East Kilbride, G74 1LW  
T 01355 619200 F 01355 619201

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## 1. Executive Summary

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### Introduction

- 1.1 We conduct our audit in accordance with Audit Scotland's Code of Practice. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.
- 1.2 As part of our 2002/2003 performance audit activity we have undertaken a review of the management of community equipment and adaptation services within the Housing and Social Work Departments of Argyll & Bute Council.
- 1.3 This report summarises the findings from our audit work and, where appropriate, makes recommendations to strengthen existing controls or otherwise address any identified weaknesses. It also identifies specific areas of good practice in relation to community equipment and adaptations services and, more specifically, joint working in this area. It should be noted that the weaknesses recorded are only those which came to our attention during the course of our audit work and are not necessarily, therefore, all of the weaknesses that may exist.
- 1.4 The review of the management of community equipment and adaptations was developed by Audit Scotland centrally and undertaken in local authority social work and housing departments and acute and primary care NHS trusts across Scotland. It does not include services provided by housing associations and registered social landlords.

### Summary of main findings

- 1.5 **Social Work and Community Equipment and Minor Adaptations.** There are a number of specific detailed findings and recommendations contained within the report. The main issues can be summarised as:
- ◆ a number of improvements are required to the Council's information systems which record and report on expenditure, activity and performance;
  - ◆ a written strategy should be developed to provide a plan and timetable for developing the Joint Future agenda;
  - ◆ written standards, policies and procedures could be improved;
  - ◆ from a client perspective, information on assessments could be shared; and
  - ◆ public performance reporting of the equipment and adaptations service should be developed.
- 1.6 Our review also identified areas where the Council's approach may be considered as relatively good practice. These include:
- ◆ due to the large geographical area covered by Argyll & Bute Council, a dedicated team dealing with equipment and adaptations does not exist and is not considered

practical. However, the geographical distribution has led to the creation of integrated outreach teams with the NHS Occupational Therapy Service for the provision of the service on the islands in the Council's area. In addition there is an integrated outreach team based on the mainland based at one location. This team also provides a rapid response service;

- ◆ Argyll & Bute Council is one of only three authorities that provides a partly integrated occupational therapy service. The integrated service team is based at one location and has an operational manager and aligned budget. The operational manager of the integrated service is currently liaising with the NHS to develop a pooled budget;
- ◆ Argyll & Bute has one partnership arrangement comprising the Local Health Care Co-operative (LHCC), the local Primary Care Trust (PCT) and the Council's Housing Department. A Service Manager from the Social Work Department has recently been seconded to the Strategy Group to take forward the Joint Future agenda. His remit includes developing joint resourcing;
- ◆ one store operates as a joint store in Argyll & Bute. Based in the Oban General Hospital, it was opened in March 2002;
- ◆ within the Authority, protocols for the joint working between health and community occupational therapists are in place;
- ◆ in common with 84% of authorities, Argyll & Bute Council identified that it published information about equipment and adaptation services;
- ◆ a priorities assessment guide for occupational therapists is included in the Council's "Criteria and Practice Guide for the Provision of Equipment and Adaptations and Other Services". There are three classes of priority. Priority 1 is given immediate attention whilst priority 2 is assessed as soon as possible and priority 3 is given to non-critical cases. The prioritisation system is used to deal with both referrals and for managing provision;
- ◆ Argyll & Bute Council scored highly in its process for recording the client's journey;
- ◆ there are set target times for dealing with emergency referrals; and
- ◆ a customer satisfaction survey has been conducted and analysed, within the Community Equipment Service.

1.7 **Housing and Adaptations.** The issues identified within the Adaptations Service are similar, in many respects to those encountered within the Community Equipment Service. The main issues can be summarised as:

- ◆ a number of improvements are required to the Council's information systems which record and report on expenditure, activity and performance;
- ◆ budgeting processes should be reviewed and the level of unmet demand established;
- ◆ a more formal partnership should be formed with the Council's Social Work Department; and

- ◆ client surveys and public performance reporting of the equipment and adaptations service should be developed.
- 1.8 During this review we identified that the Housing Department has a number of areas of relatively good practice. These include:
- ◆ the staff turnover, staff vacancy and sickness absence rates are relatively low within the Service;
  - ◆ Argyll & Bute Council has agreed eligibility criteria for adaptations between the Social Work and Housing Departments; and
  - ◆ information on the adaptation service is available in leaflet form, within the Authority.
- 1.9 Although this report includes a number of specific recommendations to strengthen internal controls, it is the responsibility of management to decide the extent of the internal control system appropriate to the Authority. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
- 1.10 The factual content of the report has been agreed in discussion with appropriate officers from the Authority.
- 1.11 The Action Plan which sets out the agreed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.
- 1.12 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

## 2. Action Plan

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 October 2003
1	A system should be introduced to separately record the Authority's expenditure, referrals and assessments on equipment and on adaptations.	Shirley McHugh	Liase with IT section to enable Care first system to record information required.	August 2004	Ongoing
2	A review of activity recording should be undertaken to ensure consistency and accuracy	Shirley McHugh	Liase with IT section to enable Care first system to record information required.	August 2004	Ongoing
3	Consideration should be given to recording the referrals received and assessments made for housing association and RSL tenants by adding these categories to the "contact by" section of the information system.	Shirley McHugh	Liase with IT section to enable Care first system to record information required.	August 2004	Ongoing
4	The information system should be revised to record assessments completed, individual pieces of equipment issued, individual adaptations installed and completions.	Shirley McHugh	Liase with IT section to enable Care first system to record information required.	August 2004	Ongoing
5	Changes to the information system should be implemented to enable completions to be analysed by client group.	Shirley McHugh	Liase with IT section to enable Care first system to record information required.	August 2004	Ongoing
6	The Council should consider the effect of demographic and other environmental changes in planning for the future needs of the service.	Planning Officer Community Care	Explore the effects of these changes and plan for future service needs.	Date to be agreed by planning department.	Post is currently vacant.

## Management of Community Equipment and Adaptations

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 October 2003
7	The Strategy Group should prepare a written plan and timetable for developing the Joint Future agenda, including the development of joint resourcing and giving consideration to the future development of information systems.	Jim Robb	Plan and timetable to be written and developed by Strategy Group.	To be decided by Strategy Group.	Ongoing
8	The Council should identify standards for storing, transporting and cleaning equipment and periodically audit the arrangements to ensure compliance.	Shirley McHugh	Develop relevant standards in consultation with Quality Assurance Unit.	August 2004	Ongoing
9	Argyll & Bute Council should develop, with the local health service, a Joint Statement of Intent on training and a joint development and training plan.	Jim Robb Shirley McHugh	Liase with Training Departments in Social Work and Health to develop plan and training.	January 2004	Ongoing
10	Written assessments and details of a point of contact should be provided to the client.	Shirley McHugh	Single Shared Assessment will provide written plan. Contact details to be provided by staff.	January 2004.	Ongoing
11	The Council should review their delivery and installation processes.	Shirley McHugh	Care and Repair already delivering/installing/collecting majority of equipment. Review this service.	January 2004	Ongoing



## Management of Community Equipment and Adaptations

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 October 2003
12	The Council should introduce systems to monitor equipment and adaptation waiting lists and waiting times.	Shirley McHugh	Liase with IT section to enable Care first system to record information required to enable monitoring within joint equipment services.	August 2004	Ongoing
13	Written procedures should be developed for dealing with Medical Devices Alerts and the recall of equipment.	Shirley McHugh	Procedures to be developed in consultation with staff.	January 2004	Ongoing
14	Consideration should be given to establishing and reporting information on the level of recycling of equipment.	Shirley McHugh	Explore ways of recording level of recycling of equipment.	August 2004	Ongoing
15	A service, maintenance and repair policy should be developed within the local service.	Shirley McHugh	Develop policies for maintenance, service and repair of equipment.	August 2004	Ongoing
16	Instructions should be provided to staff (and training) to ensure compliance generally with Health & Safety regulations and with Lifting Operations and Lifting Equipment Regulations.	Council Health and Safety Manager, Moving and Handling Trainer, Shirley McHugh.	Relevant training as required. (Care and Repair carrying out many lifting tasks now.)	August 2004	Ongoing
17	Performance information should be made publicly available within the Council's framework for PPRg.	Planning Officer for Community Care	Information made available.	Date to be agreed by planning department.	Post is currently vacant.
18	Budget and expenditure information on major adaptations should be collected and reported within the Council.	Head of Planning & Performance	Information made available	July 2004	Ongoing

## Management of Community Equipment and Adaptations

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 October 2003
19	Council budgeting processes should be reviewed for major and minor adaptations and the level of unmet need determined and reported.	Head of Planning & Performance and Head of Community Support	Set up system	December 2003	Complete, Ongoing
20	Systems for collecting and reporting activity data should be reviewed to ensure that the data is reliable and can be analysed into major and minor items, the source of referral and client group.	Head of Planning & Performance	Review & modify existing system	December 2003	Ongoing
21	The Housing Department should consider formalising its Joint Working approach with the Social Work Department on adaptation work.	Head of Planning & Performance and Head of Community Support	Formal approach to joint working will be implemented	December 2003	Ongoing
22	Consideration should be given to establishing and reporting information on the level of recycling of adaptations	Head of Planning & Performance	Refine and update existing system	December 2003	Ongoing
23	A review should be undertaken to establish whether a pickup service for adaptations exists and if not, whether its introduction would contribute to recycling rates.	Head of Planning & Performance and Head of Community Support	Discussions with Occupational Therapist service to agree a system (see also no.22)	December 2003	Ongoing
24	A client survey should be undertaken periodically with users of adaptations. The results of the adaptation section of the occupational therapy service survey conducted by Social Work should be made known to the Housing Maintenance Manager.	Shirley McHugh	Results of survey passed to Housing Maintenance Manager.	August 2003.	Complete



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## APPENDIX 5

Mr A Taylor  
Portfolio Manager  
Local Government Studies Directorate  
Audit Scotland  
110 George Street  
EDINBURGH  
EH2 4LH

28 August 2003

Dear Alec

### **Performance Information 2002/2003 – Argyll and Bute Council**

Please find enclosed the auditors' return pro-forma, computer diskette and hard copies relating to our work on Performance Indicators at Argyll and Bute Council ("the Council") for the year 2002/2003.

Our completion of the return and disk has placed reliance on the Council systems that produce the performance information and on the work undertaken during the year by internal audit.

As a result of our review we have graded six of the Council's Performance Indicators as an "X" due to the lack of suitable systems or reliable data, the reasons for which have been documented below.

#### **Housing**

##### **"Indicator 1 – Response Repairs"**

This indicator was marked as unreliable in 2001/2 and there has been no change to the system in the current year. The system does not record the time when emergency repairs are completed and shows that any repair has been completed by midnight on the relevant day. The system will record 24 hour and 48 hour repairs as being completed within target when this is in fact not always the case. The PI information is therefore an approximation.

#### **Social Work**

##### **"Indicator 10 – Social Enquiry Reports"**

This indicator was qualified in the previous year. It is noted that the system in place has improved, but our validation of the data within the system identified errors in recording information. In 50% of cases sampled social workers were unable to verify the date when a report was allocated to a social worker for completion.

##### **"Indicator 12 – Community Services"**

This indicator was qualified in the previous year. It is noted that the system in place has improved, but our validation of the data within the system identified errors in recording information. In three out of five cases sampled, the system date of completion of the community order, did not agree to the information provided by social workers. The error in the sample was over 100 days, which is considered material.

Mr A Taylor  
Portfolio Manager  
Local Government Studies Directorate

28 August 2003

## **Libraries**

### **“Indicator 2 – Stock Turnover”**

Internal Audit review identified this indicator as unreliable. The Service did not carry out a full stock take at the year-end. A record was kept of additions and deletions but no record of donated books. The Council cannot determine the significance of this omission and therefore the data provided for additions is unreliable.

### **“Indicator 3 – Use of Libraries: Borrowers from Public Libraries”**

Internal Audit review identified this indicator as unreliable. There is no computerised system to record active borrowers. The Service has simply counted registered borrowers with no record of whether these members have taken out an item in the year.

### **“Indicator 4 – Use of Libraries: Learning Centre and Learning Access Point Users”**

Internal Audit review identified this indicator as unreliable. The Service has used it's records of registered users in place of the number of active users. The statistic required by the PI's is not determinable from existing records. It is also understood that individuals may use the Council's learning centre facilities without registering.

## **Additional Comments**

During the audit it was found that for two of the social work indicators, PI 1 Community Care Assessments and PI 6 Home Care/Home Helps, an element of the data could not be specifically categorised, according to the PI and has been apportioned over the categories. Although we did not find this estimation to be material in 2002/2003 the Council has been made aware of this issue for future years, in case the level of uncategorised cases (and therefore the extent of estimation) becomes significant.

We have also taken this opportunity to encourage Council Departments to prepare analytical review in future years to explain why there are significant changes in indicators compared to the previous year, as part of the process of preparing and presenting PI working papers.

If you have any queries on the above information please contact me.

Yours sincerely

**Brian Howarth**  
**Senior Audit Manager**

cc Mr J McLellan, Chief Executive, Argyll and Bute Council  
Mr I Nisbet, Lead Internal Audit Manager, Argyll and Bute Council

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**ARGYLL & BUTE COUNCIL  
FINANCE**

**AUDIT COMMITTEE  
28 NOVEMBER 2003**

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**PMP EXTERNAL AUDIT REPORTS 2002 – 03.**

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**1. SUMMARY**

As part of Audit Scotland's statutory responsibilities, they are required to satisfy themselves that the Council has in place appropriate management arrangements to secure value for money from the resources available to it. The method used by them in 2002 – 03 was to review Council best value progress through Performance Management and Planning (PMP) reviews.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 Audit Scotland are not planning to carry out any further follow up PMP reviews however Internal Audit will continue to report on the progress made by local management in implementing remaining issues.

3.2 Internal Audit has carried out a review as at 31 October 2003 of the issues raised in the PMP follow up reviews originally performed by Audit Scotland and obtained verbal comments from local management as to progress. Appendix 1 to 7 covers the updated position, action plans and indicates that local management is aware of the need to complete the recommendations outlined by Audit Scotland.

3.3 Internal Audit was asked to report back to the Audit Committee regarding the progress of the recommendations for PMP Fleet Management & Registration Services. Local management have now confirmed to Internal Audit that there are plans in place to complete these actions.

**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 28 November 2003.  
28novfinalreport28nov



**APPENDIX 1****EXTERNAL AUDIT PMP REPORTS**

<b>Appendix No.</b>	<b>PMP Report Name</b>	<b>No. Of Original Recommendations May 2002</b>	<b>No. Of Recommendations Outstanding</b>
2	Personnel	11	1
3	Fleet Management	6	2
4	Corporate Approach	23	6
5	Roads & Transportation	22	1
6	Registration	12	1
7	Community Care	22	8

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## APPENDIX 2

### BEST VALUE ACHIEVEMENT REPORT

#### Action Plan

1. Agreed improvement action from the 2000/01 PMP audit carried out by Audit Scotland.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	Dates for further follow-up work agreed with Scotland.	Progress at 31 October 2003.
11. Introduction of Northgate Personnel Module.	Implementation of the Personnel Module by March 2002.	To provide a single database with information on the Council's workforce, to minimise data input and maximise accuracy.	HR system in the process of being implemented. Target date: Autumn 2003  <b>(B)</b>	Project Plan with key dates.	January 2004	Implementation is under way and is being introduced stage by stage and therefore this has extended the time frame to June 2004.

<b>A</b> – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.	<b>C</b> – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.
<b>B</b> – Progress is less than intended in the original improvement action template. The council manager can demonstrate they have plans in place to complete the action.	<b>D</b> – The council no longer intend implementing the original improvement action. Reasons should be given for not implementing the original action.

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## APPENDIX 3

1. Agreed improvement action from the 2000/01 PMP carried out by Audit Scotland.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with Audit Scotland.	7. Progress as at 31 October 2003.
1. Complete a Getting To Know You Exercise	No agreed dates but it was assessed that the task would take about 23 weeks when started	To ensure/demonstrate that the Service has: <ul style="list-style-type: none"> <li>- identified all stakeholders</li> <li>- confirmed customer needs, priorities, expectations and perceptions</li> <li>- agreed realistic standards and targets</li> <li>- agreed information reporting requirements</li> </ul>	During the past year meetings have continued with fleet users. This has been achieved through user group meetings and also with users individually whenever required. Fleet Management was also involved with, and continues to be involved with the Education department scrutiny group which has helped to inform both Education and Fleet Management. Further work regarding this improvement action will have to wait the outcome of the implementation of a council restructuring which may have a significant impact on future service requirements. <b>(Grade B)*</b>	Agendas and minutes of meetings held since the PMP audit.  PMP SMART action plan	September 2003 at earliest i.e. following the completion of the planned restructure.	At present management will not commit to a date as they wish to schedule this with other priorities set under the new structure.

## APPENDIX 3

1. Agreed improvement action from the 2000/01 PMP audit carried out by Audit Scotland.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with Audit Scotland.	7. Progress as at 31 October 2003.
4. Redesign the customer survey forms and repeat the customer survey exercise	<b>No agreed dates</b> but it was assessed that the task would take about 16 weeks when started	To confirm what the user perceptions are of the Service on an ongoing basis so that continuous improvement can be shown	No significant progress on this task in the last 12 months but feedback is obtained regularly at meetings. It is believed that Housing & Social Work completed a review of its service during the last year and it was reported verbally that vehicle users are delighted with the service provided by Fleet Management. <b>(Grade C)</b>	Verbal feedback from Ernie Brown – H&SW	September 2003	Local management have now got plans in place to address this issue but will not commit to an implementation date as yet. (See Above).

