

# Public Document Pack

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

Corporate Services  
Director: Nigel Stewart



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12 February 2004

## NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 20 FEBRUARY 2004** at **2:30 PM**, which you are requested to attend.

Nigel Stewart  
Director of Corporate Services

## BUSINESS

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**  
Audit Committee 28 November 2003 (Pages 1 - 4)
4. **EXTERNAL AUDIT REPORTS 2001-2**  
Report by Internal Audit Manager (Pages 5 - 14)
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- 11. ANNUAL AUDIT PLAN 2004-5**  
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- 12. DISASTER RECOVERY PLAN**  
Report by Head of ICT and Financial Services (Pages 99 - 100)
- 13. ANNUAL ACCOUNTS 2003-4**  
Report by Head of Strategic Finance (Pages 101 - 102)
- 14. VALEDICTORY ADDRESS**

## **AUDIT COMMITTEE**

Vincent Bradbury (Vice-Chair)	Councillor Donald MacMillan
Councillor John McAlpine	Graham Michie
Councillor Gary Mulvaney (Chair)	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, 28 NOVEMBER 2003**

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

Councillor John Tacchi	Graham Michie
Councillor Donald MacMillan	Vincent Bradbury

**Attending:** Bruce West, Head of Strategic Finance  
Deirdre Forsyth, Area Corporate Services Manager  
Ian Nisbet, Internal Audit Manager  
Steve Keightley, KPMG  
Brian Haworth, Audit Scotland  
David McConnell, Audit Scotland

**Apologies:** Councillor John McAlpine Councillor Elaine Robertson

**1. MINUTES**

The Committee approved the minutes of the Audit Committee of 1 August 2003 as a correct record.

Arising from Item 2 (**Annual Accounts 2002/3 – Unaudited**) it was agreed that a report be brought to Audit Committee on 20 February 2004 regarding progress made by the Building DLO as against the action plan.

**2. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS 2000/1**

The Committee were advised that as at 31 October 2003 Internal Audit were of the opinion that all recommendations had been implemented for external audit reports in respect of 2000/2001.

**Decision**

1. To note the contents of the submitted report.
2. That a report be brought to the next meeting of the Committee regarding the progress of the Disaster Recovery Plan.
3. To express satisfaction that the outstanding work on partial exemption calculations had now been completed.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted)

**\* 3. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS 2001/2**

Internal Audit had prepared a list for all external audit management letters produced by Audit Scotland for 2001/2 and had outlined the progress made by management in the implementation of the report recommendations.

**Decision**

1. To note the contents of the report and request that this be followed up by Internal Audit.
2. To recommend to Council that progression of an Asset Strategy should be high priority and that resources should be provided to enable preparation of a fully detailed asset register as soon as possible.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted).

**4. EXTERNAL AUDIT REPORTS 2002/3**

Internal Audit had prepared a list for all external audit management letters/reports produced by Audit Scotland for 2002/3. Details regarding the results following a review of the progress being made by management in implementing the recommendations contained therein were outlined.

**Decision**

1. To note the contents of this report and request that this be followed up by Internal Audit.
2. That reports regarding the outstanding actions identified at Appendix 2 and action point 5 of Appendix 3 be brought to the next meeting of the Audit Committee.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted).

**5. PMP EXTERNAL AUDIT REPORTS 2002/3**

Audit Scotland, being satisfied that the Council has in place appropriate management arrangements to secure value for money from the resources available to it, do not plan to carry out any further follow up PMP Reviews. However, this function will be continually monitored by Internal Audit who intend reporting on progress made by local management in implementing remaining issues.

**Decision**

1. To note the contents of the report and request that this be followed up by Internal Audit.
2. To request that a report regarding setting an implementation date for the redesign of customer survey forms (or confirming that this has now been completed, whichever is the case) be submitted to the next meeting of the Audit Committee.

(Ref: Report by Internal Audit Manager dated 28 November 2003, submitted).

**6. PROGRESS ON INTERNAL AUDIT PLAN 2003/4**

An interim progress report had been prepared covering the audit work performed by Internal Audit up to the end of October 2003 which the Committee were asked to consider.

**Decision**

To note the progress made with the Annual Audit Plan for 2003/4 and to welcome the increase in direct audit days.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted).

**7. AUDIT SCOTLAND FOLLOW UP REVIEW OF INTERNAL AUDIT**

Audit Scotland indicate that a follow up to the initial review conducted in Autumn 2000 would take place in this financial year. Actions being taken were outlined to ensure that the Internal Audit section would be assessed as being amongst the most compliant with best practice in Scotland.

**Decision**

To note the actions to be taken in respect of the follow-up review of Internal Audit.

(Ref: Report by KPMG dated 31 October 2003, submitted).

**8. HMI REPORT 2002/3**

The Committee were advised of the current efforts being made by Community Services in responding to the recommendations made within the Moving to Mainstream – The Inclusion of Pupils with Special Education Needs in Mainstream Schools.

**Decision**

To note the contents of the report and instruct that this be followed up by Internal Audit.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted).

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

The key elements of guidance produced to assist organisations in making suitable arrangements for their Audit Committees were reported.

**Decision**

To note the terms of the guidance provided by KPMG.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted).

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

The revised Mission Statement and Terms of Reference for Internal Audit were submitted for approval.

**Decision**

To approve the submitted Mission Statement and Terms of Reference for Internal Audit.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted).

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

Prior to the meeting, a guidance note on the Audit Committee principles in local authorities in Scotland had been circulated and Members were invited to submit any comments they wished to make thereon. The comments gathered to date were tabled at the meeting for consideration.

**Decision**

1. To delegate preparation of a formal consultation response to the Head of Strategic Finance.
2. That Members of the Committee be invited to forward any comments they wish to be included in the response to the Head of Strategic Finance.
3. That a copy of the final response be circulated to Members of the Audit Committee.

(Ref: Report by Internal Audit Manager dated 31 October 2003, submitted and comments by Members of the Audit Committee, tabled).

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

The Annual Audited Accounts 2002/3 (and associated papers) were considered by the Audit Committee together with an instruction from the Council to monitor the external auditor's recommendations.