<b>A</b> – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.	<b>C</b> – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.
<b>B</b> – Progress is less than intended in the original improvement action template. The council manager can demonstrate they have plans in place to complete the action.	<b>D</b> – The council no longer intend implementing the original improvement action. Reasons should be given for not implementing the original action.

## APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP with Audit Scotland.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for follow up work agreed with Audit Scotland	7. Progress at 31 October 2003, review by Internal Audit.
5. Develop and host Service Challenge Day	<ul style="list-style-type: none"> <li>▪ Develop training programme June 2001</li> <li>▪ Services nominate staff to attend days August 2001</li> <li>▪ Trainers are trained August 2001</li> <li>▪ Organise events September 2001</li> <li>▪ Host events September 2001 - 2002</li> <li>▪ Review and revise events March 2002</li> </ul>	<p>Staff would have</p> <ul style="list-style-type: none"> <li>▪ greater awareness of Best Value</li> <li>▪ more involvement in the Best Value process</li> <li>▪ more ownership of the process</li> </ul>	<p>We have postponed this task for the following reasons. The Service Challenge Day aimed to inform staff about Best Value in general and particularly in relation to the Best Value requirements outlined in the Local Government Bill (as they are likely to be the staff responsible for implementing these requirements). However, the Local Government Bill has still not received assent and the associated guidance has been considerably delayed. Therefore, we have decided to wait until the guidance has been developed and the Bill has received assent to ensure that all of the required information is given to staff otherwise there is a high risk of having to run the training days again which would be prohibitively expensive and not achieve the best use of our resources. Secondly, the aim of the service challenge day is to train 3<sup>rd</sup> tier managers who were then going to act as cascades to their staff.</p>	<p>The work is programmed in the Corporate Policy Service Plan. (5)</p>	<p>January 2004</p>	<p>Working towards this date, on target to be finished on time.</p>

## APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for follow up work agreed with Audit Scotland	7. Progress at 31 October 2003, review by Internal Audit.
			<p>However, the implementation of the organisational review recommendations would mean that a number of the existing 3<sup>rd</sup> tier staff might no longer be the most appropriate people to train. Therefore, to avoid duplication it is important that we wait until after the review to ensure that we train the most appropriate people.</p> <p>We still have this work scheduled in our work programme however we do not plan to commence until the Local Government Bill receives assent and the organisational review is completed. The revised timescales are as follows</p> <ul style="list-style-type: none"> <li>▪ Develop training programme Oct 03</li> <li>▪ Services nominate staff to attend Nov 03</li> <li>▪ Trainers are trained Dec 03</li> </ul> <p>Host events January 04(B)</p>			



## APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for follow up work agreed with Audit Scotland	7. Progress at 31st October 2003, review by Internal Audit.
7. Ensuring team meeting structures are in place to cascade information about best value to Council staff	<ul style="list-style-type: none"> <li>▪ Design cascade structure July 2001</li> <li>▪ Establish cascade structure Sep 2001</li> <li>▪ Monitor and evaluate the effectiveness of the structure March 2002</li> </ul>	<p>Staff have</p> <ul style="list-style-type: none"> <li>▪ Greater awareness of Best Value</li> <li>▪ more involvement in the Best Value process</li> <li>▪ more ownership of the process</li> </ul>	<p>This action is based on the assumption that 3<sup>rd</sup> tier managers are going to act as cascades to their staff. However, the implementation of the organisational review recommendations would mean that a number of the existing 3<sup>rd</sup> tier staff might no longer be the most appropriate people to train. Therefore, to avoid duplication it is important that we wait until after the review to ensure we train the most appropriate people.</p> <p>The revised timescales are as follows</p> <ul style="list-style-type: none"> <li>▪ Design cascade structure Oct 03</li> <li>▪ Establish cascade structure Dec 03</li> <li>▪ Monitor and evaluate the effectiveness of the structure March 04</li> </ul> <p><b>(B)</b></p>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>	January 2004	Working towards this date, on target to be finished on time.

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for follow up work agreed with Audit Scotland	7. Progress at 31st October 2003, review by Internal Audit.
20. Develop the information strategy to ensure that effective, relevant and timely measures of performance are in place or are in development	<ul style="list-style-type: none"> <li>▪ Initial proposed measures by April 2001</li> <li>▪ Consultation on measures via Citizens Panel third quarter of 2001</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identification of key performance measures across all services</li> </ul>	<p>This has been incorporated into the council's strategic service review on knowledge management. The review has a six month timescale and is due to start in February</p> <p>Also identified as an action to be taken forward from the latest EFQM face to face session. <b>(B)</b></p>	<ul style="list-style-type: none"> <li>▪ Knowledge Management Best Value Review Report to Management Team (19<sup>th</sup> Dec 2002) (21.1)</li> <li>▪ Alasdair's diary of road shows (21.2)</li> <li>▪ The road show presentation (21.3).</li> </ul>	September 2003	Will be fully implemented following completion of restructuring exercise Dec 03.
21. Extension of reporting to relevant service points	<ul style="list-style-type: none"> <li>▪ Following agreed measures, performance information to be displayed at all service points by March 2003</li> </ul>	Performance Information available to the public at point of service use	<p>As some services already publish performance information at the point of service delivery. <b>(A)</b></p> <p>The Council has been undergoing an organisational review since August 2002. The review is likely to change the structure of the organisation and the way we interface with the public.</p>	<ul style="list-style-type: none"> <li>▪ The Development and Building Control Handbook is sent/given to every one who makes a planning application. (22.1)</li> <li>▪ A note about the location/ availability of the figures.</li> </ul>	<p>At some points March 2003</p> <p>At all points September 2003</p>	Will be fully implemented following completion of restructuring exercise Dec 03.

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for follow up work agreed with Audit Scotland	7. Progress at 31st October 2003, review by Internal Audit.
22. Complete implementation of management information systems to deliver required performance information	<ul style="list-style-type: none"> <li>The Council is to review its management information systems Nov 02</li> <li>Recommendations as how to improve systems Dec 02</li> <li>Implement action Plan Mar 03</li> </ul>	<p>The Council will have information systems, which will enable it to provide the information that stakeholders require.</p>	<p>The Council has undertaken a review of the information systems and made recommendations for improvement. Corporate Policy has also established a research forum. However the finally implementation of the recommendations is likely to be delayed due to the restructuring of the organisation as it would not be wise to implement a number of recommendations until the correct structures are in place.  <b>(B)</b></p>	<ul style="list-style-type: none"> <li>Knowledge Management Report to Management Team (19<sup>th</sup> Dec 2002) (See 21.1)</li> <li>Establishment of research forum.(23.2)</li> </ul>	<p>Initially scheduled for March 2003</p> <p>Could be delayed until autumn depending on the Best Value Task Force - Autumn 2003 – September 2003</p>	<p>Full implementation following completion of restructuring exercise Dec 03.</p>

1. Agreed improvement action from the 2000/01 PMP audit.	2. Agreed key milestone dates from the 2000/01 PMP audit carried out by Audit Scotland.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for follow up work agreed with Audit Scotland	7. Progress as at 31 October 2003.
<p>23. Ensure effective systems are in place for improvement in PPR systems for succeeding years.</p> <p><i>As a result of Audit Scotland's recommendations, we have added the following-                      Develop and report on local performance indicators.</i></p>	<p>Identification of key performance measures across all services</p> <p>The Council could provide to customers and citizens useful and meaningful performance information relating to local concerns, or needs.</p>	<p>On schedule to achieve this as we have embarked upon this task however do not wish to complete this work until the Local Government Bill second tier guidance for PPRg and developing local indicators is available as being too proactive may result in duplicating work. Therefore, we are on track now but it is considered that the national guidance may not be available until autumn hence this would delay our completion date.</p> <p><b>(B)</b></p>	<ul style="list-style-type: none"> <li>▪ PMP framework</li> <li>▪ Knowledge Management Report to Management Team (19<sup>th</sup> Dec 2002) (See 21.1)</li> <li>▪ Establishment of research forum. (24.2)</li> </ul>	<p>March 2003</p> <p>Initially scheduled for March 2003</p> <p>Could be delayed until autumn depending on the Best Value Task Force - Autumn 2003 – September 2003.</p>	<p>Completed</p> <p>Completed</p> <p>National guidelines now received. Revised date to be implemented December 03.</p>	

<p><b>A</b> – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.</p>	<p><b>C</b> – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.</p>
<p><b>B</b> – Progress is less than intended in the original improvement action template. The council manager can demonstrate they have plans in place to complete the action.</p>	<p><b>D</b> – The council no longer intend implementing the original improvement action. Reasons should be given for not implementing the original action.</p>

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## APPENDIX 5

1. Agreed improvement action from the 2001/02 PMP audit.	2. Agreed key milestone dates from the 2001/02 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with auditor.	7. Internal Audit review as at 31 October 2003.
15 Implement the document, "Delivering Best Value in Highway Maintenance" (11.1)	February 2003.	Clearer and measurable indication of Service provision.	The actions required as part of this initiative are progressing  <b>(B)</b>	No tangible evidence at present	February 2004.	The management can demonstrate they have plans in place to complete the action by February 2004.

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<b>A</b> – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.	<b>C</b> – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.
<b>B</b> – Progress is less than intended in the original improvement action template. The council manager can demonstrate they have plans in place to complete the action.	<b>D</b> – The council no longer intend implementing the original improvement action. Reasons should be given for not implementing the original action.

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## APPENDIX 6

### BEST VALUE ACHIEVEMENT REPORT

Action Plan

1. Agreed improvement action from the 2000/01 PMP audit carried out by Audit Scotland.	2. Agreed key milestone dates from the 2000/01 PMP audit.	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per Exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow-up work agreed with Audit Scotland.	7. Progress as at 31 October 2003
5. Recruitment of an Accountant	Appointment by July 2001.	Provide a greater degree of scrutiny of financial processes and service reviews.	Unable to recruit an accountant. Negotiated greater access to central finance accountant. <b>(Grade C)</b>	Departmental notes.	April 2003	The post of Accountant will be filled by the proposed out posted accountant to be provided by Finance.

<b>A</b> – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.	<b>C</b> – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.
<b>B</b> – Progress is less than intended in the original improvement action template. The council manager can demonstrate they have plans in place to complete the action.	<b>D</b> – The council no longer intend implementing the original improvement action. Reasons should be given for not implementing the original action.

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## APPENDIX 7

### IMPROVEMENT ACTION PROGRESS REPORT

#### Improvement Action Progress Report

Council: Argyll and Bute Council

Service: Community care

Contact: Sandra Greer, Head of Service

1. Agreed improvement action from the 2000/01 PMP audit carried out by Audit Scotland.	2. Agreed key milestone dates from the 2002/03 PMP Audit	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with Audit Scotland	Progress as at 31 October 2003.
1. Need for frontline staff to have a better understanding and application of Best Value.	Staff begin to develop an understanding of Best Value and how it applies to their work	Roll out Best Value workshops	Workshops delayed due to lack of staff resource. Intention to undertake alongside Commissioning Procedural Guidance training. <b>(B)</b>	Quality Assurance Team – vacancies and Manager involved in Complaints, investigations by DMT.	October 2003	Revised implementation date March 2004.
4. Need for more explicit link between local Service Centre plans within Best Value framework.	Service Centres to have business plans which take a Best Value approach.	Service Centres will be required to produce annual business plans and to have them reviewed.	2 of 4 Service Centre Plans drafted 2002/03. Remaining 2 will be rolled out 2003/04. <b>(B)</b>	Copies of Plans available.	December 2003	A working template being reviewed at moment. Revised implementation date March 2004.
5. Need to develop framework to improve links between Service Centres, Service Officers and Planners.	All sections of the department to work more co-operatively and creatively together.	Examine structures and arrangements for producing Service Plans.	This will be reviewed as part of the Council restructuring exercise. <b>(B)</b>		February 2004	Ongoing.

ARGYLL & BUTE COUNCIL - 2002/2003  
 PERFORMANCE MANAGEMENT AND PLANNING  
 FOLLOW UP AUDIT OF COMMUNITY CARE SERVICES

## APPENDIX 7

IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit carried out by Audit Scotland.	2. Agreed key milestone dates from the 2002/03 PMP Audit	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with Audit Scotland	Progress as at 31 October 2003.
11. Service Plan to be disseminated to all Community Care staff throughout the Department.	All staff will have an improved understanding of the direction of the service and the specific targets and outcomes expected.	Newsletters as above will help. A summary in easily readable form of the Service Plan to be provided to all staff. Local workshops to be set up routinely to discuss the Service Plan in progress.	On agenda for SWMT for wide cascading of information. Discussed at Community Care Meeting. <b>(B)</b>		December 2003 (provisional)	Ongoing.
12. Need for staff to understand the plan.	As above.	As above.	Discussed with Managers. Service Officers had input to them. <b>(B)</b>		December 2003 (provisional)	Ongoing.
14. Need for Service Centre business plans to link to the Service Plan.	There will be Service Centre business plans flowing from the Service Plan.	As above.	Shorter, user friendly service plan in place. Revised this year. <b>(B)</b>	HQ Community Care PDR training objectives – collated. Supervision notes available.	<b>LINK TO POINT 4</b>	Revised implementation date March 2004.
19. Service Centre business plans need to develop local performance measurement criteria.	Service Centre business plans will have measurement	Assistance will be given by Planning and Service Officers to Service Centres to	This will be further developed 2003/04 when all four plans are finalised.		February 2004	Revised implementation date March 2004.

## APPENDIX 7

### IMPROVEMENT ACTION PROGRESS REPORT

1. Agreed improvement action from the 2000/01 PMP audit carried out by Audit Scotland.	2. Agreed key milestone dates from the 2002/03 PMP Audit	3. Brief description of what the improvement was intended to achieve.	4. To what extent has the improvement action been implemented? Please describe and allocate a letter A-D as per exhibit 1.	5. Evidence that can be made available to the auditor to support the assessment.	6. Dates for further follow up work agreed with Audit Scotland	Progress as at 31 October 2003.
	criteria in place which is in addition to the departmental requirements.	develop local performance measurements.	<b>(B)</b>			
22. Need to have a range of information leaflets for the public and staff in relation to Best Value Reviews and proposed action.	Regular user friendly information.	As above.	Not achieved as yet. <b>(B)</b>		February 2004	Revised implementation date March 2004.

A – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.	C – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.
B – Progress is less than intended in the original improvement action template. The council manager can demonstrate they have plans in place to complete the action.	D – The council no longer intend implementing the original improvement action. Reasons should be given for not implementing the original action.

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**ARGYLL & BUTE COUNCIL**  
**STRATEGIC FINANCE**

**AUDIT COMMITTEE**  
**28 NOVEMBER 2003**

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**PROGRESS REPORT ON INTERNAL AUDIT PLAN 2003 - 2004**

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**1. SUMMARY**

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the end of October 2003. The objective of the report is to advise members of the progress with the annual audit plan. (See Appendix 1).

**2. RECOMMENDATIONS**

2.1 The Audit Committee is asked to approve the progress made with the annual audit plan for 2003 - 04.

**3. BACKGROUND**

3.1 The progress report contained in Appendix 1, lists the audits scheduled for the financial year 2003 –2004 and ordered by section and level of completion.

3.2 On reaching the end of the 2<sup>nd</sup> quarter it offered the opportunity to reevaluate the number of estimated audit days and to bring direct audit days up to represent 80% of total working days available, as was requested at the previous Audit Committee in August 2003. An extra 100 days were transferred into the Audit Work Schedule from Audit Support Work areas of Advisory and Planning & Reporting.

3.3 The following table indicates the main changes that have resulted from the transfer of management days to the Audit Work Schedule:

<b>Days 2003/04</b>	<b>August</b>	<b>October</b>	<b>Diff.</b>
Core Financial	452	471	19
Non Core Financial	348	359	11
Special Investigations	100	160	60
Other Areas	80	90	10
<b>Total</b>	<b>980</b>	<b>1080</b>	<b>100</b>

3.4 In reviewing the remaining audit areas for quarters 3 & 4 it was evident from the audit time expended to date that Special Investigations have required more days, than had originally been planned for and therefore additional days have been assigned. These assignments tend to place greater demands on management time and therefore a greater amount of days were apportioned.

3.5 Non Core Financial audits have been reviewed and the estimated days re-evaluated to provide a more reasonable balance to the remaining audit requirement. As well as the re-evaluation exercise, 1 day was added to each audit in recognition of management reporting time.

- 3.6 The designation Other Areas, has been reviewed and, as a result of involvement to date on follow up reviews of external audit reports it was felt prudent to assign a further 10 days to this particular task.
- 3.7 In reviewing the Core Financial Audits, 1 day was added to each audit in recognition of management reporting time.

**4. SUMMARY OF 2<sup>nd</sup> QUARTER AUDIT ACTIVITIES FOR 2003 - 2004**

- 4.1 A total of 20 core financial systems audits have been planned for this financial year, the appended report shows that 7 audits have been completed. In respect of the audit for Purchase Ordering & Certification, Audit Scotland as part of their annual audit plan will be covering this area. In an effort to avoid duplication the audit days that would have been expended on this audit, will be transferred to Creditors for e-procurement and provides for this major systems change. As a result this reduces the number of audits still to be completed from 13 to 12. As at 31 October 2003, 4 audits have been started. This therefore leaves 8 audits to be progressed over the remainder of this financial year.
- 4.2 A total of 11 non-financial audit areas have been planned for this financial year, 5 audits have been completed. This leaves 6 audits to be progressed, 2 audits are assigned to KPMG with one audit for IT/MIS strategy and controls a joint audit between internal audit and KPMG. This leaves 4 audits, of which one has been started by internal audit in the area of Joint Futures, which covers the link between this Council and Argyll & Clyde Health Board, in the joint resourcing and management of Long Term Care. The audit for corporate governance and compliance is an ongoing audit throughout the year culminating after March 2004.
- 4.3 The end of the 2<sup>nd</sup> quarter saw more time being devoted to Special Investigations and to date a total of 131 days has been expended. This deficit has been addressed (see 3.4 above) with additional days made available.
- 4.4 Follow-up work has been covered for both internal and external audit management reports. The reviews carried out for the external audit reports are the subject of separate reports to the Audit Committee.