**Decision**

1. To note the request from the Council that this Committee monitors the recommendations contained with the action plan and to instruct Internal Audit to prepare a report for the next meeting of the Committee.
2. To commend the Finance Department, Auditors and those other staff involved in the preparation of the Annual Accounts in achieving a clean audit certificate.

(Ref: Members letter – Audit of Accounts and Certified Accounts 2002/3, submitted and recommendation of Argyll and Bute Council of 26 November 2003, tabled).

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

**AUDIT COMMITTEE**  
**20 FEBRUARY 2004**

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**EXTERNAL AUDIT REPORTS 2001/2002**

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**1. SUMMARY**

Internal Audit has prepared a list of all external audit management letters produced by Audit Scotland in 2001/02 for which recommendations remain to be implemented. (See Appendix 1). A review regarding the progress made by management in the implementation of these report 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 Internal Audit reported at the last audit committee that there were 2 remaining recommendations to be implemented with regard to the Audit Scotland report entitled Management Report – Regularity & Governance 2001/2002. The 2 recommendations have an implementation date of January 2005. Internal Audit will continue to include these in our update to the audit committee until both actions are addressed. (See Appendix 2).

3.2 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 end of December 2003 there are still 2 recommendations remaining to be implemented. One of these has an implementation date of January 2005. This recommendation will continue to be included in the update on progress to the audit committee until the action is addressed. The second recommendation relates to non-operational assets and joint working between Finance and Estates for which a proposed completion date of June 2004 has been given by local management. (See Appendix 3).

3.3 As reported to the last audit committee, Audit Scotland in December 2002 issued a report entitled Performance Audit of Trading Standards. The report had commented on the good performance of the Council's Trading Standards function when compared to other Scottish Authorities. As at the end of December 2003 a total of 2 recommendations remain outstanding. Internal Audit can report that there has been progress with both of the recommendations and that they are moving towards completion with a report for targets of performance scheduled for committee in March 2004. (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 22 January 2004.  
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## APPENDIX 2

Argyll & Bute council - 2001/2002

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

Page/Para Ref	No	Recommendation	Responsible Officer	Action	Date	Update as at 31/12/03
10/8	4	<p><b>Internal Audit</b></p> <p>Management should consider the appropriateness of the staffing structure of internal audit.</p> <p style="text-align: center;"><i>Priority: Medium</i></p>	Previously the responsibility of S. McGregor now passed to the Head of Strategic Finance.	The Council recently reviewed the structure of Internal Audit and entered into a partnership for Internal Audit with KPMG for a 3-year period. It is not proposed to review the structure prior to the end of the partnership.	January 2005	To be reviewed at the end of the current partnership agreement.
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>	Previously the responsibility of S. McGregor now passed to the Head of Strategic Finance.	Internal Audit has access to the Director of Finance, the Chief Executive and the Chairman of the Audit Committee.  However this will be reviewed at the termination of the Internal Audit partnership with KPMG	January 2005	To be reviewed at the end of the current partnership agreement.

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## APPENDIX 3

### Action Plan

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action			Update at 31/12/03
		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	Proposed date of 30 June 2004 for Annual Accounts.
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	To be reviewed at the end of the current partnership agreement.

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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 December 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 March 2004.

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

**AUDIT COMMITTEE**  
**20 FEBRUARY 2004**

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**EXTERNAL AUDIT REPORTS 2002 – 03.**

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**1. SUMMARY**

Internal Audit has prepared an up to date list of all external audit management reports produced by Audit Scotland in 2002/03 for which recommendations remain to be implemented. (See Appendix 1). Internal Audit, has performed a review of the progress being made by management in implementing these outstanding recommendations, 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 Audit Scotland issued a report entitled Regularity & Governance (1) 2002/2003. This report covers the nature and extent of the Council's involvement with external funding bodies under the heading Following the Public Pound. As at the end of December 2003 there were 2 recommendations still to be implemented. However, it can now be reported both were implemented on 31 January 2004. (See Appendix 2).

3.2 As reported to the last audit committee the Management Report, Regularity & Governance (2) 2002/03 had 13 recommendations still to be implemented. As at the end of December 2003 this has reduced to 8 recommendations remaining to be implemented. Of these, 3 had implementation dates before the end of 2003, two of the recommendations relate to the updating of Council Standing Orders which now have rescheduled completion dates of March 2004. The third remaining 2003 recommendation is still being progressed. The 5 remaining recommendations for which management comments have been obtained have implementation dates stretching into 2004. Their progress along with the other 3 recommendations will continue to be monitored and reported. (See Appendix 3).

3.3 A report entitled Management of Community Equipment and Adaptations was issued by Audit Scotland. At the end of December 2003 Internal Audit can report that there are now 20 recommendations still to be completed. A total of 6 recommendations were scheduled for completion by the end of January 2004. However, posts and tasks within the Community Services Department are still to settle and this has impacted on implementation timetables for the 6 recommendations. The remaining 14 recommendations have implementation dates beyond February 2004. However management comment suggests a similar problem over posts and tasks is present, thus pointing to possible implementation delays. Internal audit will ask Community Services management to review the action plan and where necessary review implementation dates to see whether these need to be moved to more realistic dates to reflect the above situation. (See Appendix 4).

- 3.4 At the last audit committee the Audit Scotland report on the 2002/2003 Audit was presented with 8 recommendations. As at the end of December 2003 Internal Audit can report that there are now only 5 recommendations to be implemented with dates stretching out to March 2005. (See Appendix 5). As requested a report on the progress of the DLO against action plan is appended. (See Appendix 7).
- 3.5 Audit Scotland issued in January 2004 a report entitled Management Report, Regularity & Governance (3). The audit was done in order to obtain assurances on the existence and effectiveness of a number of controls essential to the operation of systems within the Council. The action plan listed 12 recommendations. However at the 26<sup>th</sup> January 2004 it can be reported that good progress has been made with the implementation of 6. The remaining 6 have dates stretching from the end of February to March 2004. A copy of the Executive Summary and Action Plan with management update is given in Appendix 6.

**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 22 January 2004.  
20febfinalreport20Feb

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

<b>Audit Scotland Report Name 2002 - 2003</b>	<b>Comments Obtained from Respondents Y/N</b>	<b>Recommendations Outstanding</b>
Regularity & Governance (1)	Y	0
Regularity & Governance (2)	Y	8
Performance Audit Report – Management of Community Equipment and Adaptions	Y	20
Report on the 2002/2003 Audit	Y	5
Regularity & Governance (3)	Y	6

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**ACTION PLAN Following the Public Pound**

No.	Recommendation	Responsible Officer	Action	Date	Progress as at 31/01/04
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	Completed 31 January 2004.
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	Completed 31 January 2004.

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## 1. Action Plan

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 December 2003
1	A Council wide budgetary control procedures manual should be produced and circulated to all budget holders.	High	Head of Strategic Finance  Accounting Services Managers	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  31 March 2004	Ongoing  Ongoing
5	Consideration should be given to identifying year-end projected overspends on cost centre monitoring reports.	Medium	Sharon MacDonald	This information will be included.	31 August 2003	Projected outturn information is detailed on monthly Trial Balance reports and reported to Departmental and Strategic Management Teams and in the reports that go to the SPC. It is not included on monthly variance reports to budget holders. There are 2 reasons for this. The first is to force budget holders to consider the Year to Date position and projected outturn thus identifying potential variances rather than simply accepting the previous projected outturn. The second is to reiterate to budget holders the approved budget within which they should be working.
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	On-going

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 December 2003
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 the Council's various revised regulatory schemes will come before the Council by the end of the financial year.
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	Scheduled to be completed by February 2004
19	Capital project management should be reviewed and consistent controls introduced.	Medium	Per Internal Audit Reports	As above	Per Internal Audit Reports	Scheduled to be completed by February 2004
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	It is intended that the Council's various revised regulatory schemes will come before the Council by the end of the financial year.
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	On-going



## 1. Action Plan

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 December 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	The IT Officer post has been advertised internally with a closing date for applications of 13 <sup>th</sup> February 2004.
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	See 1 above.
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	See 1 above
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	See 1 above
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	See 1 above
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 December 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.	Will be the responsibility of the new post holder.
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	Still progressing.
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	Will be the responsibility of the new post holder.
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	Review of Care and Repair service to be carried out.
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	See 1 above.
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	Still progressing.

## Management of Community Equipment and Adaptations

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 December 2003
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	Still progressing.
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	All OT staff receives Moves training which covers principles of moving and handling for equipment as well as people. New staff will also be trained. Training is 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 although responsibility for this now transfers to Head of Community Support
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	Ongoing but this transfers to the Head of Community Support
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	This is reliant on Social Work priorities.
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	August 2004

## Management of Community Equipment and Adaptations

No.	Recommendation	Responsible Officer	Action	Date	Update at 31 December 2003
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	December 2004

**Action plan**

Final Report		Action	
Page/ Paragraph Reference	Issue to be addressed by the Council	Who by	When by Date & Status 31/12/03
1.	Non-operational assets should be reviewed to assess whether these assets contribute to the Council's policy objectives.	B West Head of Strategic Finance	30 June 2004 On Target
2.	The process for identifying and eliminating adjustments to internal profits taken on long-term road contracts should be reviewed.	B West Head of Strategic Finance	30 June 2004 On Target
4.	The practical steps for demonstrating annually that assets have been systematically reviewed for impairment should be documented and implemented. This will be built in to the Council's developing asset management strategy and plan. The first run of which will influence the review of the capital programme in 2004/05.	D Duthie Head of Transportation and Infrastructure	31 March 2005 Ongoing
5.	A Risk Management Strategy should be prepared.	C Reppke Head of Democratic Services and Governance.	31 July 2004 On Target
6.	The timeliness of the Council's Public Performance Report should be reviewed.	Policy and Strategy Manager	A Policy & Strategy Manager has still to be appointed

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# Argyll & Bute Council–2002/03

## Management Report Regularity & Governance (3)

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

### 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 DLO/DSO income, non-domestic rates, departmental debtors, payroll and internal audit.
- 1.5 This is our 3<sup>rd</sup> and final regularity and governance report of 2002/2003.

#### Summary of Main Findings

- 1.6 **DLO/ DSO Income.** Three DLO/DSOs were identified with significantly unusual income streams occurring at the year-end. These were Property Maintenance, Vehicle Maintenance and Road Maintenance. Both the Property Maintenance and Road Maintenance DLOs had significant increases in income processed in periods 12 and 13. This pattern of income indicates that the DLOs have a significant backlog in the processing of jobs to completion until an annual purge in March and this may create inherent difficulties in budgeting for their income streams, as budget monitoring and forecasting becomes less reliable due the degree of uncertainty attached to year-end transactions.
- 1.7 Within the Property Maintenance DLO, charges of £22,171 of the balances due were over six months old. The most significant of these being the 6.5% uplift on invoices dating from November 2001.

- 
- 1.8 There is a significant variance between estimated values provided on works orders from the Housing client and the actual income chargeable identified by the Property Maintenance DLO on invoices. These differences are likely to delay client authorisation. Amounts were consistently underestimated (by between 7.5% and 138%). The total underestimation in the sample examined was £100,000 or 65%. The methodology for estimating the cost of works orders appears to be inaccurate this does not provide a sound basis for introducing commitment accounting in order to increase the accuracy of budget forecasting.
- 1.9 Lack of access to the original contract prevented audit activity verifying whether the basis of a penalty to the Vehicle Maintenance DSO, due to the general condition of the fleet, was appropriate. Two vehicle rates used by the DSO in determining its charge to the client were found to be incorrect resulting in an error of £39,000.
- 1.10 **Non-Domestic Rates Billing.** The NDR system has sufficient internal controls and is operating as intended, with the exception of validation checks on applications for empty property relief. Evidence was not available to support the validity of applications and officers indicated that this was due to cost and the geographic nature of the Council.
- 1.11 In addition, we also identified that the documentation of the existing interface process would help to provide business continuity during staff absence or turnover.
- 1.12 **Departmental Billing.** We identified that the Council has clear policies and instructions to staff identifying which services should be charged and the rates to be applied. Departments are encouraged to ensure value for money by obtaining payment at the point of service where amounts are less than £20.
- 1.13 Only one minor issue has been identified relating to the miscoding for VAT purposes of burial income, which may have an effect, though probably immaterial, on the annual assessment of partial exemption by the Council's VAT advisers.
- 1.14 **Payroll.** The absence of a comprehensive and reliable list of authorised signatories is a significant weakness within the system for processing pay. The Council is at risk of processing unauthorised alterations to the payroll. This could potentially enable "ghost" employees to be added to the payroll and incorrect rates of pay or hours worked to be processed.
- 1.15 Revised written procedures should be developed following the introduction a new system incorporating both personnel and payroll records.
- 1.16 **Internal Audit.** We have been able to place reliance on the work of the internal auditor in a number of areas and commend the co-operation afforded to external audit staff by our internal audit colleagues. A minor issue has been identified concerning the clarity of conclusions detailed within working files, but improvements in this area are being considered by the Internal Audit Manager.
- 1.17 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.