**5. CONCLUSION**

Progress is being made on audits planned for 2003 – 04.

**6. IMPLICATIONS**

- 5.1 Policy: Update on audit plan for 2003 – 04.
- 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 31 October 2003.

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## APPENDIX 1

## Assessment of audit days: 2003-2004 strategic plan

AUDIT WORK SCHEDULE	Last audited	Risk ranking 2003 - 04	Original Estimated Audit Days 2003-04	Revised Estimated Audit Days 2003-04	Actual Audit Days 2003-04	Balance
<b>Core financial systems</b>						
<b>COMPLETE</b>						
Budgetary preparation & control	2002-03	1	20	21	17	4
Debtor Accounts	2002-03	1	20	21	14	7
Stock taking	2002-03	1	27	28	5	23
Cash & Income Banking	2002-03	2	20	21	20	1
Council Tax & NDR	2002-03	2	30	31	22	9
Registration of Births, Marriages & Deaths	2001-02	3	15	16	15	1
Direct Transport Costs	2000-01	4	20	21	21	0
<b>STARTED</b>						
Creditor Payments	2002-03	2	60	61	22	39
Unified Benefits System	2002-03	2	30	31	1	30
Payroll	2002-03	3	30	31	14	17
Contract Hire & Operating Leases	2000-01	5	20	21	8	13
<b>TO BE STARTED</b>						
Car Allowances	2002-03	3	20	21	0	21
Payments to Voluntary Associations	2000-01	4	20	21	0	21
Government grants	2002-03	1	20	21	0	21
Purchase of Equipment & Materials	2002-03	2	20	21	0	21
General Ledger Operations	2002-03	2	20	21	0	21
Treasury management	2002-03	2	20	21	0	21
Tendering Procedures	2002-03	3	20	21	0	21
Public Transport Costs	2000-01	6	20	21	0	21
<b>Section Total</b>			<b>452</b>	<b>471</b>	<b>159</b>	<b>312</b>
<b>Non-financial systems / Best Value / VFM</b>						
<b>COMPLETE</b>						
DLO's	2002-03	1	20	41	65	-24
Performance Indicators	2002-03	1	40	41	84	-43
Best Value Reviews	2002-03	3	30	31	22	9
PMP	2002-03	3	33	35	32	3
Devopment & Environmental Services	2002-03	3, 6	20	35	33	2
<b>KPMG</b>						
IT/MIS Strategy & Controls Joint IA/KPMG	2002-03	1	30	31	0	31
DSO's	2002-03	4, 7, 9	35	31	0	31
<b>STARTED</b>						
Corporate governance compliance/risk management	2002-03	1	50	36	6	30
Housing & Social Work	2002-03	9, 10	30	21	0	21
<b>TO BE STARTED</b>						
Transportation & Property	2002-03	2, 8	20	21	0	21
Education	2002-03	3, 4, 11	40	36	0	36
<b>Section Total</b>			<b>348</b>	<b>359</b>	<b>242</b>	<b>117</b>
			<b>800</b>	<b>830</b>	<b>401</b>	<b>429</b>
<b>Special Investigations/Advisory</b>						
Fleet Management	-	-	100	160	5	29
Petty Cash - Helensburgh					5	
Overpayment of Rent (Roxburgh)					7	
HR Payroll					28	
TPS - Oban (Kilbowie House)					43	
Argyll College					9	
Petty Cash Shortage					1	
Dangerous Buildings					28	
HSW Petty Cash					1	
Housing					4	
<b>Section Total</b>			<b>100</b>	<b>160</b>	<b>131</b>	<b>29</b>
<b>Other Areas</b>						
Follow-up external audit management letter	-	-	20	30	12	18
Risk assessment, strategic plan, annual plans	-	-	20	20	3	17
Internal audit follow up Section Total	-	-	40	40	30	10
<b>Section Total</b>			<b>80</b>	<b>90</b>	<b>45</b>	<b>45</b>
<b>TOTAL</b>			<b>980</b>	<b>1080</b>	<b>577</b>	<b>503</b>

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ARGYLL & BUTE COUNCIL  
KPMG

AUDIT COMMITTEE  
28<sup>th</sup> November 2003

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**REPORT RE AUDIT SCOTLAND REVIEW OF INTERNAL AUDIT (FOLLOW-UP)**

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**1. SUMMARY**

- 1.1 Audit Scotland conducted a review of local authority internal audit provision beginning in the Autumn of 2000 which culminated in a report "A job worth doing" in August 2001. In its assessment of compliance with a CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government, the then external auditors appointed by Audit Scotland, PriceWaterhouseCoopers, placed Argyll and Bute in the bottom quartile of authorities. As part of its response to this assessment the Council appointed the accountancy firm KPMG to advise and assist it regarding audit and assurance matters.
- 1.2 Audit Scotland have indicated that a follow-up to that initial review will take place in this financial year, probably in February and March 2004. The purpose of this report is to advise the Audit Committee the actions being taken to ensure that the internal audit section will be assessed as being amongst the most compliant with best practice in Scotland.

**2. RECOMMENDATIONS**

- 2.1 That this committee notes the actions to be taken in respect of the follow-up review of internal audit

**3. DETAILS**

- 3.1 The Accounts Commission aims to ensure that all councils achieve the highest standards of financial stewardship, governance and public accountability. In the year 2000, the Commission requested Audit Scotland to carry out a national study of internal audit in local authorities to:
- establish a clear picture of the performance of internal audit services in all councils in Scotland; and
  - provide benchmarking data to support continuous improvement.
- 3.2 The approach taken by Audit Scotland was to assess compliance with a Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) by reference to 97 tests on individual council processes and outcomes. Councils were then grouped into four bands depending on their scores against these tests. Argyll and Bute were placed into the 4<sup>th</sup> band.
- 3.3 As a result of this grading, KPMG were appointed to assist the Council in moving towards compliance with the code and to implement recommendations made during the assessment. A large number of policies and procedures have been adopted over the past 20 months designed to move the internal audit section to a position where it complies with the Code of Practice

3.4 It was always the intention of Audit Scotland to follow-up the initial review to ensure that improvement actions had been taken. Argyll and Bute Council are keen to ensure that this follow-up review will result in an improved assessment of their internal audit provision.

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3.5 Internal Audit and the manager from KPMG have agreed the following action immediately prior to the Audit Scotland review:-

- KPMG to review along with the Argyll and Bute audit team compliance with the 97 statements used in the initial review; progress against recommendations made in that review; and any other actions that might need to be taken as a result of the CIPFA Code of Practice having recently being updated;
- Where the conclusion is that the Council complies with best practice the relevant evidence is to be identified that demonstrates that this is the case;
- Where it is felt that there is either no compliance or that evidence of compliance is lacking action will be taken to become demonstrably compliant;
- KPMG will undertake a review of compliance with the Code of Practice using a member of staff who has had no input into this process so far so that she can give an independent opinion about the extent to which there is compliance and any further actions that still need to be taken;
- Argyll and Bute to implement any actions resulting from this independent review.

3.6 Having already undertaken a self-assessment review of compliance with the Code, both KPMG and Internal Audit are of the opinion that a great deal of progress has been made and that there is a high degree of demonstrable compliance with the code. Recommendations made at the initial review have either been implemented completely or progress in implementation is nearly complete.

#### **4. IMPLICATIONS**

4.1	Policy:	None
4.2	Financial:	None
4.3	Personnel:	None
4.4	Legal:	None
4.5	Equal Opportunities:	None

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

Steve Keightley  
manager, KPMG LLP  
31 October 2003  
KPMG report 28 November 2003

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**ARGYLL & BUTE COUNCIL**  
**STRATEGIC FINANCE**

**AUDIT COMMITTEE**  
**28 NOVEMBER 2003**

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**HMI REPORT 2002 – 03.**

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**1. SUMMARY**

A report was received by the Council from Audit Scotland covering Moving to Mainstream – The Inclusion of Pupils with Special Education Needs in Mainstream Schools. Internal Audit as tasked by the Audit Committee has set out below the current efforts being made by Community Services in responding to the recommendations made in the report.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 The Audit Committee on 1 August 2003 was given an overview of the Audit Scotland report, "Moving to mainstream: The inclusion of pupils with special education needs in mainstream schools", which was published 29 May 2003.

3.2 The main report contained 42 recommendations aimed across the board at the Scottish Executive, Scottish Parliament, Local Authorities and their schools and NHS Scotland. Audit Scotland is scheduled to carry out a follow up review in order to evaluate progress by all parties in approximately 2 years time.

3.3 As well as the main report a summary report was issued which contains 11 main recommendations pertinent to local authorities and their schools. These recommendations are therefore key requirements and Appendix 1 is an attempt to list these and show the responses given to Internal Audit by Community Services management. The responses indicate that progress is being achieved on the main issues.

**4. CONCLUSIONS**

Internal Audit will continue to monitor progress by Community Services regarding the issues raised in both the summary and main report.

**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 31 October 2003.  
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**Action Plan: Moving to Mainstream**

No	Recommendation	Responsible Officer	Community Services Management Response	Update 31 October 2003
	<b>Planning for inclusion of pupils with SEN</b>			
1	Councils and NHS bodies should jointly develop a strategy for inclusion that sets out their policy and proposed actions to meet the mainstreaming presumption. This should reflect a careful appraisal of likely effectiveness of different mainstreaming options and the costs, and should be subject to consultation with parents, head teachers and voluntary sector.	Head of Secondary Education & Pupil Support	The strategy for mainstreaming is well established in Argyll & Bute. Clear arrangements are in place for identifying children with SEN at an early stage through PRESCAT. This multi-agency forum includes parents and NHS staff who jointly assess needs and agree placements.	In place
2	Councils should provide strategic guidance to schools on their expectations of them over the long term in respect of inclusion and mainstreaming	Head of Secondary Education and Pupil Support	The Council has revised and updated a substantial file of policy and practice advice – Supporting Children: Supporting Effective Learning.	In place
3	Councils, schools and the NHS should consider ways of improving arrangements to ease the transition of pupils particularly from the primary stage to the secondary stage, including ensuring continuity of therapy and other support services.	Head of Secondary Education and Pupil Support/ Quality Improvement Officer in SEN	Area Network teams of specialist support staff work across the sectors and this explicitly addresses the management of transition. Joint guidance on providing speech and language therapy services has been agreed within the policy and practice file.	Processes agreed

## APPENDIX 1

No	Recommendation	Responsible Officer	Community Services Management Response	Update 31 October 2003
	<b>Building capacity for inclusion.</b>			
4	Councils should ensure that the needs of pupils with a wide range of SEN and disabilities are considered when designing new or refurbished schools. NPDO to be considered.	Head of Planning & Performance/ Project Director NPDO	A survey by specialist surveyors has been carried out to inform the design requirements for the NPDO project and the adaptations necessary in the schools estate.	Actioned
5	Councils should ensure that schools' physical environments are adapted to meet the needs of pupils with SEN, and that essential adaptations are made before pupils are admitted. NPDO to be considered.	Head of Planning & Performance/ Disability Access Co-ordinator	As above. The early identification of children with physical disabilities by educational psychologists allows information on needs to be built into plans for adaptation and refurbishment.	Ongoing
6	Councils should ensure that senior managers in schools have sufficient time for leading and managing provision for pupils with SEN.	Head of Secondary Education and Pupil Support	The National Agreement provides for planning and preparation time beyond the amount of time allocated to class teaching. Specialist staff is involved in supporting planning.	Underway
7	Councils should keep under review the demands on each school and ensure that it has the capacity to function effectively without excessive demands on the head teacher and other members of staff	Head of Secondary Education and Pupil Support/ Quality Improvement Officer in SEN.	The need for support staff is reviewed annually on the basis of an audit of need. Staffing is supplemented as necessary to meet needs effectively.	Ongoing

## APPENDIX 1

No	Recommendation	Responsible Officer	Community Services Management Response	Update 31 October 2003
	<b>Staff Development &amp; Training</b>			
8	Councils and schools should ensure that there is training on inclusion for class and subject teachers and special needs auxiliaries (SNA's), and, in particular, that there is effective development and training to meet the needs of pupils with social, emotional and behavioural difficulties.	Quality Improvement Officer in SEN.	The Quality Improvement Officer for SEN undertakes an annual analysis of staff development and training needs. Programmes of training are provided to address these funded by SEN Specific Grant. Some courses are award bearing. Some involve staff from partner services and parents. The Education service has approved trainer status from SQA for SNAs/CAs.	Annual plan in place
	<b>Quality &amp; Attainment</b>			
9	Councils and schools should ensure that they have rigorous approaches to monitoring and evaluating the quality of inclusive provision for pupils with SEN.	Head of Secondary Education and Pupil Support	The Individual Education Plans for children with SEN are reviewed annually. This involves staff from education and other relevant agencies as well as parents. For pupils in special schools, the appropriateness of transfer to mainstream is explicitly considered at reviews.	Ongoing

## APPENDIX 1

No	Recommendation	Responsible Officer	Community Services Management Response	Update 31 October 2003
	<b>Other Matters</b>			
10	SEN budgets are likely to increase by 15% - 40%	Head of Secondary Education and Pupil Support	The practice of identifying needs early and taking account of these incrementally in the budget process is well established. As more children with significant needs are able to be included in local schools there will be a need for funding for additional staffing and equipment support. Currently some additional funds are provided through the NPAF Inclusion budget from SEED. There is clearly rising pressure on resources	Kept under review
11	The Council will need a strategy to respond to the requirements resulting from legislation coming into effect in August.	Head of Secondary Education and Pupil Support/ Head of Planning & Performance.	A Disability Access Co-ordinator has been appointed to support and ensure compliance with the revised legislation. The relevant access strategy has been approved by SPC and submitted to the SE.	First three year strategy agreed and submitted to SE

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
28 NOVEMBER 2003**

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**THE SMITH REPORT (GUIDANCE FOR AUDIT COMMITTEES)**

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**1. SUMMARY**

This report introduces the key elements of guidance produced by a small group formed by the Financial Reporting Council (FRC) to assist organisations in making suitable arrangements for their audit committees. (See Attached)

**2. RECOMMENDATIONS**

2.1 The attached report is for guidance only.

**3. DETAILS**

3.1 The report appended offers the Chairman, Members of the Audit Committee and senior management the opportunity to consider the key elements of the new guidance prepared by the FRC. Further detail can be provided by KPMG our internal audit partners if requested.

3.2 At present CIPFA is presently compiling a new Code of Practice for Internal Audit and once this is formerly issued internal audit will provide feedback to the Audit Committee as to how the changes affect this Council.

**4. CONCLUSIONS**

Reports pertinent to the role of the Audit Committee will continue to be brought to the attention of the Audit Committee.

**5. IMPLICATIONS**

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

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

Ian Nisbet  
Internal Audit Manager 31 October 2003.  
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# Audit Committee Institute



## Guidance for audit committees (the Smith report)

As part of the UK response to the issues raised by recent major corporate failures in the US, the Financial Reporting Council (FRC) was asked to set up a small group to develop the existing guidance for audit committees contained in the Combined Code. That group, chaired by Sir Robert Smith, has produced guidance to assist boards in making suitable arrangements for their audit committees, and to assist directors serving on audit committees in carrying out their role.

The proposed guidance applies to all companies to which the Combined Code applies and compliance with the bold paragraphs set out in the guidance will be necessary for compliance with the Code.

It is recognised that some of the recommendations may be inappropriate for some listed companies. In particular, many smaller companies may have fewer than three independent non-executive directors. All listed companies are encouraged to meet the recommendations but if they cannot, or if they believe that a recommendation is inappropriate in the circumstances of the company, the right course is to explain the position.

Conversely, best practice goes beyond meeting the recommendations. Every board needs to consider in detail what arrangements for its audit committee are best suited for its particular circumstances. Audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the company.

Recognising that the report already reflects a wide consultation process, it is intended that fatal flaws comments will be invited until April (though the substance of the recommendations will not be re-opened). Thereafter, a definitive version of a revised Combined Code will be issued and will come into effect in respect of accounting periods starting on or after 1 July 2003.

Key elements of the guidance are set out on the forthcoming pages. Copies of the guidance can be obtained from: [www.frc.org.uk/publications.html](http://www.frc.org.uk/publications.html)



## Key elements

### Purpose

The main role and responsibilities of audit committees should be:

- to monitor the integrity of the financial statements of the company;
- to review the company's internal financial control system and, unless addressed by a separate risk committee or by the board itself, risk management systems;
- to monitor and review the effectiveness of the company's internal audit function;
- to make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor following appointment by the shareholders in General Meeting;
- to monitor the effectiveness of the external auditor's performance and their independence and objectivity; and
- to develop and implement policy on the engagement of the external auditor to supply non-audit services.