- 1.18 The factual content of the report has been agreed in discussion with appropriate officers from the Council.
- 1.19 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.
- 1.20 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 as at 26/01/04
	<b>DLO/DSO Income</b>				
1	<b>Property Maintenance:</b> The reasons for a March income pattern representing four times the normal monthly income are to be investigated and solutions identified which would spread the income pattern more evenly over the year. <i>Priority: High</i>	Neil Leckie, Maintenance Manager	The income pattern will be reviewed by the end of March 2004	March 2004	Ongoing
2	<b>Property Maintenance:</b> DLO/DSO Income balances over six months old are to be periodically reviewed and cleared. <i>Priority: Low</i>	Neil Leckie, Maintenance Manager	Will review all invoices over 6 months old by the end of February 2004.	February 2004	Ongoing
3	<b>Property Maintenance:</b> A simplification of the Schedule of Rates pricing is to be considered, perhaps based on a few fixed rates. This would simplify estimation and invoicing and may prevent some of the delays in authorisation. <i>Priority Medium</i>	Neil Leckie, Maintenance Manager	Will review best value of introducing fixed prices by the end of March 2004.	March 2004	Ongoing
4	<b>Vehicle Maintenance:</b> Any agreement to apply payment penalties is to be agreed and evidenced. <i>Priority: Low</i>	Peter Robinson, Fleet Manager	Will be carried out in accordance with maintenance contract conditions.	October 2003	Complete
5	<b>Vehicle Maintenance:</b> The charging rates of the vehicle types are to be reviewed and corrected in the two cases identified. <i>Priority Medium</i>	Peter Robinson, Fleet Manager	Rates were corrected and review completed of other rates.	October 2003	Complete

No	Recommendation	Responsible Officer	Action	Date	Update as at 26/01/04
6	<p><b>Roads Maintenance:</b> The reasons for a high March income level are to be investigated and solutions identified which would spread the income pattern more evenly over the year. <i>Priority: High</i></p>	Alan MacDonald, Head of Roads	Works program to be set with workload spread as evenly as possible throughout the year. All measurements for works to be finalised as soon as possible after works completed. <i>However, the unknown cost of winter maintenance year on year may still lead to large balance of income being spent in late March.</i>	March 2004 onwards	Ongoing
	<b>Non Domestic Rates - Billing</b>				
7	<p>The procedures required to interface Valuation Roll data to the Anite NDR2 system are to be formalised and documented. <i>Priority: Medium</i></p>	Judy Orr, Head of ICT & Finance	The instructions for Running Roll update from the Assessor have been updated.	August 2003	Complete
8	<p>A sample of applications for NDR empty property relief are to be verified and future procedures based on the identified risk. <i>Priority: High</i></p>	Judy Orr, Head of ICT & Finance	A sample of NDR empty property claims will be checked by debt recovery staff as a basis of identifying that potential error rates are not significant.	March 2004	Ongoing
	<b>Debtors</b>				
9	<p>Relevant staff are to be reminded of the appropriate rules for VAT coding income from cemeteries. <i>Priority: Low</i></p>	Murray MacFarlane, Senior Accountant	All users have been issued with an updated copy of the procedures manual. See paragraph 2.3.6	October 2003	Complete

No	Recommendation	Responsible Officer	Action	Date	Update as at 26/01/04
	<b>Payroll</b>				
10	Written procedural instructions are to be prepared for the new payroll/personnel system. <i>Priority: Medium</i>	Judy Orr, Head of ICT & Finance	The project team has devised and agreed a set of procedures for each of the tasks within the Resource Link system.	October 2003	Complete
11	An up-to-date authorised signatory list is to be prepared for payroll transactions ensuring appropriate segregation of duties. <i>Priority: High</i>	Judy Orr, Head of ICT & Finance	Update of list is almost complete.  Segregation between authorisation of input and actual input, thus the access rights should differ from the authorisation lists. Matter will be raised again at next HR project team meeting.	Ongoing	Ongoing
	<b>Internal Audit</b>				
12	Internal Audit working files are to include a summary of matters arising cross-referenced to individual working papers. <i>Priority: Low</i>	Ian Nisbet & Alex Colligan, Internal Audit Managers	This has been implemented.	December 2003	Complete

AUDIT SCOTLAND - 2002/2003 REPORT ON THE AUDIT OF ARGYLL & BUTE COUNCIL

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**1. INTRODUCTION**

Within the PMP follow-up Audit Report in 2002/03, an action was placed upon Operational Services, to the progress and achievement of tasks identified within the Property Services DLO Business Plan, and to the reporting of progress and achievement to Council Members and Officers.

**2. RECOMMENDATIONS**

2.1 The Audit Committee note the content of this report and follow up by Internal Audit.

**3. DETAILS**

3.1 The progress and achievement of actions identified within the Property Maintenance DLO Business Plan are monitored monthly.

3.2 DLO performance is reported in line with the Business Plan, the requirements of Argyll & Bute Council's Commercial Operations Board, Argyll & Bute Council's Strategic Management Team and the Scottish Executive.

3.3 The DLO Management Team have adopted a revised Management Information System to provide monthly data for:

- Financial Performance:
  - By Depot
  - By Project
  - By Contract
- Operational Performance:
  - Achievement of Client Targets
  - Achievement of Client Targets by Depot
  - Achievement of Client Targets by Work Category
- Wages, salaries & bonus
- Stock levels
  - Overall
  - By depots
- Work In Progress
- Invoicing & Bills Outstanding

3.4 There is now a clear focus on Performance Management. A process has been put in place by which the Management

Page 36  
**APPENDIX 7**

Team reviews DLO performance monthly. On completion of the review, an Action Plan is issued. Adverse variances are investigated and individuals given clear corrective actions and target dates for completion. As part of the Performance Management review the following month, the previous month's Action Plan is reviewed for completion.