### Relationship with the board

- Nothing in the guidance should be interpreted as a departure from the principle of the unitary board.
- All directors remain equally responsible for the company's affairs as a matter of law.
- The audit committee, like other committees to which particular responsibilities are delegated (such as the remuneration committee), remains a committee of the board. Any disagreement within the board, including disagreement between the audit committee's members and the rest of the board, should be resolved at board level.
- The board should provide written terms of reference for the audit committee. The terms of reference should be tailored to the particular circumstances of the company.
- The audit committee should review annually its terms of reference and its own effectiveness and recommend any necessary changes to the board.
- The board should review the audit committee's effectiveness annually.
- Where disagreements between the audit committee and the board cannot be resolved, the audit committee should have the right to report the issue to the shareholders as part of the report on its activities in the company's annual report.

### Membership

- Audit committees should be comprised solely of independent non-executive directors.
- "Independent" is defined by Higgs as a director who is independent in character and judgement and has no relationships or circumstances which affect his judgement. Such relationships and circumstances would include where the director was an employee within the last five years, where the director holds cross directorships or has significant links with other directors through involvement in other company boards or bodies, and where the director has served on the board for more than ten years.
- The chairman of the company should not be an audit committee member.
- At least one member of the audit committee should have significant, recent and relevant financial experience eg, as an auditor or finance director of a different company.
- The need for a degree of financial literacy among the other members will vary according to the nature of the company, but experience of corporate financial matters will normally be required.

### Meetings

- Only audit committee members should be entitled to be present at audit committee meetings. Others may be invited to attend.
- The audit committee should, at least annually, meet the external and internal auditors, without management, to discuss issues arising from the audit.
- A sufficient interval should be allowed between audit committee meetings and main board meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board as appropriate.

### Resources

- The audit committee should be provided with sufficient resources to undertake its duties.



## Training

- An induction programme should be provided for new audit committee members. This should cover: the role of the audit committee, including its terms of reference and expected time commitment by members; and an overview of the company's business, identifying the main business and financial dynamics and risks. Meeting some of the company staff is also recommended.
- Training should also be provided to members of the audit committee on an ongoing and timely basis and should, at least, include an understanding of the principles of, and developments in, financial reporting and related company law.
- In appropriate cases, it may also include, for example, understanding financial statements, applicable accounting standards and recommended practice; the regulatory framework for the company's business; and the role of internal and external auditing and risk management.
- The induction programme and ongoing training may take various forms, including attendance at formal courses and conferences, internal company talks and seminars, and briefings by external advisers.

## Financial reporting

- The audit committee should review the significant financial reporting issues, judgements, and clarity and completeness of disclosures made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements such as the OFR.

## Internal financial control and risk management systems

- The audit committee should monitor the integrity of the company's internal financial controls.
- The audit committee, in the absence of other arrangements (eg a risk committee), should assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks.
- Management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the board that it has done so. Except where the board or a risk committee is expressly responsible for reviewing the effectiveness of the internal control and risk management systems, the audit committee should receive reports from management on the effectiveness of the systems they have established and the results of any testing carried out by internal and external auditors.
- Except to the extent that this is expressly dealt with by the board or risk committee, the audit committee should review and approve the statements included in the annual report in relation to internal financial control and the management of risk.

## Internal audit

- The audit committee should monitor and review the internal audit activities.
- Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.
- The audit committee should review and approve the internal audit function's remit, having regard to the need for the internal and external audit functions to complement one another.

- The audit committee should approve the appointment or termination of appointment of the head of internal audit.
- As part of its review work, the audit committee should:
  - ensure that the internal auditor has direct access to the board chairman and to the audit committee and is accountable to the audit committee;
  - review and assess the annual internal audit work plan;
  - receive a report on the results of the internal auditors' work on a periodic basis;
  - review and monitor management's responsiveness to the internal auditors' findings and recommendations;
  - meet with the head of internal audit at least once a year without the presence of management; and
  - monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system.

## External audit – appointment

- The audit committee is responsible for overseeing the company's relations with the external auditor.
- The audit committee should have primary responsibility for making a recommendation to the board on the appointment, reappointment and removal of the external auditors.
- If the board does not accept the audit committee's recommendation, it should include in the directors' report a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different stance.
- The audit committee should assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually.

## External audit - terms and remuneration

- The audit committee should approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided. It should satisfy itself that the level of fee payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee.

## External audit - independence

- The audit committee should assess the procedures in place to ensure the independence and objectivity of the external auditor annually.
- The audit committee should develop and recommend to the board a policy in relation to the provision of non-audit services by the auditor.
- The annual report should explain to shareholders how the policy provides adequate protection of auditor independence.

## External audit - annual audit cycle

- At the start of each annual audit cycle, the audit committee should ensure that appropriate plans are in place for the audit.
- The audit committee should review, with the external auditors, the findings of their work.
- At the end of the annual audit cycle, the audit committee should assess the effectiveness of the audit process.

**Communication with shareholders**

- The directors' report should contain a separate section that describes the role and responsibilities of the audit committee and the actions taken by the audit committee to discharge those responsibilities. This should include:
  - a summary of the audit committee's role;
  - the names and qualifications of all members of the audit committee during the period;
  - the number of audit committee meetings and who attended them;
  - a report on how the committee has discharged its duties.
- Where disagreements between the audit committee and the board cannot be resolved, the audit committee should have the right to report the issue to the shareholders as part of the report on its activities in the company's annual report.
- If the board does not accept the audit committee's recommendation regarding the appointment, reappointment and removal of the external auditors, a statement from the audit committee explaining its recommendation and reasons why the board has taken a different stance should be included in the annual report.
- The annual report should explain to shareholders how the policy in relation to the provision of non-audit services by the auditor provides adequate protection of auditor independence.
- The chairman of the audit committee should be present at the AGM to answer questions, through the chairman of the board, on the report on the audit committee's activities and matters within the scope of audit committee's responsibilities.

**Combined Code: proposed section on audit committees**

- The board should establish an audit committee of at least three members, who should all be independent non-executive directors. At least one member of the audit committee should have significant, recent and relevant financial experience.
- The main role and responsibilities should be set out in written terms of reference and should include:
  - to monitor the integrity of the financial statements of the company, reviewing significant financial reporting judgements contained in them;
  - to review the company's internal financial control system and, unless expressly addressed by a separate risk committee or by the board itself, risk management systems;
  - to monitor and review the effectiveness of the company's internal audit function;
  - to make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
  - to monitor and review the external auditor's independence, and objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements;
  - to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.
- The audit committee should be provided with sufficient resources to undertake its duties.
- The annual report should contain a separate section that describes the role and responsibilities of the committee and the actions taken by the committee to discharge those responsibilities.
- The chairman of the audit committee should be present at the AGM to answer questions, through the chairman of the board.

If you would like further information on any of the matters discussed in this publication, please talk to your usual contact at KPMG UK or contact:

Timothy Copnell on 020 7694 8082  
 tim.copnell@kpmg.co.uk

Further material is available on the Audit Committee Institute website at [www.kpmg.com/aci/uk/home.html](http://www.kpmg.com/aci/uk/home.html)

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**ARGYLL & BUTE COUNCIL**  
**STRATEGIC FINANCE**

**AUDIT COMMITTEE**  
**28 NOVEMBER 2003**

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**MISSION STATEMENT & TERMS OF REFERENCE.**

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**1. SUMMARY**

This report introduces the Mission Statement and Terms of Reference for Internal Audit. The Mission Statement and Terms of reference are attached. (See Appendix 1)

**2. RECOMMENDATIONS**

2.1 The attached Mission Statement and Terms of Reference for Internal Audit are approved.

**3. DETAILS**

3.1 A new Mission Statement and Terms of Reference for Internal Audit has been prepared in conjunction with KPMG, our internal audit partners. This is attached see Appendix 1 and requires to be approved by members. This therefore replaces the previous statement approved by the Audit Committee in May 2002.

3.2 This updated version has been prepared to reflect issues within the new CIPFA Code of Practice for Internal Audit. The areas that have been updated from the previous statement are highlighted.

3.3 This updated Mission Statement and Terms of Reference more clearly defines Internal Audits status of independence, authority and access, internal audit management, quality and skills requirements.

**4. CONCLUSIONS**

The Mission Statement and Terms of Reference for Internal Audit will continue to be monitored, updated and presented for approval as required.

**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 31 October 2003.  
31octfinalreport31oct

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### **Internal Audit Mission Statement**

“To contribute to the achievement of Argyll and Bute Council’s mission and strategic objectives by providing assurance to the Council that financial and operational controls and arrangements for Best Value are functioning efficiently and effectively and that the significant risks to the organisation are being managed.”

#### **Terms of Reference**

##### **1 Objectives**

1.1 To assist the Council and its Strategic Management Team in their governance responsibilities: that is, to support them in creating a mechanism to deliver an effective and efficient risk management and control framework; and to assist them in the corporate governance reporting process.

1.2 To provide assurance on the adequacy of control within the Council’s systems and activities: that is to comment on and recommend appropriate changes to mechanisms put in place by management to ensure systems and activities achieve their objectives; and to bring deficiencies therein to the notice of operational management and ultimately to the Audit Committee.

1.3 To advise management on cost effective controls for new or modified systems and activities;

1.4 To highlight opportunities to reduce costs through greater economy and efficiency within systems and activities.

1.5 Internal Audit areas of focus include:

- ❖ Internal control effectiveness
- ❖ Statutory, procedures and control compliance
- ❖ Implementation of recommendations
- ❖ Corporate governance
- ❖ Systems development
- ❖ Process improvement
- ❖ Value for money and Best Value

1.6 Over time it is envisaged that the function will increase the proportion of reviews of operational systems, value for money and contribute to Best Value.

##### **2 Scope**

2.1 The scope of internal audit includes the examination and evaluation of the adequacy and reliability of the Authority’s system of internal control. Internal audit is responsible for providing assurance across all of the Authority’s activities.

2.2 Internal Audit’s work provides assurance on the extent to which management controls ensure that:

- ❖ significant risks are identified, assessed and appropriately managed;
- ❖ objectives are established and achievement against them is monitored;
- ❖ the Council’s assets are safeguarded from significant losses, including those caused by fraud, waste, inefficiency and commercially unsound practices;

- ❖ relevant laws, rules and regulations are complied with;
  - ❖ operations are conducted effectively, efficiently and economically;
  - ❖ operations are conducted in accordance with Council policies and procedures;
  - ❖ management information systems are reliable and secure;
  - ❖ systems under development are monitored, that appropriate internal controls are built in and are consistent with the organisations' needs;
  - ❖ major Council projects achieve their objectives; and
  - ❖ throughout the Authority's activities it can demonstrate good governance.
- 2.3 In addition, Internal Audit may perform special reviews requested by the senior management or the Audit Committee. When plans are changed for such reviews, this is reported to the Audit Committee so that it clearly understands the implications on resources and for the assurance it requires about internal controls, and any impact on the delivery of agreed plans.

### **3 Role**

- 3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 When internal auditors provide advice to management in a consultancy capacity, auditors will be clear that such advice will not confer any operational responsibility upon them.

### **4 Independence**

- 4.1 Internal audit does not have any executive responsibilities and is independent of the activities, which it audits. This enables them to provide impartial and unbiased opinions and recommendations.
- 4.2 Line managers are fully responsible for the quality of internal control within their area of responsibility. Internal audit is not a substitute for proper control in any sphere of the Authority's activities.
- 4.3 Internal audit will give advice and make recommendations however, it is the decision of management on whether to implement recommendations or not and they who are accountable for such decisions.

### **5 Authority and Access**

- 5.1 Internal Audit derives its authority from the Council who enable them to have unrestricted access to all records, systems, documents, property and staff as required in the performance of its work. Internal auditors are authorised to obtain information and explanations they consider necessary from any employee or agent of the Authority to fulfil their objectives and responsibilities. Internal audit require a timely written response to any findings and recommendations contained in assignment reports.
- 5.2 Any proposed significant changes to systems and procedures should be notified to internal audit so that the implications for internal control can be assessed and acted upon.
- 5.3 The Internal Audit Management will have unfettered right of access to the Chair of the Audit Committee and the Chief Executive.

5.4 Elected members and staff have a right of access to raise any matter of concern with the Internal Audit Management.

## **6 Internal Audit Management**

6.1 The Council's Internal Audit management team has responsibility for:

- ❖ Assisting executives with risk management.
- ❖ Developing a plan that is based on assessed Council risks and Internal Audit's objectives.
- ❖ Developing a programme based on the plan and which is flexible enough to meet changing organisational needs.
- ❖ Ensuring that resourcing arrangements are in place to deliver the plan and are flexible enough to cope with special requests
- ❖ Providing regular progress reports to senior management and the Audit Committee.
- ❖ Ensuring Internal Audit remains effective, credible, productive and focused on areas of most significance to the Council.
- ❖ Working with line management constructively to challenge and improve established and proposed practices and to put forward ideas for improving processes.
- ❖ Developing an appropriately skilled team, supported where necessary by external expertise, to meet best practice.
- ❖ Maintaining an open relationship with the external auditors.
- ❖ Fostering a culture of joint working with management leading to agreed solutions.

6.2 Internal audit management policies and procedures will be detailed in an Audit Manual which will be made available to all audit staff.

6.3 Internal Audit is not relieved of its responsibilities when areas of the Council are subject to review by others. It always needs to assess the extent to which it can rely upon that work, co-ordinate its audit planning with those other review agencies, e.g. external auditors, and decide what further investigations need to be carried out.

## **7 Reporting**

7.1 Internal audit will report on individual assignments to the relevant service management, with copies provided to the Head of Strategic Finance and the external auditors. Summary information will be provided to the Chief Executive and the Audit Committee.

7.2 The strategic and annual audit plans will be presented to the Audit Committee for their approval.

7.3 Internal audit will report at each meeting of the Audit Committee on assignments completed since the previous meeting and bring any significant matters to their attention. It will also provide the Committee with reports concerning the implementation of recommendations made to management by internal audit and on progress made against the audit plan.

7.4 The Internal Audit Management will provide annual reports to the Audit Committee about the work of the internal audit team in the year and will provide an overall assessment of the robustness of internal control to the Committee.

## **8 Quality and Skills**

8.1 The Council's Internal Audit management team is responsible for ensuring the skills of Internal Audit are developed and maintained through:

- ❖ re-skilling and training Internal Audit staff e.g. in complex technical areas, in the use of technology, implementing best practice and in developing inter-personal skills such as communication;
- ❖ techniques such as benchmarking to identify and adopt appropriate best practices;
- ❖ the engagement of external specialists as and when necessary and cost-effectively to meet changing Council needs.
- ❖ developing and monitoring appropriate internal audit performance measures, including mechanisms for continuous improvement

8.2 Internal audit staff, including the internal audit management, will be required to hold appropriate qualifications commensurate with their role and to maintain their competence by undertaking regular training and relevant Continuing Professional Development (CPD).

8.3 Internal Audit must demonstrate objectivity and professionalism, including applying best practice and compliance with the professional codes of practice such as the Code of Practice for Internal Audit for Local Authorities in the UK.



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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
28 NOVEMBER 2003**

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**CIPFA - AUDIT COMMITTEE PRINCIPLES IN LOCAL AUTHORITIES IN  
SCOTLAND.**

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**1. SUMMARY**

At the last meeting of the CIPFA Directors of Finance Section the outcome from an initial consultation on Audit Committee Principles in Local Authorities in Scotland - A Guidance Note was considered. As a direct consequence of that consultation, the document has been modified and now includes a practical matrix to enable local authorities to assess the extent to which audit committee principles are being delivered. In addition, the document has been restructured to distinguish clearly between guidance and additional explanatory material. (See Attached)

**2. RECOMMENDATIONS**

2.1 The attached report is for comment.

**3. DETAILS**

3.1 Against a general background of increased awareness and growing interest in this document, the Section decided, exceptionally, to enter a further period of consultation to allow all interested stakeholders a further opportunity to comment on the modified document.

3.2 You are therefore formally invited to comment on the modified document, a copy of which is attached.

3.3 In particular, responses are invited to the two questions below.

1. Do you agree that the Audit Committee Principles Matrix is a complete and useful addition to the guidance?
2. Do you agree that the restructured document, to incorporate the audit committee remit and the matrix, enables a distinction between the guidance and additional material?

3.4 All comments are to be returned to CIPFA for the Friday 12 December 2003. You can return any comments you may have on the attached document by email to [ian.nisbet@argyll-bute.gov.uk](mailto:ian.nisbet@argyll-bute.gov.uk) At the Audit Committee meeting Friday 28 November it is hoped to be able to distribute any comments gathered.

**4. CONCLUSIONS**

All responses will be collated and returned to CIPFA. Reports pertinent to the role of the Audit Committee will continue to be brought to the attention of the Audit Committee.

**5. IMPLICATIONS**

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

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

Ian Nisbet

Internal Audit Manager 31 October 2003.

31octfinalreport31oct

# **AUDIT COMMITTEE PRINCIPLES IN LOCAL AUTHORITIES IN SCOTLAND**

## **A GUIDANCE NOTE**



**in Scotland  
DIRECTORS OF FINANCE SECTION**

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**Foreword**

Foreword and acknowledgements  
by Gordon Edwards  
Chair  
CIPFA Directors of Finance Section  
*To be inserted*

## **1 Introduction**

### **Purpose and Scope of Guidance**

- 1.1 This document has been produced to help local authorities in Scotland to apply audit committee principles. It is descriptive rather than prescriptive, recognising that each authority will wish to reflect its own style of operations. Specifically it does not suggest a single model solution. Local authorities in Scotland have various structures, as described in Appendix 2, but deliver a common set of services to their citizens. The same is true of audit: all councils are audited and exercise some form of self-scrutiny, but the structures that are employed to carry out these functions vary considerably.
- 1.2 Similarly the guidance does not seek to define “best practice”. Many local authorities are in the process of implementing audit committee principles or refining the way in which they seek to achieve them and, while there are clear features of “good practice” which this document will describe, “best practice” will develop over time.
- 1.3 The principles apply equally to all sizes of local authority and also to bodies such as joint boards. How they are applied will however depend on many factors including the decision making structure of the authority and its size. Smaller authorities and single purpose bodies, such as joint fire boards, may consider it appropriate to adopt different solutions to those which would suit larger, more complex organisations.
- 1.4 The guidance has been prepared as a practical tool to aid all those with an interest in, or responsibility for, audit committee principles and, as such, it should be of use to elected members, senior officers, internal and external auditors.

### **Context and Structure of the Guidance**

- 1.5 It is considered that all local authorities should be able to demonstrate that they are complying with audit committee principles in order to meet the requirements of good corporate governance. The document has been designed as a practical tool to enable this. The document is therefore presented in two distinct parts. The core guidance is contained in Chapters 2 to 6. Audit committee principles are defined and practical guidance in how to deliver the principles is set out. The guidance contains practical tools including a model terms of reference for an audit committee and a matrix of key features which will enable local authorities to assess the extent to which they are applying audit committee principles.
- 1.6 The second section will also be of particular use to local authorities. The wider corporate governance framework and the place of audit committee principles within that framework is described at Appendix 1.
- 1.7 A reflection of practical realities are reflected in the guidance. A description of the way in which audit committee principles are currently applied in a selection of authorities has therefore been included. A sample of different committee structures

has also been included to illustrate the diversity that exists and to demonstrate that regardless of the local authority's structure, it will be capable of delivering audit committee principles. These contextual elements are included in Appendix 2.

- 1.8 There are already a number of publications covering issues related to this guidance, specifically the importance of good corporate governance and the role, responsibilities and essential independence of internal and external audit. Some of these are listed in the bibliography at Appendix 3.

### **Terminology**

- 1.9 For simplicity, the phrase "local authority" is used throughout even though audit committee principles apply equally to other local government organisations.
- 1.10 Similarly, the phrase "audit committee" is used throughout the guidance note to mean that part, or those parts, of the member structure of a local authority which contribute to the delivery of audit committee principles even though it is recognised that authorities themselves use a wide range of names.
- 1.11 Certain officers have also been given standardised names, for example the Chief Finance Officer, under Section 95 of the Local Government (Scotland) Act 1973, is referred to throughout as the Chief Finance Officer (CFO) and the Head of Internal Audit (HIA) is described as such, even though in many authorities different job titles are used.

### **Status of the Guidance**

- 1.12 The development of this guidance note included field visits to selected local authorities to identify current models for the implementation of audit committee principles. Additionally, consultation was held with key stakeholders and the draft guidance was considered by CIPFA's Audit Panel.
- 1.13 The product is intended to provide practical guidance to facilitate the implementation of audit committee principles in local authorities in Scotland. The CIPFA Directors of Finance Section commend this guidance as good practice.

## 2 Audit Committee Principles

- 2.1 The expression “audit committee principles” has passed into common usage in both the public and private sectors. Perhaps inevitably it has come to have a number of different meanings depending on the context and intention of those using it. The origins of the expression, used with particular reference to local authorities, can be traced back to the *Report of The Commission on Local Government and The Scottish Parliament* (the “McIntosh” report) published by the then Scottish Office in 1999, although the principles themselves were not defined.
- 2.2 Given that the fundamental purpose of this document is to give guidance to local authorities in Scotland on the application of audit committee principles then it is appropriate at this point to be clear about what these principles are. That is the aim of this section of the guidance.
- 2.3 Set out below are three fundamental principles that uniquely define the expression “audit committee principles”. These principles, which build on the ‘Principles of the Audit Committee’ as expressed in CIPFA’s Code of Practice for Internal Audit are that there should be effective mechanisms in place to provide:
- independent assurance of the adequacy of the risk management framework and the associated control environment within the authority;
  - independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment; and
  - assurance that any issues arising from the process of drawing up, auditing and certifying the authority’s annual accounts are properly dealt with.

### Structures

- 2.4 In stating these principles, the term “mechanisms” is used although in practical terms it is difficult to envisage a situation where there would not also be identifiable and distinct structures in place to give effect to these mechanisms and to monitor their effectiveness. Often there is an audit committee at the heart of this structure and a clear view was expressed in the McIntosh report that such committees should be established:

*"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".*

- 2.5 Notwithstanding the clear position adopted by McIntosh, this guidance is intended to deal with the application of audit committee *principles*. It makes no assumption that authorities will have an audit committee although the guidance is clear (see paragraph 3.2 below) that the creation of an audit committee (or similar group) to give effect to the implementation of audit committee principles should be considered good practice.



## **Independence**

- 2.6 Also, although the term “independent” has been used, it is acknowledged that in practical terms the mechanisms described as defining audit committee principles will exist within the framework of the local authority. Good practice, as described later, would suggest that an audit committee should be constituted as a formal committee of the Council meaning that independence could be argued to be less than total. The theoretical accuracy of this point is acknowledged so, in practice, the mechanisms should aim to minimise the extent to which independence is compromised.
- 2.7 In particular it is important to ensure that the audit committee does not play any role in the day to day operational or strategic management of the authority. If the committee is to be independent then it is important to ensure that it is not a decision making body with respect to the policy and service areas. The committee should therefore make recommendations in these areas for referral back to full Council for ratification. It will, of course, be able to make decisions on the audit related items which are within its agreed remit.
- 2.8 If it is felt appropriate to give the audit committee a wider remit than that implied by the three principles then it would be important to ensure that this wider role did not compromise the committee’s ability to give effect to the principles.

## **Related Issues**

- 2.9 In support of the three core principles authorities may wish to consider the extent to which other conditions exist, including but not restricted to:
- the existence of strong and effective working relationships between and amongst internal audit, external audit and the various inspection agencies;
  - an audit process whose value is understood by the authority and its managers; and
  - mechanisms to ensure the initial and continuing training and development of those charged with the responsibility of implementing audit committee principles.
- 2.10 Also, the role of audit committees and the application of audit committee principles cannot be considered without also taking into account the wider issue of corporate governance. To the extent that audit committees are an element of good corporate governance then those core principles should be understood to be inherited by the audit committee.

## **Benefits**

- 2.11 There are many benefits that adherence to audit committee principles will bring to a local authority and to its key stakeholders. These will be dependent upon the effectiveness of the mechanisms adopted in practice and so the following list is not exhaustive. Typically, the adoption of audit committee principles should deliver the following benefits:
- assist compliance with the financial regulations, standing orders, statutory duties and regulatory responsibilities ;

- improve the adequacy of internal control, risk assessment and risk management procedures;
- increase confidence of stakeholders in the process of scrutiny of financial and non-financial performance information;
- raise the profile of internal audit within the authority;
- assist in ensuring that best value and value for money are achieved;
- minimise the extent to which the local authority may be at risk from illegal actions; and
- assist the local authority to achieve its objectives.

## **Practical Application of the Principles**

2.12 Chapter 3 seeks to set out a broad model for the practical delivery of audit committee principles. The proposed model is, by design, descriptive and not prescriptive. This will allow the practical development of audit committee principles to be influenced by the requirements of local administrative and governance arrangements. To accompany the practical guidance a model remit for an audit committee is at Chapter 5 and a summary of the key features which need to be in place for adherence to audit committee principles to be demonstrated is included in the form of a matrix at Chapter 6.

### **3 Delivering Audit Committee Principles**

3.1 Audit committee principles will be delivered if there are effective mechanisms in place to provide:

- independent assurance of the adequacy of the risk management framework and the associated control environment within the authority;
- independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment; and
- assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.

3.2 It is not considered that this can be achieved without the existence of a group of elected members specifically charged with ensuring that the mechanisms exist and are effective. This would be the absolute minimum role of an audit committee. In practice, such a committee would be well placed to do the tasks necessary to provide the assurances and scrutiny itself and it is considered good practice that the remit of the audit committee should be designed to require it to do this.

3.3 Audit committee principles are intended to provide reassurance to all the stakeholders of the authority, internal and external. It is therefore considered good practice that the audit committee should be formally constituted within the governance arrangements of the authority, reporting directly to the full Council. However, this guidance accepts that it may be possible to deliver audit committee principles without the audit committee being formally constituted.

3.4 It should be noted at this point that, in its 2001/02 Overview Report, Audit Scotland expressed the view that "All councils should not only have Audit Committee mechanisms in place, but they should be committed to making sure that they are effective." It is considered that the effectiveness of an audit committee is greatly enhanced by the status and accountability that formal constitution brings.

3.5 The practical guidance which follows is based on the existence of a formal committee. However, even if a less formal group is considered adequate, much of the guidance will still apply.

3.6 The guidance first considers various issues around the administration of the committee. It then takes each of the core principles and the supporting features in turn and considers the role of the committee in delivering them.

#### **Remit and Membership**

3.7 At the outset, the committee should have clear terms of reference or a set remit which has been agreed by the full council and which describes precisely the role of the committee. If the committee is charged with delivering each of the audit committee principles, then its role will include:

- Forming a judgement on risk management procedures within the council and the impact of these on internal controls;
- Consideration of non-financial performance where this affect's the authority's exposure to risk and weakens the control environment;
- Approval and subsequent monitoring of the internal audit strategy and periodic internal audit plan. A product of this process will be the formation of a view by the committee of the effectiveness of internal audit; and
- Consideration of the annual statement of accounts.

- 3.8 Although it is considered that audit committee principles would be supported by a process which results in the strategy and plans of the Head of Internal Audit being formally approved by the audit committee, it will be important that the professional judgement of the HIA is not challenged inappropriately. The main role of the audit committee is to ensure that proper practice was followed in determining the strategy and the plans.
- 3.9 The Chair of the committee should be a competent elected member of integrity and be prepared to challenge. As part of his/her duties the chair should encourage open discussion at meetings and should not seek to restrict debate. Local authorities may wish to consider selection of the chair from outwith the administration. In addition to underpinning independence this would be consistent with the principles of openness and inclusivity, integrity and accountability as described in Appendix 1. However, the important thing is that discussion and challenge are apolitical wherever possible and the chosen chair should have the personal qualities necessary to achieve this.
- 3.10 The committee may function more effectively with a small membership to enable efficient discharge of the committee role and responsibilities. The chair will require to consider a balance of views on any particular matter and this would be served by an additional two members in addition to the chair. One further member would provide a further supportive view to a balanced discussion. Consequently, a minimum membership of four elected members (including the chair) should be considered. It is acknowledged however, that again local requirements will have an influence. A further option which the local authority may wish to explore is the possibility of cooption of non elected members to serve on the audit committee.
- 3.11 Given the likely financial content of information which will come before the committee, it is desirable that one of the members should have an awareness of financial matters. A lack of awareness of financial matters should not in itself however, preclude committee membership and the benefits of a critical lay view should not be underestimated. Both the members and the council should ensure that any necessary action is taken to ensure that committee members can discharge their responsibilities effectively.

### **Meetings**

- 3.12 The frequency of committee meetings will be prescribed within the council's committee and planning cycle. A typical cycle of meetings within the framework of a

model timetable will consider ongoing audit and regulatory matters in addition to the annual matters summarised in the following table:

February/ March	Approval of Internal Audit periodic plan & review of strategy
June	Annual assurance from Internal Audit/Provision of assurance to council. Consideration/Review of annual statement of accounts.
September /October	Review of audit certificate and consideration of matters arising from audit. Review progress of internal audit plan
December	Consideration of annual report to members from external auditor.

- 3.13 It will be a matter for each local authority to determine the extent to which meetings are held in public. In particular, the committee will at times be required to consider matters which are confidential, where Standing Orders in respect of closed sessions can be applied. In general, regard should be had to the principle of openness and inclusivity.
- 3.14 As well as the members of the committee, and the public if appropriate, other people may be invited to attend, for example:
- other elected members;
  - officers including the Chief Finance Officer and Head of Internal Audit; and
  - external Auditor

### **Papers**

- 3.15 The papers for an audit committee may, by nature, be technical in detail and consequently, agenda papers should be submitted in good time to enable all members and officers to review them properly. It may be appropriate for papers to go out considerably more in advance than the usual week so that consideration can be given, in the light of the topics to be discussed, as to which other members or officers should be invited to attend the meeting.
- 3.16 The governance arrangements of the committee should determine the level of detail which requires to be provided to members. By way of example, a report received from an external or internal auditor may not require to be included in full form as part of the agenda. It may be appropriate for an executive summary and action plan to be submitted. The level of detail should be adequate however to enable the member to form an opinion on the substance of the matter and any progress made on implementation of agreed actions.
- 3.17 It may be considered appropriate to provide the audit committee with only a selection of reports or summary reports. In this case it will be important that the selection of the reports and/or the way in which they are summarised identifies the main issues. When the HIA's annual report is received there should be no issues raised in that report which have not already been brought to the attention of the audit committee during the year.

3.18 Specific practical issues relating to papers are expressed in tabular form below:

Document/Task	Committee Role	Possible Committee Consideration
Terms of Reference/Remit	Adherence to the terms of reference.	Are the terms being adhered to as anticipated? Has the role of the committee expanded? Do the terms of reference require to be amended?
Agenda & Papers	Review the papers and ensure that there is an understanding of the matters to be discussed	Are the papers received in good time to ensure that they can be considered in the necessary depth? Is the content of the agenda and the quantity of papers appropriate for the time set aside for the meeting?

### The Control Environment

- 3.19 The first principle states that there should be an effective mechanism in place to provide **independent assurance of the adequacy of the risk management framework and the associated control environment within the authority.**
- 3.20 The control environment will generally be the overall awareness, actions and attitude of members and managers regarding internal controls in the authority. The control environment encompasses both management style and the corporate culture of an authority. It is the broad background against which all other controls are operated. Against this background, internal control specifically can be defined as:
- “the whole system of controls, financial and otherwise, established by management in order to carry on.. business..in an orderly and efficient manner, ensure adherence to management policies, safeguard the.. assets and secure..the completeness and accuracy of the records.”*
- 3.21 There is a range of types of internal controls. Consideration of internal control by the committee will concern how risk is assessed and managed within the council.
- 3.22 Generally, risk will be present where there is any factor which could preclude the achievement of the objectives of the council. Although committee members will not be required to identify risks, the audit committee should ensure that a risk assessment has in fact been carried out and subsequently managed.
- 3.23 They may also be a role for the audit committee to provide assurance to the council, in the form of an annual audit committee report. This report would cover the whole of their remit but, given the importance of managing risk, would specifically include the committee’s assessment of the effectiveness of the risk assessment and management processes.

- 3.24 The assessment of risk by the local authority will be a key consideration for the Head of Internal Audit who will prepare an internal audit strategy and periodic plans based on the results of this assessment. The committee will wish to ensure that risk assessment has been carried out prior to preparation of the plans before they formally approve the strategy and periodic plans. There is a clear distinction between the approval process and preparation of the plans based on the professional judgement of the Head of Internal Audit. Formal approval is consistent with the principle of accountability but should be automatic provided proper practice has been followed.
- 3.25 The committee will also wish to monitor progress against the plans formally and the Head of Internal Audit will therefore need to report on progress against the plan to each committee meeting. Progress can also be monitored by committee members from the receipt and timing of internal audit reports.
- 3.26 Where there is limited progress, the committee may wish to explore the reasons for this and in particular address whether:
- internal audit is appropriately resourced to meet the planned audit activity; and
  - internal audit resources have been diverted to non-audit assignments outwith the strategy or periodic plan.
- 3.27 Consideration of the control environment also extends to monitoring the implementation of recommendations made as a result of the audits carried out, whether within the plans or as exceptional audits. The outcome of the work of both the internal and external auditor will be an assessment of the effectiveness of internal controls in the form of audit reports. Detailed discussion on the content of the report and the improvement actions required will generally be matters for the officers of the council prior to committee consideration. These discussions will take place as part of the audit process and be completed prior to submission of the audit report.
- 3.28 The committee will however need information to enable it to monitor implementation of the improvement actions agreed. This will include actions arising not only from audit reports but also from the reports of other external inspection agencies.
- 3.29 Practical delivery of this principle is expressed in tabular form below:

<b>Document/Task</b>	<b>Committee Role</b>	<b>Possible Committee Consideration</b>
Internal Audit Strategic Plan	Review the plan in good time before commencement of the planned activity.  Approval of the plan.	Was the plan prepared after a suitable risk assessment? Does the Head of Internal Audit have the required resources? Is there a proper balance between planned audit activity and reactive work?
Internal Audit Operational Plan & Progress Reports	Review the plan Approval of the plan. Review the progress report to assess progress	Was the plan prepared after a suitable risk assessment? Is there any slippage against planned activity?

	against the plan.	What is the reason for any slippage against planned activity?
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<b>Document/Task</b>	<b>Committee Role</b>	<b>Possible Committee Consideration</b>
Internal Audit Reports	Review the report and consider any wider implications.	What risks do identified control weaknesses pose to the local authority? Have improvement actions been amicably agreed? Are improvement actions being implemented on time?
External audit/Inspection agency reports	Review the report and consider any wider implications. Committee members are not required to approve reports by external auditors/inspectors	What risks do identified control weaknesses pose to the local authority? Have improvement actions been amicably agreed? Are improvement actions being implemented on time?
Risk assessment	Ensuring that risk assessment has been carried out.  Providing assurance to the council in the form of an annual audit committee report	Will high risk activities be incorporated into the audit plan?