**4. PERFORMANCE**

- 4.1 The DLO Management Accounts show a surplus for the period to 31 December 2003. A significant improvement in the achievement of client target dates has been achieved over the 3<sup>rd</sup> Quarter.
- 4.2 The value of Work in Progress and Invoicing & Bills Outstanding is considered to be too high. The reduction of the value of Work In progress and Invoicing & Bills Outstanding is a clear management focus.

For further information please contact Sandy Mactaggart, Head of Facility Services (01546 604379)

AJL Mactaggart  
Head of Facility Services  
23 January 2004

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

**AUDIT COMMITTEE**  
**20 FEBRUARY 2004**

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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 As reported to the last audit committee Internal Audit will continue to report on the progress made by management in implementing the agreed actions outlined in the Audit Scotland PMP reports.

3.2 As at the end of December 2003 Internal Audit carried out a review to establish what progress had been made by management in implementing the agreed actions raised in the PMP follow up reviews performed by Audit Scotland. Appendix 1 sets out the updated position and Appendix 2 to 6 covers the remaining actions unresolved with management comment appended. Internal Audit in discussion with management can see that progress is taking place with quite a few of the remaining actions being close to completion.

3.3 As requested the Fleet Manager has prepared a report for the audit committee setting out his plans for completing the 2 remaining PMP action points outlined in Appendix 3.

**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 23 January 2004.  
20febfinalreport20Feb



**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 as at 31 December 2004</b>
2	Personnel	11	1
3	Fleet Management	6	2
4	Corporate Approach	23	3
5	Roads & Transportation	22	1
6	Community Care	22	7

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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 Audit Scotland.	Progress at 31 December 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	Phase 1 process implemented. Phase 2 being tested.
<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 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 December 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.	Will be complete by June 2004.

## 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	Design being assessed completion for re-design 20 February 2004; distribution of survey forms during February 2004; compilation of survey results 1 April 2004. <b>(See Report)</b>

<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 December 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>A service challenge day has been held on 9 December 2003 and a Best Value champions forum established with 3<sup>rd</sup> tier managers. Every quarter the champions will meet to discuss performance.</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</li> </ul> <p><b>(B)</b></p>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>	January 2004	Working towards the March 04 date, on target to be finished on time.

## 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 Auditor	7. Progress at 31st December 2003, review by Internal Audit.
<p>22. Complete implementation of management information systems to deliver required performance information</p>	<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>Although progress is being made this will be the subject of a review by the new Policy &amp; Strategy Manager once in post.</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 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.
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<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 December 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.	Maintenance and Asset Management Plan complete. Document will be taken to members and implementation rolled out by March 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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**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 <sup>st</sup> December 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	Workshops/ Training dates set Feb – April 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	Format agreed which includes Best Value approach.
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	Will be progressed when third tier posts in place March – April.

## APPENDIX 6

### 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 <sup>th</sup> December 2003.
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)	For discussion at Area level staff meetings.
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>	Meetings held and format for plans agreed which includes Service Plans. For completion March. (delay due to restructuring exercise).
19. Service Centre business plans need to develop local performance measurement criteria.	Service Centre business plans will have measurement criteria in place which is in addition to the departmental requirements.	Assistance will be given by Planning and Service Officers to Service Centres to develop local performance measurements.	This will be further developed 2003/04 when all four plans are finalised. <b>(B)</b>		February 2004	Vacancy in Planning Officer post has prevented this progressing. Planning Officer in process of appointment. (Aim for Oct 2004)
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	Best Value champions meeting will address. (Corporate).



## APPENDIX 6

### IMPROVEMENT ACTION PROGRESS REPORT

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<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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**FLEET MANAGEMENT UPDATE**

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**1. INTRODUCTION**

Fleet Management is committed to completing the remaining 2 tasks (originally 6 tasks) identified during the PMP follow-up audit in 2002/03. The tasks, when completed, should help to identify areas for service improvement.

**2. RECOMMENDATIONS**

2.1 The Audit Committee note the content of this report and follow up by Internal Audit.

**3. DETAILS**

3.1 The outstanding agreed improvements are

- Redesign the customer survey forms and repeat the customer survey exercise. The aim of this task is to identify areas for improvement and to confirm what is being done well.
- Complete a 'Getting To Know You' exercise. The aim of this is to confirm who our partners are and, perhaps, identify how business opportunities could be increased

3.2 The hoped for benefits, of completing these tasks are:-

- The questionnaire will provide valuable feedback of customer's perceptions of the quality of the service we provide.
- It will give Fleet Management a basis from which to identify areas for improvement and additional requirements, which can then be built into the service/business plan.
- It will give Fleet Management the opportunity to speak to suppliers with a clearer idea of our customer's needs.
- Confirmation will be obtained of the areas where the service is good and fully meets customer's aspirations.

3.3 The action plan is

- Design questionnaire – current target date 25<sup>th</sup> February
- Distribute questionnaires – completion target date 3<sup>rd</sup> March 2004.
- Receive replies, analyse answers and complete a report – target date 31<sup>st</sup> March 04.

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
20 FEBRUARY 2004**

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**HMI REPORT 2002 – 03**

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**1. SUMMARY**

Audit Scotland issued a report covering Moving to Mainstream – The Inclusion of Pupils with Special Education Needs in Mainstream Schools. A review regarding the progress made by Community Services management in the implementation of key report recommendations has been performed by Internal Audit, the results of which 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 Internal Audit reported to the last audit committee that 2 reports had been produced by Audit Scotland, a main and summary report. The summary report contained 11 main recommendations pertinent to local authorities and their schools. These were extracted and inserted into an action plan for Community Services management to progress implementation.

3.2 Of the original 11 key recommendations set out in the summary report, Internal Audit can report that at the end of December 2003 good progress has been made with only 4 recommendations remaining to be implemented. Management have appended their comments with regard to the outstanding recommendations. (See Appendix 1).

3.3 Once all key recommendations from the summary report are implemented, the next step will be to take the main report and draw up a similar action plan in order to ensure that main report recommendations are also progressed by Community Services management.

**4. CONCLUSIONS**

Internal Audit will continue to monitor progress by Community Services management 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 22 January 2004.  
20febfinalreport20Feb

## Action Plan: Moving to Mainstream

No	Recommendation	Responsible Officer	Community Services Management Response	Update 31 December 2003
	<b>Building capacity for inclusion.</b>			
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. Kept under continuing review.
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.	Ongoing. Kept under continuing review.
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. Kept under continuing review.
	<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. Kept under continuing review.

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

**AUDIT COMMITTEE**  
**20 FEBRUARY 2004**

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

---

**1. SUMMARY**

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the end of December 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 As at the end of December 2003 out of 19 core financial systems audits, 9 have been completed with final reports issued. Of the remaining 10 audits, 5 have been started leaving a further 5 audits to be started and completed by the end of March 2004. These audits have been planned and assigned within the remaining audit days. They have been scheduled according to their risk ranking with Public Transport being placed towards the end of the year having a ranking of 6.

3.3 A total of 11 non-financial audit areas have been planned for this financial year., At the end of December 2003 a total of 6 audits have been completed. This leaves 5 audits to be progressed, 3 audits have been started and are planned within our remaining audit day availability. This leaves 2 audits to be progressed by KPMG from within their current resource allocation.

3.4 As reported to the last audit committee a total of 131 days had been expended on Special Investigation work. As at the end of December 2003 a further 6 days were expended on further investigation work thus bringing the total days expended to 137.

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

**4. SUMMARY OF 3<sup>rd</sup> QUARTER AUDIT ACTIVITIES FOR 2003 - 2004**

4.1 During the 3<sup>rd</sup> quarter the opportunity was taken to bring our direct audit days up to represent 80% of total working days available. Of the 100 additional days allocated to direct audit days Special Investigations received an additional 60 days. This enabled the large amount of days expended on special investigations up to the 3<sup>rd</sup> quarter to be accommodated.

- 4.2 In the 3<sup>rd</sup> quarter good progress was made with all audits and leaves the section in a reasonable position to complete the audit plan by March 2004.

**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 21 January 2004.  
20febprogreport20Feb

## 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
Unified Benefits System	2002-03	2	30	31	22	9
Contract Hire & Operating Leases	2000-01	5	20	21	27	-6
<b>STARTED</b>						
Creditor Payments	2002-03	2	60	61	33	28
Payroll	2002-03	3	30	31	20	11
Treasury management	2002-03	2	20	21	2	19
Payments to Voluntary Associations	2000-01	4	20	21	0	21
Car Allowances	2002-03	3	20	21	18	3
<b>TO BE STARTED</b>						
General Ledger Operations	2002-03	2	20	21	6	15
Government grants	2002-03	1	20	21	0	21
Purchase of Equipment & Materials	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>241</b>	<b>230</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	86	-45
Best Value Reviews	2002-03	3	30	31	31	0
PMP	2002-03	3	33	35	35	0
Devopment & Environmental Services	2002-03	3, 6	20	35	35	0
Housing & Social Work	2002-03	9, 10	30	21	19	2
<b>STARTED</b>						
Corporate governance compliance/risk management	2002-03	1	50	36	6	30
Transportation & Property	2002-03	2, 8	20	21	9	13
Education	2002-03	3, 4, 11	40	36	9	27
<b>TO BE STARTED</b>						
None						
<b>KPMG</b>						
IT/MIS Strategy & Controls	2002-03	1	30	31	0	31
DSO's	2002-03	4, 7, 9	35	31	0	31
<b>Section Total</b>			<b>348</b>	<b>359</b>	<b>295</b>	<b>2</b>
<b>Actual Direct Audit Time</b>			<b>800</b>	<b>830</b>	<b>536</b>	<b>232</b>
<b>Special investigations contingency</b>						
Fleet Management	-	-	100	160	5	23
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					33	
HSW Petty Cash					1	
Housing					4	
<b>Section Total</b>			<b>100</b>	<b>160</b>	<b>137</b>	<b>23</b>
<b>Other Areas</b>						
Follow-up external audit management letter	-	-	20	30	28	2
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>61</b>	<b>29</b>
<b>TOTAL</b>			<b>980</b>	<b>1080</b>	<b>734</b>	<b>284</b>

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

**AUDIT COMMITTEE**  
**20 FEBRUARY 2004**

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

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**1. SUMMARY**

1.1 Audit Scotland has now started their review of our internal audit provision and it will stretch to the end of January 2004. The review concentrates on assessing internal audit compliance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 The intention of the Audit Scotland follow-up review is to evaluate any improvement that has been done by Argyll and Bute Council since the last review 3 years ago.

3.2 Internal Audit and the manager from KPMG agreed an action list prior to the commencement of the Audit Scotland review: -

- KPMG were to review Argyll and Bute audit team compliance with the new review statements 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 was that the Council complied with best practice the relevant evidence was to be identified thus demonstrating that it was the case;
- Where it was felt that there was either no compliance or that evidence of compliance was lacking action would be taken to become demonstrably compliant;
- KPMG was to undertake a review of compliance with the Code of Practice using a member of staff who had no input into the process so far so that an independent opinion could be obtained about the extent to which there was compliance;
- Argyll and Bute were to implement any actions resulting from the independent review.

3.3 KPMG carried out their independent review towards the end of December 2003 after initial preparation had been carried out for Audit Scotland. The independent review indicated a couple issues, which were addressed. The review concluded that internal audit were substantially compliant with the CIPFA Code of Practice.

**4. CONCLUSIONS**

The review by Audit Scotland is part way through and will be complete by the end of January with a national report expected to be produced around June 2004.

Internal Audit will report back to the audit committee on progress.

**5. IMPLICATIONS**

5.1	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)

Ian Nisbet  
Internal Audit Manager 23 January 2004.  
20febprogreport20Feb2003

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**ARGYLL & BUTE COUNCIL  
AUDIT SCOTLAND**

**AUDIT COMMITTEE  
20 FEBRUARY 2004**

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**AUDIT PLANNING MEMORANDUM 2003/04**

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**1. INTRODUCTION**

Audit Scotland was appointed external auditor of Argyll & Bute Council for five years, covering the financial years 2001/02 to 2005/06, this report presents the external audit plan for 2003/04.