- 3.30 The Head of Internal Audit should, at least on an annual basis, be able to provide the committee and CFO with a formal statement which gives assurance on the effectiveness, or otherwise, of internal controls. This process will, in part enable the committee to provide a broader formal assurance to council.
- 3.31 Local authorities are presently required by the Code of Practice on Local Authority Accounting in the United Kingdom to incorporate a document described as the statement on the system of internal financial control.
- 3.32 The Code also recognises that a local authority may decide to publish a wider-ranging statement on the system of internal control and/or a statement on the adoption of a local code of corporate governance. In such an instance the Code recognises that a local authority may include these statements in place of the statement on the system of internal financial control in their statement of accounts.

<b>Document/Task</b>	<b>Committee Role</b>	<b>Possible Committee Consideration</b>
Annual report from Head of Internal Audit	Review of the report.	Is the content and conclusion from the report an accurate reflection of the issues considered by the committee in



		the previous year?
Annual Audit Committee Report/Review	<p>Provision of overall assurance to the Council</p> <p>Contribution to the preparation of the report.</p> <p>Contribution to the Internal Financial Control Statement, the wider Internal Control Statement or the Corporate Governance Statement</p>	<p>Based on the matters examined at committee can an unqualified report be approved?</p> <p>What are the implications of control weaknesses identified and reported?</p>

### **Risk Related Performance**

- 3.33 The second principle states that there should be an effective mechanism in place to provide **independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.**
- 3.34 Risk may be found in aspects of performance which are not necessarily financial in nature. While the risk associated with managing and handling cash and other associated assets is clear, the risks associated with weaknesses in the service planning process may be less apparent. It is essential therefore that not only is there a robust risk assessment process incorporated within the governance of an authority (covered in the principle above) but that this is used to highlight areas of performance which may affect the authority's exposure to risk and weaken the control environment.
- 3.35 These aspects of performance fall clearly within the remit of the audit committee although many other aspects of performance scrutiny are the legitimate responsibility of service related committees.
- 3.36 Risk related performance issues will most likely emerge from internal or external audit reports or in reports from other inspection processes. The committee's role in reviewing these and ensuring that improvement actions are implemented, as discussed above, will therefore also serve to help it deliver this principle.

### **Annual Accounts and the External Auditor**

- 3.37 The third principle states that there should be an effective mechanism in place to provide **assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.**
- 3.38 The process of compilation, auditing and certifying the annual statement of accounts is a statutory process. The governing regulations are the Local Authority Accounts

(Scotland) Regulations 1985. The regulations require that an abstract of the accounts for each financial year is prepared and submitted to both the authority and the Controller of Audit by 30 June.

- 3.39 The statutory nature of this key aspect of financial accountability and the consequent audit process give it a high profile and it may be a key area of consideration for the committee. The audit committee may be given a role in providing an overview of the progress from commencement of compilation to receipt of audit certificate.
- 3.40 It will be a matter for each local authority to determine the extent of the audit committee's role in the process. That role may include an advisory and review role of the annual accounts prior to audit. It may however be that the role can be limited to a consideration of progress of the process overall without an active consideration of the statement of accounts.

<b>Document/Task</b>	<b>Committee Role</b>	<b>Possible Committee Consideration</b>
Project plan for compilation of accounts by 30 <sup>th</sup> June	Review of the document	Does the plan aim to achieve compilation by 30 <sup>th</sup> June? Does the plan address previous audit qualifications?
Project plan for completion of audit by 30 <sup>th</sup> September	Review of the document	Does the plan aim to achieve completion by 30 <sup>th</sup> September? Has the plan been discussed with the Chief Finance Officer?
Annual unaudited statement of accounts	Review of the accounts	Do the accounts adhere to the Code of Practice on Local authority Accounting in the United Kingdom? Has a copy been submitted to the Controller of Audit?
Audit Certificate	Consider the implications of any qualification to the certificate or content of any explanatory paragraph  Consider the nature of any qualifications/ explanatory paragraph by the auditor	Has the Chief Finance Officer taken all steps to avoid the qualification?
Annual report to members	Discussion of the report with the external auditor  Review the report to identify any material or recurring matters	What is the risk to the authority of the issues identified by the auditor? Has progress been made in implementing the actions from the previous management letter?

- 3.41 The external auditor will also prepare long term and annual audit plans. There is however no role for the committee in approving the plans. The committee should however be provided with sight of the plans. The work of the external auditor is directed by the Accounts Commission’s Code of Audit Practice and this encourages external auditors to discuss the plans with the audit committee. At this point the committee will, among other things, be able to ensure that there is coordinated effort between external and internal audit.
- 3.42 Because of the statutory basis for the work of the external auditor, it is considered that all reports from the external auditor, or the relevant extracts thereof, should be submitted for consideration by the audit committee.

**Supporting Tasks**

- 3.43 Chapter 2 also identified other conditions which, if they exist, may directly support the achievement of audit committee principles. The committee also has a specific role in helping to secure these conditions:

Condition	Committee Role
The existence of strong and effective working relationships between and amongst internal audit, external audit and the various inspection agencies	<ul style="list-style-type: none"> <li>• Ensuring that the relationship is maintained by ensuring that reliance is placed on the work of internal audit, wherever possible.</li> <li>• Ensuring that there is appropriate cooperation between external and internal audit and that reliance is placed on the work of each other party</li> <li>• Ensuring cooperation, coordination and progress at all levels</li> <li>• Liaison meetings as necessary between chair of committee and Head of Internal Audit.</li> <li>• Liaison meetings as necessary between chair of committee and external auditor</li> </ul>
An audit process whose value is understood by the authority and its managers	<p>Seeking evidence that the role of audit is understood and respected by managers and staff</p> <p>Promotion of the role of audit</p>
Mechanisms to ensure the initial and continuing training and development of those charged with the responsibility of implementing audit committee principles	<p>Requesting and attending induction and continuing training for themselves both about audit committee principles and contextual issues such as finance</p> <p>Evaluating effectiveness of own training</p> <p>Ensuring appropriate training is available for others involved in the process of implementing audit committee principles</p>

## 4. Roles and Responsibilities

### Introduction

4.1 This chapter looks at the roles and responsibilities of all of those involved in implementing audit principles through an audit committee. The chapter looks specifically at the roles and responsibilities of the following stakeholders including the documents that may typically be the responsibility of:

- Elected members in general;
- Members of the Audit Committee
- Chief Finance Officer;
- Chief Officers and Chief Executive;
- Head of Internal Audit; and
- External Auditor.

### Elected Members

4.2 Fundamentally, members are in charge of the local authority. They are responsible for setting the direction and policies of the authority. They are also responsible for allocating resources and setting budgets to ensure that their plans and policies are delivered.

4.3 In practice, members delegate the day to day management of the authority to paid officers. This means that members need to find ways of reassuring themselves that officers are carrying out their wishes, and that the authority is complying with the law and relevant standards as well as with standards of corporate governance.

4.4 This reassurance is provided by many different things including:

- The existence of plans, objectives, targets and performance indicators
- Clearly written policies and procedures which set out roles and responsibilities
- Staffing structures which ensure that staff are properly trained and competent to carry out their roles
- Effective management and supervision throughout the authority
- Sound systems of control which are regularly tested and maintained
- A council structure which ensures scrutiny of management actions
- A council structure which ensures scrutiny of members' decisions
- Internal scrutiny by internal audit
- External scrutiny by external audit and other inspectors and regulators.

4.5 There is a wide range of regulatory and inspection agencies from which the Committee may receive submissions. The following list although not exhaustive provides a flavour of the range agencies and an indicator of scale of that range:

- HM Inspector of Schools;
- Communities Scotland;

- HM Inspector of Police;
- HM Inspector of Fire;
- HM Inspector of Social Work;
- Benefits Fraud Inspectorate;
- Scottish Environmental Protection Agency (SEPA);
- Inland Revenue; and
- HM Customs & Excise.

4.6 All elected members have a role to play in ensuring the good corporate governance of the authority. However, the particular aspect of this with which this guidance is concerned is adherence to audit committee principles. It is considered that good practice requires the establishment of an audit committee.

### **Members of the Audit Committee**

4.7 The audit committee plays a key role in ensuring the scrutiny of management actions and members' decisions by members for members. This is a key point. The audit committee exists to provide reassurance to members, not to the senior management of the Council.

4.8 Members of the audit committee should receive reports from internal audit and external audit. This gives the committee an overview of the authority's performance in a wide range of financial and non-financial matters. The committee is able to seek further information and/or explanations about any of the reports it receives which means it is able to hold both officers and members to account for any relevant matters which are mentioned by the auditors. The committee is able to question and challenge the findings and recommendations of internal and external auditors and it may wish to require other elected members (who are not otherwise members of the audit committee) to attend its meetings to consider matters particular to their own committee or sub-committee.

4.9 The integrity of the committee will be demonstrated by the quality of its membership, the content of its agenda and by the manner in which the members discharge their role. To be fully effective, members of the audit committee need to have certain characteristics above and beyond those which are desirable in all members. In particular, they need to:

- have a good understanding of how the whole council works and a broad understanding of the controls which exist or should exist;
- be able to distinguish between serious control weaknesses and those which are relatively minor;
- be confident about discussing audit findings with the auditors and management;
- have the power to make decisions or to make recommendations to the council, in accordance with the standing orders; and
- be respected and trusted by other members of the council to make decisions on their behalf.

- 4.10 The audit committee will play a key role in the corporate governance of a local authority. Membership of the committee will require a different skill set to that required for membership of service committees. There will therefore be a responsibility upon the local authority overall to ensure that the status of the committee attract the appropriate membership. Also, it may be necessary to provide training and support to help members gain sufficient expertise to be effective audit committee members. For example, an audit committee handbook for members could be developed as a useful reference source and guide.

### **The Chief Finance Officer**

- 4.10 Section 95 of the Local Government (Scotland) Act, 1973, states that:

*“...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs...”*

- 4.12 It is appropriate to identify the distinction between the management responsibility of Chief Finance Officer (CFO) and the broader scrutiny role of the committee. The CFO will generally be responsible for the provision of executive advice on all financial matters to the committee.
- 4.13 The CFO in a local authority will typically be, though not always, the Director of Finance. The CIPFA paper *‘The Role of the Finance Director’* does not expressly provide for a specific role for the CFO in relation to audit committees.
- 4.14 The audit committee will almost certainly consider issues as a matter of course which have a direct impact on financial resources and there should therefore be a clear role for the CFO. It is envisaged that the CFO will be present at committee meetings when all external audit and financial reports are considered. It should also be noted that the CFO, along with other chief officers, may be the subject of positive challenge from committee members. In practical terms therefore, the CFO may feel it appropriate to attend most, if not all, meetings of the audit committee.
- 4.15 The specific reporting arrangements for internal audit may have a direct impact on the attendance by the CFO. Where the CFO is directly responsible for internal audit, the presence of the CFO may impact upon the proceedings. There may occasionally be reasons why the Head of Internal Audit wishes to discuss matters without the presence of the CFO. Equally however, there may be instances where the CFO has reason to bring matters to the attention of the audit committee without the presence of the Head of Internal Audit. Neither of these instances should occur with any frequency.
- 4.16 The CFO may be the author of reports to the committee. The typical reports and products which may come from the CFO include:
- financial performance reports;

- the draft annual statement of accounts which are in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice;
- responses to external audit reports and/or completed action plans; and
- responses to internal audit reports and/or completed action plans, where these relate to the CFO's areas of responsibility.

4.17 The above list is not exhaustive and will be influenced by the specific remit of individual committees and local circumstances.

4.18 The CFO may be required to provide an update to committee on progress on the implementation of previous audit recommendations in his/her area of responsibility and should expect to be questioned by committee members on that progress.

### **Chief Officers and Chief Executive**

4.19 Chief Officers and the Chief Executive are responsible for the day to day running of the authority. They are accountable to members for the running of their departments and therefore for addressing the findings of audit reports. In addition, a clear role for the Chief Executive is envisaged by maintaining the strategic link between elected members and all other parties who may attend audit committee meetings.

4.20 Chief Officers will be responsible for signing off the action plans for audit recommendations and they are likely to be invited to the audit committee to discuss audit reports and action plans relating to their areas of control.

### **Head of Internal Audit**

4.21 Internal Audit is one of the ways in which the Council (members and managers) gains assurance that its policies are being observed and risks are being properly managed. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom defines internal audit as:

*“..an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”*

4.22 The Head of Internal Audit should attend every audit committee meeting. The Code of Practice for Internal Audit in Local Government in the United Kingdom sets out the following matters which the Head of Internal Audit should bring to the attention of the audit committee:

- the terms of reference for internal audit
- the internal audit strategy
- the resourcing of Internal Audit

- the periodic plans of internal audit, progress against and material changes made to these plans, and any implications arising from their findings and opinion;
- the adequacy of management response to Internal Audit advice and recommendations;
- the Head of Internal Audit's annual report;
- the arrangements for and the results of quality assurance and performance management processes; and
- the arrangements made for co-operation between Internal Audit, External Audit and other review bodies.

4.23 Internal Audit should have unfettered access to the chair of the audit committee outwith the cycle of committee meetings. This is essential to maintain the integrity of the internal audit function.

### **External Auditor**

4.23 External Audit have a different focus from Internal Audit: they report to external stakeholders in addition to the managers of the Council. They also have to communicate to those charged with governance relevant matters relating to the audit of the financial statements. External auditors will issue:

- an audit certificate giving their opinion on the annual accounts addressed to the local authority and the Controller of Audit;
- a report addressed to the management of a local authority bringing to their attention matters arising from each discrete piece of work. These typically are in respect of, for example, the review of a financial system;
- reports to central departments and other paying agencies in respect of grant claims; and
- an annual audit report addressed to the local authority and the Controller of Audit which summarises the significant matters arising from each year's audit.

4.25 They are also required to communicate on a sufficiently prompt basis to enable those charged with governance to take appropriate action. (This is a requirement of Statement of Auditing Standards 610).

4.26 The Accounts Commission's Code of Audit Practice requires auditors to provide an opinion on a local authority's annual accounts and to review and report on the authority's corporate governance arrangements and its arrangements to manage its performance. This report, which goes to all members along with the audited accounts, should be delegated to the audit committee so that progress against the action plan is monitored.

4.27 The papers for audit committees should generally be provided to the external auditors as a matter of course. External auditors should also be invited to all meetings of the audit committee where audit business is being discussed and they can properly expect an unfettered right of attendance at all audit committee meetings except where external audit's own performance is being discussed.



## 5. Model Audit Committee Remit

### Introduction

- 5.1 It was a stated objective of this document that guidance should be descriptive and not prescriptive. The provision of a model remit could be seen as prescriptive. That is not however the intention. It is considered that it is appropriate and indeed consistent with the aim of provision of guidance of a practical nature. Clearly, it will be a matter for individual local authorities to determine the extent to which the model remit is adopted.
- 5.2 The model remit is provided on the basis of a checklist format to enable local authorities to both readily assess the existing remit and to assess any area where enhancement could be made.

<b>Model Audit Committee Remit</b>		
<b>1</b>	<b>Committee Governance</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Number of members required to be quorate</li> <li>• Basis of selection of chair (i.e. selection from outwith the administration)</li> <li>• Required expertise for committee membership</li> <li>• Frequency of meetings</li> <li>• Minimum period in which agenda papers should be issued</li> <li>• Circulation of minutes to other committees/full council</li> </ul>	
<b>2</b>	<b>Reporting Arrangements by the Committee</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Preparation of a periodic report to full council</li> <li>• Preparation of an annual report to full council</li> </ul>	
<b>3</b>	<b>Business Management Arrangements</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Whether full or extracted copies of audit/inspection reports are circulated</li> <li>• Duration of attendance at meetings by external auditor, public and media</li> </ul>	
<b>4</b>	<b>Internal Audit</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Approval and ongoing monitoring of the operational and strategic audit plans</li> <li>• Access of Head of Internal Audit to Chair</li> </ul>	

<b>5</b>	<b>External Audit</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Review external audit strategic and operational plan</li> <li>• Arrangements for ensuring effective liaison between external and internal audit</li> </ul>	
<b>6</b>	<b>Risk Management</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Ensuring the extent to which risk management procedures are satisfactorily carried out</li> </ul>	
<b>7</b>	<b>Annual Statement of Accounts</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Role of the Committee in the process prior to compilation</li> <li>• Role of the Committee after compilation of the accounts</li> <li>• Review of the audit certificate/wording and any matters reported</li> <li>• Review of the annual report to members from the external auditor</li> </ul>	
<b>8</b>	<b>Promotion of Internal Control</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• Audit Committee should have a formal Charter</li> <li>• To ensure systematic appraisal of the Council's control environment and framework of internal control to provide reasonable assurance of effective and efficient operations</li> <li>• To promote the development of an appropriate risk management strategy and risk management procedures</li> <li>• To ensure the highest standards of probity and public accountability</li> <li>• To ensure sound financial procedures are in place for authorising and monitoring expenditure</li> </ul>	
<b>9</b>	<b>Focus on Audit Resources</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• To review and approve the Internal Audit Charter</li> <li>• To agree internal audit plans and to ensure that internal audit work is planned with due regard to risk, materiality and coverage</li> <li>• To oversee in light of the audit plan the performance of the audit service</li> <li>• Concurring with the appointment / removal of the Head of Internal Audit.</li> <li>• To ensure that the audit function is properly resourced</li> </ul>	

<b>10</b>	<b>Monitoring Audit Performance</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• To oversee and review action taken on Audit recommendations</li> <li>• To review all matters relating to external audit, including audit planning, action points and reports, and to monitor the implementation of external audit recommendations</li> <li>• To ensure that appropriate standards are maintained</li> </ul>	
<b>11</b>	<b>Scrutiny of Performance</b>	
	Remit should address: <ul style="list-style-type: none"> <li>• To review the Council's planning process.</li> <li>• To monitor Best Value Reviews</li> <li>• To review external reports and assessments</li> <li>• Request Audit Projects</li> </ul>	

5.3 In carrying out this remit the audit committee will wish to have regard to a number of issues including:

- the extent to which there exist strong and effective working relationships between and amongst the internal audit function, the external audit function and the various inspection agencies;
- the status and standing of audit and inspection in the authority;
- the adequacy of the resources that are allocated to the internal audit function;
- the adequacy of the audit planning process and management of the work programme;
- the development and maintenance of a risk aware, anti-fraud culture throughout the authority;
- the promotion of the highest possible standards of conduct and probity by Members and Officers of the authority at all times; and
- the need to ensure the appropriate integration of its work with that of the other Committees of the Council and its Officers.