**2. RECOMMENDATIONS**

2.1 The Audit Committee notes the content of this report.

**3. DETAILS**

3.1 The external auditor's audit plan has been prepared in order to allow them to provide an opinion on the Council's financial statements and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board. They will also review and report on Council corporate governance arrangements and compliance with requirements in relation to Best Value.

3.2 The Audit Planning Memorandum is attached at Appendix 1.

For further information please contact Ian Nisbet, (01546 604216)  
David McConnell  
Chief Auditor, Audit Scotland 28 January 2004.  
20febfinalreport20Feb

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## **APPENDIX 1**

### **Argyll and Bute Council**

#### **Audit Planning Memorandum for the 2003/04 Audit January 2004**

David McConnell MA CPFA, Chief Auditor, Audit Scotland  
7<sup>th</sup> Floor, Plaza Tower, East Kilbride, G74 1LW  
T 01355 619200 F 01355 619201

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## Background

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### Audit Engagement

- 1.1 David McConnell, Chief Auditor, Audit Scotland was appointed auditor of Argyll & Bute Council for five years covering the financial years 2001/02 to 2005/06. 2003/04 represents the third year of this audit appointment.
- 1.2 Audit Scotland is a statutory body set up in April 2000 to provide assistance and support to the Accounts Commission and the Auditor General for Scotland in the exercise of their respective functions. While the Accounts Commission no longer employs its own staff it remains responsible for securing the audits of local authorities and joint boards and for considering and making recommendations on issues reported through the Controller of Audit.

### Facts and Figures

- 1.3 Argyll & Bute Council (“the Council”) was established on 1 April 1996 following local government re-organisation. It is the result of the amalgamation of the former Argyll & Bute District Council, part of the former Dumbarton District Council, Argyll and part of the old Dumbarton sub-regions of Strathclyde Regional Council. The Council serves a population of approximately 91,000 and is split into four decentralised areas:

- Cowal and Bute – 9 Councillors
- Helensburgh and Lomond – 10 Councillors
- Kintyre, Islay and Mid Argyll – 9 Councillors
- Oban, Lorn and the Isles – 8 Councillors

While the four areas have roughly the same population, there is considerable variation in terms of geographic area. The Oban, Lorn and the Isles, and the Mid Argyll, Kintyre and Islay areas are larger than the whole area of most local authorities elsewhere in Scotland.

- 1.4 The Council’s headquarters are based in Kilmory Castle, Lochgilphead, Argyll, PA31 8RT.
- 1.5 The budgeted expenditure for 2003/04 is £175,499,996 and the key sources of income are:

- |                              |              |       |
|------------------------------|--------------|-------|
| • Aggregate External Finance | £138,746,000 | 79.2% |
| • Local Tax Requirement      | £36,446,432  | 20.8% |

1.6 The key areas of expenditure are:

• Education	£72,650,364	41.4%
• Social Work Services	£33,418,532	19.1%
• Roads & Transport Services	£20,255,766	11.5%
• Environmental Services	£11,891,595	6.78%
• Joint Police Board	£8,152,000	4.7%
• Cultural & Related Services	£7,358,613	4.19%
• Joint Fire Board	£4,541,000	2.6%
• Housing Services	£4,092,103	2.3%
• Corporate & Democratic Core	£3,344,023	1.9%
• Planning & Development Services	£2,580,116	1.5%
• Central Services to the Public	£1,718,562	1.0%
• Asset Management Revenue Account	£1,320,590	0.8%
• Valuation Joint Board	£1,132,358	0.7%
• Unapportionable Central Overheads	£1,067,808	0.6%
• Trading Services	£1,016,789	0.6%
	£174,565,219	

### Functions of the Council

1.7 Argyll and Bute Council provides the following services:

- **Education:** provision of primary, secondary, pre-five and learning centres.
- **Housing and Social Work:** management and maintenance of council housing, and other housing services, for example housing benefits, improvement grants and services for the homeless, and the provision of services for the elderly, children and families, people with disabilities or mental ill health and for offenders.
- **Transport and Property:** management of the physical assets of the Council, including roads, bridges and other highway structures, schools, council offices and vehicles, piers, harbours, coastal protection, lighting and airstrips. Activities include construction, maintenance, winter maintenance, cleaning and catering. The Department also assists with the provision of public and school transport.
- **Development and Environment Services:** to provide refuse collection, street cleaning, leisure operations, grounds maintenance, burial and cremation service, playing fields, public conveniences, planning, building control, tourism, libraries, leisure and arts, pollution and public health.
- **Economic Development and Business Advice:** to work with a wide variety of communities, groups, individuals, agencies and other partners, in Scotland and Europe, to help and enable projects and initiatives that boost the local economy.

1.8 The Council is a member of the Argyll & Bute Community Planning Partnership that was established in 1999 and has grown rapidly to include most providers of public services in Argyll and Bute.

1.9 The Council identifies the following key values:

- **Getting closer to the communities:** to ensure good communication with value being placed on the views of the communities and to decentralise services to bring them closer to the communities and acknowledge the differing community needs.
- **Valuing employees:** to listen and value the opinions of our employees with an open line of communication and to encourage co-operative working across organisational boundaries.
- **Working with partners:** foster partnerships and co-operation with organisations in the public, private and voluntary sector.
- **Services provided:** to ensure that the services provided are delivered in a fair, consistent, efficient and effective way taking into account their social and environmental impact and the needs and aspirations of communities and individuals.

### *Trading Accounts*

1.10 In previous years the Council undertook a number of categories of work and defined activities in-house via Direct Labour Organisations or Direct Service Organisations (DLO/DSO). Under the Local Government, Planning and Land Act 1980 and the Local Government Act 1988 (the CCT legislation), local authorities were required to produce a separate annual report for each DLO/DSO, which were required to achieve the prescribed financial objective of breaking even each year.

1.11 Section 10 of the Local Government in Scotland Act 2003 repealed the CCT legislation instead setting a requirement for local authorities to maintain and disclose trading accounts for significant trading operations from 2003/04, and for them to break even over a rolling three-year period. In response to this, the Council has identified and agreed four significant trading operations.