**6. The Audit Committee Principles Matrix**

**Introduction**

- 6.1 The purpose of the matrix is to provide an assessment tool to enable local authorities, audit committees and auditors to assess the extent to which compliance with audit committee principles is being observed.
- 6.2 The matrix provides self assessment criteria on two levels, namely:
- standard: - consistency with the standard criteria would represent a local authority working towards audit committee principles at the level of good practice;
  - model: - consistency with the model criteria would indicate that a local authority implements audit committee principles at a high level.
- 6.3 The matrix addresses first administrative features and then takes each of the three principles in turn to consider what needs to be in place to demonstrate adherence to that principle. In some cases a feature contributes to the achievement of more than one principle. In this situation it is not repeated but is included under the most appropriate heading only.
- 6.4 While local authorities should set the goal of working on a self assessment basis towards the model level, in reality the achievement of a standard level should represent a realistic medium term goal. It is expected that local authorities will develop incrementally.
- 6.5 It is also expected that over time, as authorities gain more experience in developing effective and innovative ways of delivering audit committee principles, more features will be identified for inclusion in the model level.

<b>The Audit Committee Principles Matrix</b>		
<b>Administration</b>	<b>Standard</b>	<b>Model</b>
<b>An audit committee which demonstrates by the way that it is structured and organised that it is effective</b>	A formally constituted committee, reporting directly to council and generally meeting in public	A chair drawn from outwith the administration
	Adherence to clear terms of reference	Cooption of non-elected members
	Membership which reflects the political balance of the authority	A majority of members from outwith the administration
	Effective training and development for all involved in the process	Formal audit committee charter
	Agenda papers submitted in good time to enable all members and officers to review them properly	

<b>The Audit Committee Principles Matrix</b>		
<b>Principle</b>	<b>Standard</b>	<b>Model</b>
<b>Independent assurance of the adequacy of the risk management framework and the associated control environment within the authority</b>	Review and approval of Internal Audit periodic plan & strategy	Unfettered right of attendance by external audit at audit committee meetings  Ensuring that effective risk management processes are operated  Formal annual report from audit committee to full Council
	Monitoring of achievement of internal audit plan	
	Review of (summary/selection of) internal audit reports	
	Ensuring that risk assessment has been carried out	
	Review of annual report to committee from Head of Internal Audit	
	Existence of strong/effective relationship between external audit, inspection agencies and internal audit	
<b>Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment</b>	Meetings as necessary between chair of committee and Head of Internal Audit and between chair of committee and external auditor	
	Assurance to CFO/Council as contribution to the Internal Financial Control Statement, the wider Internal Control Statement or the Corporate Governance Statement	
	Consideration of all risk related performance issues raised by auditors or other inspectors	
	Monitoring of implementation of improvement action plans	

<b>The Audit Committee Principles Matrix</b>		
<b>Principle</b>	<b>Standard</b>	<b>Model</b>
<b>Assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.</b>	Review of annual statement of accounts	Review of internal project plan for compilation of accounts by 30 <sup>th</sup> June
	Review of audit certificate and consideration of matters arising from audit	
	Consideration of annual report to members from external auditor	Review of project plan for completion of audit by 30 <sup>th</sup> September
	Review of annual unaudited statement of accounts	
	Discussion of external audit plans with the external auditor	
	Consider the implications of any qualification to the audit certificate	
Discussion of the annual report to members with the external auditor		

## Appendix 1

### Corporate Governance Framework

#### Introduction

- 1 It is not the intention of this guidance note to revisit and to fully discuss corporate governance. It is however important, to clarify where the role of audit committee principles sit within the overall framework of corporate governance. This appendix first briefly explains what is meant by corporate governance and then goes on to explain the role of audit committees and audit committee principles within it.
- 2 The term “corporate governance” has been in common use in both the public and private sectors for over a decade now. Definitions vary from those which emphasise control:
 

*“Corporate governance is the system by which local authorities direct and control their functions and relate to their communities”* (CIPFA, May 2001)

To those which emphasise accountability:  
*“Governance is about promoting fairness, transparency and accountability”*  
 (Wolfensohn, President of the World Bank, June 1999)
- 3 Corporate governance continues to attract debate and discussion as expectations of corporate behaviour and accountability change. Indeed, events abroad affect views of corporate governance in the UK and events in the private and public sectors impact on each other. For example, in January 2003, the Secretary of State for Trade and Industry made a statement to Parliament about strengthening corporate governance in the UK in response to high profile corporate failures in the USA.
- 4 Although local authorities can argue that they have always been able to demonstrate corporate governance through the democratic process and the member/officer structure, there is no doubt that this alone is not enough to satisfy contemporary expectations and the need for guidance on more formal mechanisms in the public sector was recognised as early as 1995 when CIPFA published its “Corporate Governance: A Framework for Public Service Bodies”.
- 5 Subsequently, based in part on the recommendations of the McIntosh Commission, but also drawing on the work being done more widely in the area of corporate governance, CIPFA and the Society of Local Authority Chief Executives (SOLACE) set up a working party, with representation from the Audit Commission, to address corporate governance in local government.
- 6 In May 2001, the working party produced a guidance note called “Corporate Governance in Local Government, A Keystone for Community Governance”, the “keystone report”. This provided guidance for local authorities on establishing and reporting on a voluntary code of corporate governance. This guidance was situated within five broad themes, which the Commission adopted in its framework for inspecting corporate governance arrangements within local authorities in England:
  - Community focus;
  - Structures and processes;

- Risk management and internal control;
- Service delivery; and
- Standards of conduct.

7 This same document developed the principles of corporate governance which had been identified for the private sector into three principles for the public sector and one overarching concept. The three fundamental principles were:

- openness;
- integrity; and
- accountability.

8 These principles rely on the overarching concept of leadership, provided by the local authority and by its members and managers.

9 Local authorities in Scotland are not bound by a specific legislative requirement to incorporate an audit committee, or a similar named committee, in the governance structure. Nevertheless there are a number of drivers and pressures both arising from legislation and from the development of good corporate governance which commonly result in the establishment of an audit committee as a part of the governance of a local authority.

10 The Accounts Commission has acknowledged that effective audit committees have a pivotal role in corporate governance. The Commission has in fact endorsed audit committee principles as a focus for elected members' role in audit, scrutiny and performance reporting.

11 The Financial Reporting Council has published a document entitled "Audit Committees Combined Code Guidance". The document, which is specifically aimed at the private sector sets out guidance designed to assist private sector boards in making arrangements for audit committees and to provide assistance to directors who may serve on audit committees.

12 Clearly, the specific private sector focus of the guidance means that full adoption by a local authority would be inappropriate. The guidance does however provide a general direction which has proved useful in formulating this document overall.

13 The 1995 CIPFA corporate governance framework stated that boards of public service bodies:

*"should establish an Audit Committee..with responsibility for the independent review of the systems of internal control and of the external audit process".*

14 In Scotland, the development of corporate governance generally, allied to the statutory duty of Best Value will raise the expectation that audit committees will have a broader role than that defined in the 1995 publication.

15 The rest of this chapter summarises the three corporate governance principles and the concept of leadership and explains their relevance to audit committees. It concludes by outlining the roles of internal and external audit.



### **The Principle of Openness and Inclusivity**

- 16 This principle describes the desire to ensure that all stakeholders have an opportunity for real involvement in decision making. It includes consultation and partnership working as well as the provision of accurate information and access to decision makers.
- 17 As noted in the main text, it will be a matter for each local authority to determine the extent to which meetings are held in public. Regard must be had however to the above principle of openness and inclusivity. In particular, the committee will at times be required to consider matters which are confidential. It may be therefore that openness while desirable in theory may be difficult to deliver in practice. Issues to consider are the duration of attendance for certain stakeholders including the public, media and external auditors.
- 18 Additionally, there may be instances where the committee wish to hear from interested parties and individuals. Typically this may include representatives from:
- interested groups;
  - partnerships; and
  - funded bodies.

### **The Principle of Integrity**

- 19 This principle requires high standards of conduct throughout the authority so that public resources and services are managed effectively and ethically.
- 20 The audit committee helps to ensure that ethical standards are consistently maintained by acting as a potential forum for review of audit reports. It will be important to ensure that members of the audit committee are fully aware of the standards that the council wishes to apply in this area.

### **The Principle of Accountability**

- 21 This principle describes the allocation of roles and responsibilities to members and officers as well as the external scrutiny of how these roles and responsibilities are exercised.
- 22 The audit committee can play a crucial role in ensuring that officers and members are accountable for their actions. The public nature of the audit committee allows stakeholders access to the papers which go to the audit committee as well as to the meetings of the committee itself. That means that there is double accountability: first of all through the activity of the audit committee itself, which in effect is scrutinising the work of officers and members, and secondly, through public access, which in effect allows stakeholders to scrutinise the scrutineers.

### **Audit Committees as part of Corporate Governance**

- 23 Most Scottish authorities have adopted a local code of corporate governance which sets out how they will demonstrate compliance with the principles and concept. Having set out their current practices and intentions in the local code, authorities are required to review their performance from time to time. Some authorities have gone a stage further and include a statement of compliance with the code of corporate governance in their annual reports.
- 24 The five broad themes identified in the keystone report provide the five dimensions which can be used to apply the principles and concept of corporate governance in a local code. These were:
- Community focus;
  - Structures and processes;
  - Risk management and internal control;
  - Service delivery; and
  - Standards of conduct.
- 25 Of these five dimensions, risk management and internal control is the key dimension for audit attention and provides a clear focus for the audit committee. The audit committee provides a forum for monitoring and review of the operational activities of the rest of the council. This will include looking at the council's attitude and approach to risk as well as looking at the effectiveness of its internal controls.
- 26 From 1 November 2003, companies which are listed on the stock exchange are expected to comply with the recommendations of the Smith report, which have been included in the Combined Code. These recommendations considerably strengthen the role of the audit committee. Although the Smith recommendations do not apply to local authorities, they do indicate a general public mood which expects large organisations to apply significant self scrutiny to its actions. This is echoed in the proposals for councils to carry out a self-review of how they deliver best value, including the sound governance and management of resources.
- 27 The audit committee should to take a view across the whole authority of how it deals with risk, internal controls and the management of resources. By acting as a forum to receive and discuss internal and external audit reports, the audit committee is in a strong position to aid strong corporate governance.
- 28 Audit is not a passive process. Audit can bring about improvements in the areas being audited, a consequence of which may be a clearer focus by managers on performance and controls because of the scrutiny of the audit committee. A key test for the effectiveness of the audit committee will be whether it can demonstrate that it has brought about improvements in this area.

### **The Role of Internal and External Audit**

- 29 Officers and their services will from time to time be the subject of audits and audit reports. Elected members of audit committees will receive internal and external audit reports and be expected to understand the reports and to positively challenge the reports at committee. It is essential that there is an appreciation of the difference between internal and external audit and this is briefly explained.
- 30 The Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 describes internal audit as:
- “..an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”*
- 31 The internal auditor is an employee of the local authority. There is no statutory requirement for local authorities in Scotland to operate an internal audit function. Section 10 of Circular 5/1985 however states that local authorities are “..strongly recommended to make ..arrangements for.. internal audit..” (Audit Scotland “A Job worth doing”)
- 32 External audit is a statutory process, the duties of which are contained principally within Part VII of the Local Government (Scotland) Act 1973 and auditors, independent of the local authority, are appointed by the Accounts Commission. The external auditor will be either a directly employed member of the staff of Audit Scotland or a private firm of chartered accountants. The external auditor is required, under the terms of their appointment, to carry out duties in accordance with the Code of Audit Practice. The Code requires auditors to provide an opinion on the statement of accounts of a local authority and, as part of the wider dimension public sector audit, review and report on:
- the corporate governance arrangements; and
  - the authority’s arrangements to manage its performance.
- 33 External audit provides an annual certificate on the annual accounts although the opinion, like the audit overall, is given from a wider perspective than that of the accounts.
- 34 The internal and external auditor should liaise and where appropriate the external auditor should be able to place reliance upon the work of the internal auditor.

## Appendix 2

### Examples of Current Practice in Local Authorities in Scotland

#### Introduction

- 1 Chapter 2 defined and described audit committee principles as they apply to local government. The development of practical guidance as to how these might be delivered also requires to acknowledge that Councils in Scotland are structured in many different ways and that the progress they have already made towards delivering audit committee principles is also very varied.
- 2 This chapter therefore considers these two contextual issues:
  - the committee structure of local authorities in Scotland; and
  - examples of local authorities working towards the implementation of audit committee principles.

#### Committee Structures - Background

- 3 In the years since the reorganisation of Scottish local government in 1996 local authority committee structures have been evolving rapidly. The councils elected in 1995 to govern the newly created unitary authorities adopted a range of structures but many were a service based structure, similar to those of the previous regional and district authorities but now covering the full range of services.
- 4 As part of its review, the McIntosh Commission examined the political organisation of councils and concluded that many councils had overburdened themselves and their members with committees. It recommended that councils should re-examine their committee structures as part of a wider review of the conduct of their business and that, in doing so, they should direct particular attention to executive models and to reformed and simplified forms of the committee system.
- 5 The Commission also specifically referred to the advantages of audit committees, 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.
- 6 The consultative nature of the Commission's review, as well as its specific recommendations, stimulated much debate and led to the appointment by Scottish Ministers of the Leadership Advisory Panel (LAP) in August 1999. The panel's task was to advise councils on the reviews which the McIntosh Commission had recommended they should undertake into their decision making processes and those reviews led to some significant changes in the governance structures adopted.
- 7 In April 2001, in its report, the Leadership Advisory Panel identified the scrutiny function as one of the key themes central to the development of effective modernised structures and stated that the concept of scrutiny should go wider than a pure audit and/or Best Value challenge process.

8 Committee structure developments since then have therefore taken place against a background of increasing emphasis on both “audit” and “scrutiny”, although it must be stressed that these are functions identified as important, not committees which necessarily need to exist. In the context of this paper it is the following of audit committee principles as described at chapter 2 which is central, whether that involves an audit committee or not.

9 The way in which audit committee principles are followed will depend in part on the decision making structure in place and so, by way of context, it is useful to consider the types of committee structure currently in place.

### **Committee Structures currently in place**

10 The Leadership Advisory Panel identified three categories of structures:

- Devolved and partially devolved structures;
- Streamlined committee structures; and
- Executives.

11 It noted at that time that three councils had opted for a devolved or partially devolved structure, 23 had opted to streamline their committee structures by reducing the numbers of committees and six had chosen to move to an executive structure. However, they also acknowledged that some structures had features of more than one category.

12 There are now still examples of all three types and three authorities have been selected which illustrate these at Annex A to this appendix:

- Argyll & Bute Council as an example of a devolved structure (refer Diagram 1);
- Orkney Islands Council as an example of a streamlined committee structure (refer Diagram 2); and
- City of Edinburgh Council as an example of an Executive structure (refer Diagram 3).

13 There are also now many different combinations and variations. Some “streamlined committee structures” include committees which are based around groups of services while others are more cross cutting, or thematic. Most councils which have an Executive or Cabinet also have a supporting structure which is either basically geographical (e.g. Scottish Borders Council), basically service orientated (e.g. East Lothian Council) or both (e.g. The City of Edinburgh Council).

14 Renfrewshire Council, as represented in Diagram 4 in Annex A, has a structure which on paper resembles an Executive but their “Policy Boards” take decisions within their competence which may then be called in by the “Leadership Board”. This can be contrasted with City of Edinburgh Council where decisions are made by the Executive with the Scrutiny Panels empowered to call them in for further discussion.

- 15 It is apparent, from a review of current structures, that, whatever the basic type of structure, there is room within it for an audit committee if that is the way in which the council chooses to take forward audit committee principles.
- 16 However, it is also clear that whether such a committee exists, and how far its remit extends, cannot be deduced simply by reviewing the structure since there is a wide range of terminology in use. There are committees, sub-committees and panels whose title includes, usually no more than two of:
- “audit”;
  - “policy”;
  - “performance”;
  - “monitoring”;
  - “standards”;
  - “scrutiny” and/or
  - “ethics”.
- 17 The scope of some of these committees clearly extends beyond audit and, in others, the name (e.g. “Scrutiny Committee”) does not make it clear whether the audit function is covered at all.

#### **Examples of how Audit Committees currently operate**

- 18 Visits to four local authorities identified a range of approaches. These are outlined here to inform the general debate about the options available for implementation of audit committee principles.
- 19 Annex B to this appendix provides summarised information about how “Audit Committees” operate in the following four local authorities studied:
- City of Edinburgh Council;
  - Fife Council;
  - Renfrewshire Council; and
  - West Lothian Council.
- 20 Each of the four local authorities visited has a member group which has the consideration of audit matters within their remit but the name of this group and its remit varies. All four groups are considered to be effective within their own Councils, thus immediately illustrating that there is no one model which could ever be taken as representing “best practice”.
- 21 Each local authority will need to determine the best model to suit its circumstances and the purpose of this section is to highlight the range of existing practice, as illustrated by these four authorities, to place the practical guidance in the main text in context.

#### **Remit of Audit Committees**

- 22 In all four authorities the member group, styled here as an audit committee (although only one is called that) has a high status, reporting directly to Council. One audit committee deals almost exclusively with audit related issues, for another one audit represents the majority of its workload, but with other aspects developing, one effectively operates in two “modes”, audit and resource management, clearly distinguished from each other and the fourth addresses strategic service reviews, with audit forming a separate component of its remit.

### **Composition of Audit Committees**

- 23 All four local authorities aimed to reflect in the membership of the committee the overall political balance of the Council. Experience suggested, however, that the consequence of this was a tendency for the audit committee to increase in size of membership.
- 24 In two of the authorities the audit committee is chaired by a member of the administration, in the other two it is not. In one case the comment was made that although an independent chair might be considered preferable, it might not be achievable in practice. In one authority, not one of the four visited, the entire membership of the audit committee is drawn from outwith the administration.
- 25 The periods for which members are appointed (or voted) onto the committee also varies, highlighting the need to balance continuity, and the enhanced expertise that brings, against the benefits of having a new point of view introduced at regular intervals.

### **Operational Issues**

- 26 Although the meeting cycle for the committees in the four authorities is different, most operate around a basic quarterly cycle for audit matters. In practice the meeting cycle will depend on the amount and variety of the work undertaken by the committee, including any non-audit work it might have.
- 27 There is variation about which officers attend but the factors which underlie the decision are more consistent. These include not only the subject matter on the agenda but also the impact that the choice of officers has on the profile of audit and the need to demonstrate the independence of audit.
- 28 The process undertaken by officers to both accompany and support the work of the members also varied. This reflected the extent of member involvement in the detail of audit work. Where members were less involved in detailed matters, processes existed for officers to address these.

### **Support to members**

- 29 There was variation in the support provided to members. Two local authorities had prepared handbooks specifically explaining the audit role while others had more general procedural guidance. Similarly some ran training or briefing sessions, while others acknowledged that they could do more.

- 30 The nature of the role the audit committee and the matters considered render it essential that an appropriate level of support and training be provided on an ongoing basis. This guidance will form part of the toolkit required by members to discharge their duties as members of an audit committee effectively.



**Appendix 2 – Annex A**

Diagram 1 - Argyll & Bute Council

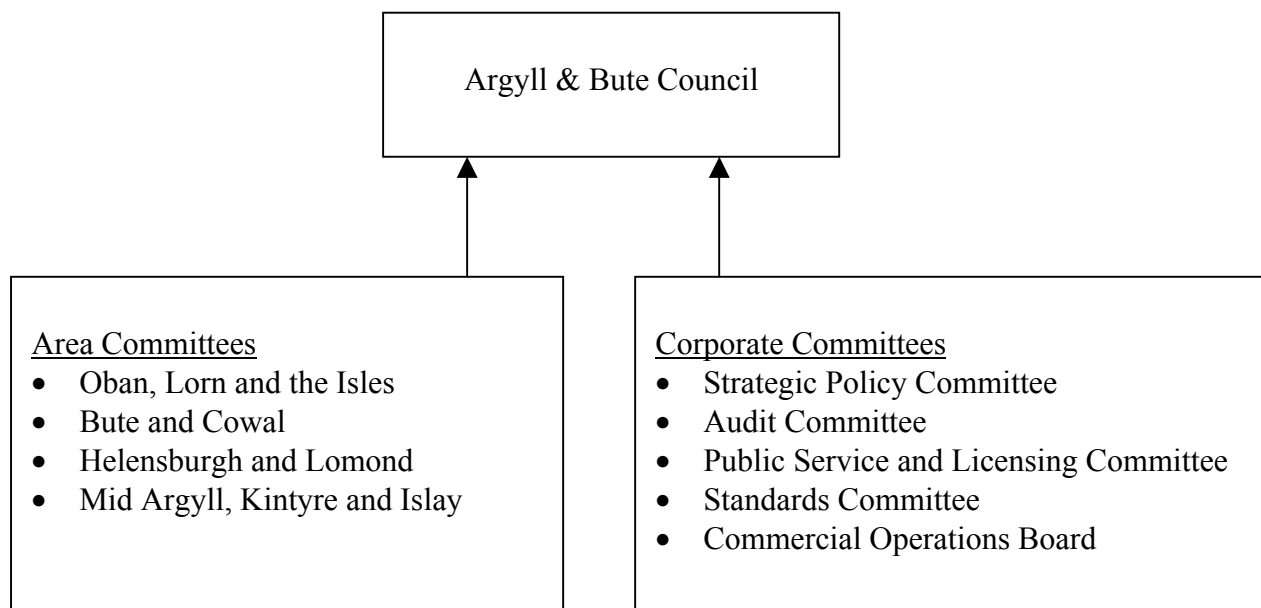


Diagram 2 - Orkney Islands Council

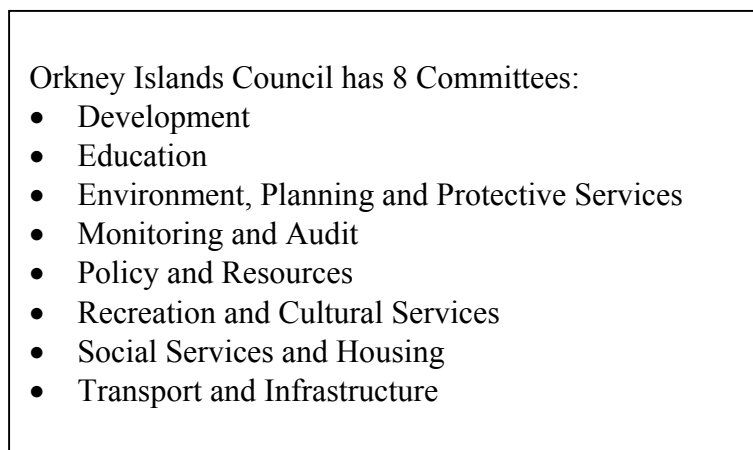


Diagram 3 City of Edinburgh Council

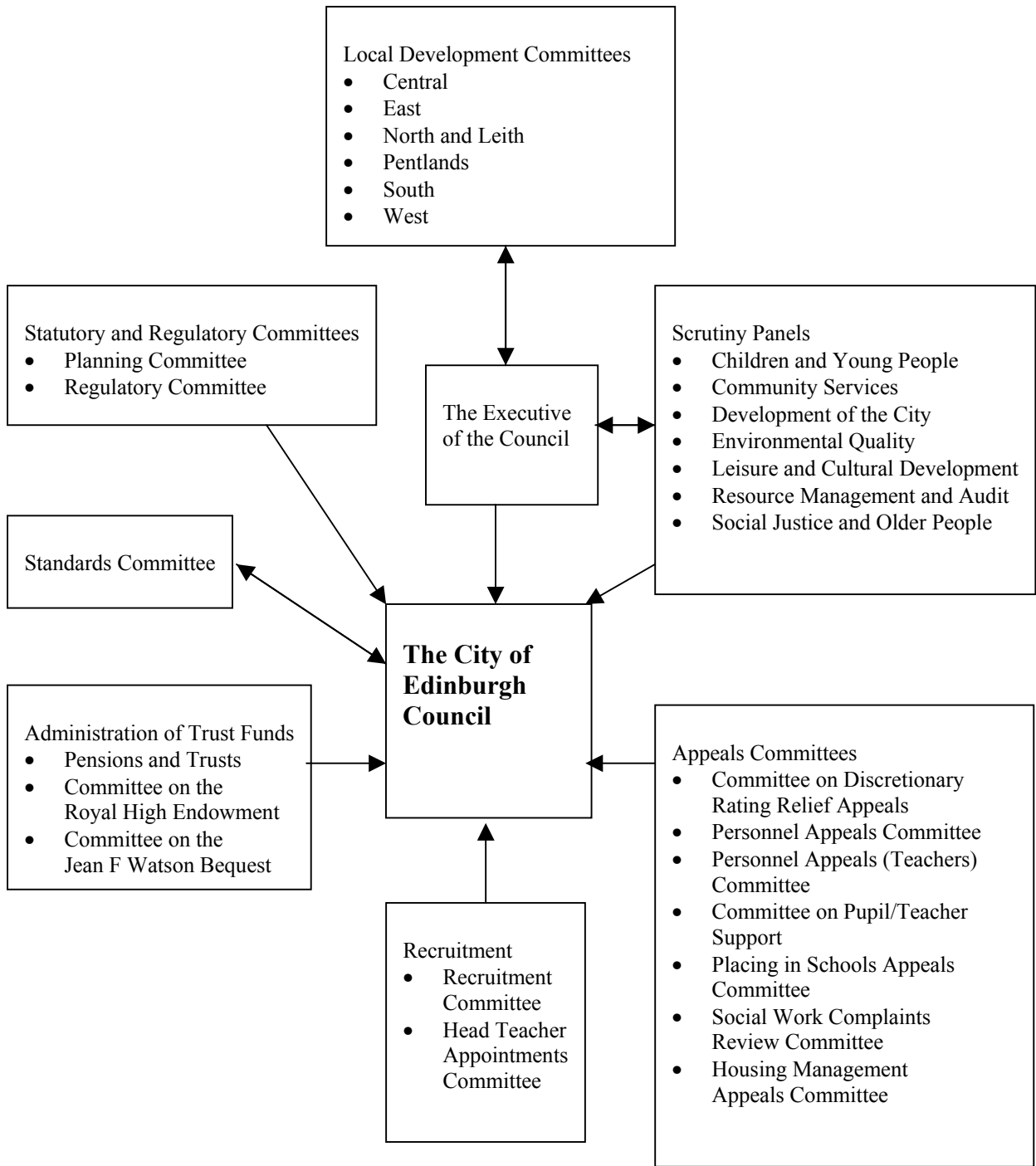
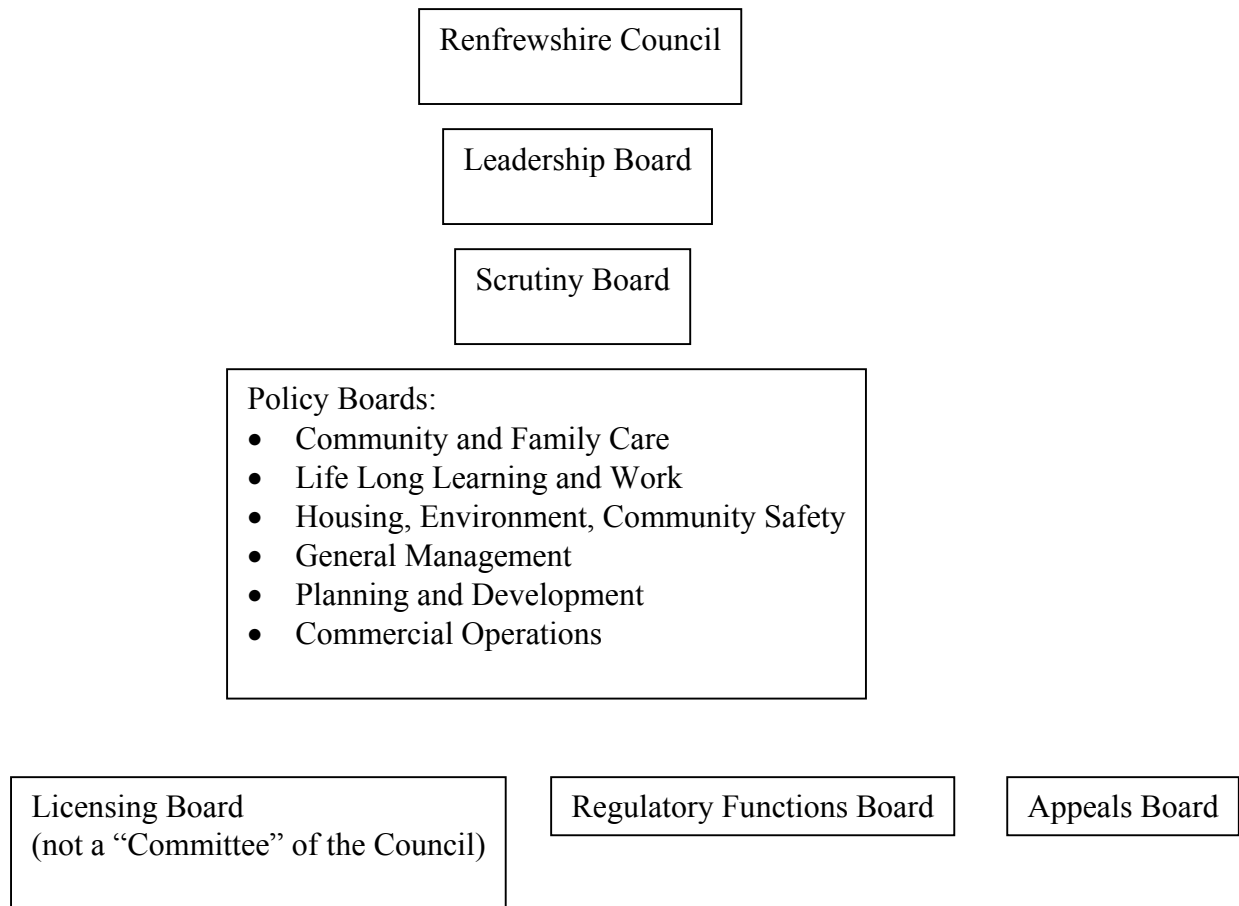


Diagram 4 – Renfrewshire Council



Appendix 2 – Annex B

Illustrative Models of Delivery of Audit Committee Principles

	Local Authority 1	Local Authority 2	Local Authority 3	Local Authority 4
Name of member group	Resource Management and Audit Scrutiny Panel	Standards and Audit Committee	Scrutiny Board	Audit Committee
Composition	9 Councillors voted on by Council for one year at a time. Convenor drawn from the opposition and generally stays in place longer	11 Councillors appointed for full term of administration in proportion to make up of Council. At present, Chair is not from largest party. No formal vice-chair.	7 Councillors. Convenor and Vice-Convenor (not same party) appointed by Council, others nominated by parties in (approximate) proportion to make up of Council. Convenor and Vice-Convenor unchanged since Board established 2 years ago but 4 others have changed. Convenor drawn from administration	7 Councillors, appointed by Council for full term of administration. Chair is member of the current political administration.
Place in Council Structure	One of 7 panels established to scrutinise the decisions of the Executive. Panels report to Council. They have no executive role. This panel also receives a report from the Council on the annual accounts and management letter.	Full committee, clerked with minutes kept and reported to full Council	One of 10 Boards supporting Council. A “Leadership Board” also exists to co-ordinate across Policy Boards and it can call in their decisions for review.	Full committee, clerked with minutes kept and reported to full Council.

	<b>Local Authority 1</b>	<b>Local Authority 2</b>	<b>Local Authority 3</b>	<b>Local Authority 4</b>
Place of audit within remit	Only part of remit but clearly distinguished. Panel meets monthly but in Audit mode only quarterly with audit business taken first.	Majority of remit and workload relates to Audit. Meets every 8 weeks, as other committees	Small part of remit. Business usually concerned with Board's annual programme of strategic service reviews. Board has scheduled meetings every 6 weeks but usually meets more often, e.g. to take evidence from other agencies about reviews. Audit items are on agenda as often as necessary, which is at least quarterly.	Exclusively deals with audit related issues currently. Meetings are formal in style, take place 4 times a year.
Attendees	Executive members and associated directors attend by invitation (depending on agenda) Director of Finance always attends when in audit mode. External and internal audit all attend all meetings in audit mode	Chief Executive and Chief Internal Auditor. Head of Finance, or representative. External Audit representatives are Partner and/or Audit.	Service reviews have lead officers and witnesses are called. Chief Internal Auditor (or representative) attends for audit items. External audit attend occasionally.	Chief Executive, Head of Finance, Internal Audit Manager, Chief Legal Officer. representative of External Audit attends regularly
Related officer groups	Chief Executive's audit group meets to discuss audit issues at management level. Pre agenda meeting between key officers including HIA and the panel convener although it is not the Group that meets the Convener.	no related officer group	An Audit Panel, chaired by the Chief Executive, considers the more detailed aspects of audit, including follow up of recommendations.	no related officer group



	<b>Local Authority 1</b>	<b>Local Authority 2</b>	<b>Local Authority 3</b>	<b>Local Authority 4</b>
Balance of involvement members/officers	Panel focuses on main issues, action plans and implementation of action plans and they report to Council on follow up and implementation of recommendations. The Panel also considers the annual accounts and the management letter referred by the Council. They do not receive detailed internal audit reports but receive the agreed action plans.	Committee receives external audit reports with service department responses as well as summary of internal audit issues.	Scrutiny Board involvement in audit is high level/strategic, i.e. audit plan and annual audit report. They have no involvement with individual audits and associated recommendations. The Audit Panel fulfils the more detailed aspects of audit committee principles.	Committee is notified of any external audit recommendations agreed to and not implemented and any internal audit recommendations ranked critical agreed to and not implemented. Also approves annual audit plan and receives annual report on plan, takes external audit report and considers one-off issues (e.g. fraud)
Support to members	Audit Awareness sessions for panel members and a handbook describing the audit committee role	Some training, e.g. in roles of external and internal audit, and intending to do more.	Briefing session to Scrutiny panel when first established explained audit roles and responsibilities.	Guidance note prepared, specifically targeted at audit committee members but no specific audit training given.

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