## **Organisation and Committee Structure**

### *Organisation Structure*

1.12 The Council adopted a new structure of four directorates and a chief executive's unit, replacing the previous structure of six departments and six directors, during 2002/2003. The details of the Council's Management Team are as follows:

<b>Chief Executive's Unit</b>	Chief Executive	James McLellan
<b>Service Departments</b>	Community Services	Douglas Hendry
	Operational Services	Andy Law
	Development Services	George Harper
	Corporate Services	Nigel Stewart

*Council Structure*

- 1.13 Elections take place every four years, the most recent having been held in May 2003. The next elections will be held in May 2007. The current composition of the Council is:

<i>Party</i>	<i>No. of Members</i>
Labour	0
Liberal/Democrat	8
Conservative	3
SNP	3
Argyll & Bute Independents' Group	3
The Independent Councillors' Group	19
<b>TOTAL</b>	<b>36</b>

The Independent Councillors' Group currently forms the administration.

- 1.14 The table below details the current post holders:

Council Leader	Councillor Allan Macaskill (Group of Independent Councillors)
Council Depute Leader	Councillor Robin Banks (Group of Independent Councillors)
Convenor	William Petrie (Group of Independent Councillors)
Vice-Convenor	Donnie MacMillan (Group of Independent Councillors)

*Standing Committees*

- 1.15 The table below details the current convenors of standing committees:

<i>Committee</i>	<i>Convenor</i>	<i>No. of Members</i>
Strategic Policy	Allan Macaskill	11
Strategic Policy (Education)	Allan Macaskill	11
Public Service and Licensing	Gordon McKinven	10
Audit	Gary Mulvaney	7 <sup>1</sup>
Standards	Dr G F Doughty	7
Commercial Operations Board	Bruce Robertson	5

- 1.16 The Council has approved terms of reference and a scheme of delegation of responsibility for all the committees and these are included in the Standing Orders which regulate the conduct of their proceedings.

<sup>1</sup> Including two independent co-opted members

- 1.17 The Financial Regulations provide a clear basis for accountability in relation to financial matters. The range of issues identified includes budgetary control, security of assets, payment of staff and purchasing. The Financial Regulations are updated annually.
- 1.18 The Council's Audit Committee comprises 7 members and invites officers to attend as required. The main duties of the Audit Committee are to:
- Review the systems of internal control and control environment and evaluate the decision making process.
  - Review internal audit strategy and plan, receive and consider audit reports.
  - Review the operational effectiveness of the internal audit service.
  - Review external audit strategy and plans and review management letters and final reports.
  - Discuss any issues with external auditors.
  - Review any changes or revisions to Standing Orders, Financial Regulations and the Scheme of Administration and Delegation.

### **Main Financial Systems**

- 1.19 On the basis of the planning information obtained at the current time, the main financial systems have been identified as:
- Payroll Systems. For pay purposes staff are grouped into three categories: manual workers; APT&C and Teachers. Manual workers tend to be paid on a weekly basis, whilst other staff are salaried and paid monthly.
  - Council Tax and Non-Domestic Rates. In 2003/2004 the Council aims to collect over £36m from council tax and nearly £29m from non domestic rates.
  - Main Financial Systems. The Council uses the Oracle Financials system for its financial ledger. It is also used for budget monitoring, the production of the annual accounts and is interfaced with a number of other systems.
  - Creditor Payments Systems. The creditor payment module of the Oracle Financials system is used. The Council uses a batch processing method of invoice payment.
  - Housing and Councils Tax Benefits. The Council awarded housing and council tax benefit amounting to approximately £20.5m in 2002/2003. A unified benefits system (SX3) has been in operation for over two years following the merger of the housing benefit and council tax benefit systems.
  - Fixed Assets. Following the introduction of the Prudential Code, management of the Council's assets and capital expenditure is an area which will be increasingly important.

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## Audit Resources

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- 2.1 The indicative audit fee notified for 2003/2004 is £160,000 (excluding the fixed charge). This is a provisional fee, which may be increased or decreased within a range of 10% with the agreement of the Chief Executive/Head of Strategic Finance. In determining the agreed fee, the following factors have been considered:
- The standard of the audited body's corporate governance arrangements, the control environment established by the body and the experience of its senior management;
  - The development of management risk assessment procedures covering all of the Authority's corporate and activity level objectives;
  - Changes in the framework of authorities and the audited body's response;
  - The standard of internal controls in main financial systems and whether audit recommendations are promptly acted upon;
  - The standard of internal audit and the reliance that can be placed on its work;
  - The extent to which comprehensive schedules and working papers were provided in support of the financial statements;
  - Whether or not the audited body wishes us to undertake specific additional work (e.g. additional centrally directed study work or a specific locally determined study); and
  - Whether additional work will be undertaken for other auditors where systems are shared by bodies.
- 2.2 In particular we have identified the following planning issues in relation to the Council for 2003/2004:
- Continuing audit activity to confirm improvements in Education budgetary control and Property Maintenance;
  - Introduction of the Prudential Code and Trading Accounts;
  - Implementation of a computerised purchase order processing system;
  - PPP/PFI projects review. Including a review of the project management arrangements, procurement and, as required, comment on the organisation's accounting treatment.
  - Recognition of the good standard of final accounts working papers presented in 2002/2003; and
  - Ongoing improvements and developments in the internal audit function. Including the development of closer working arrangements between external and internal audit and the increasing quality of work undertaken.
- 2.3 The indicative fee agreed with the Head of Strategic Finance for 2003/2004 is £168,000, plus a fixed charge of £66,500. The fixed charge is notified directly to the audited body by Audit Scotland centrally, and is not subject to local discussion. The direct audit fee agreed is 5% above the indicative fee, but represents a reduction in fee, compared to last year, of 5%.
- 2.4 In agreeing the fee, the co-operation of internal audit will be secured to prevent duplication of effort and to maximise the overall internal and external audit resources.



2.5 Should additional audit work require to be undertaken that has not been provided for in this initial plan, the agreed fee will be revised within the indicative range, in conjunction with the Council.

2.6 The core audit team will consist of

Chief Auditor	David McConnell, CPFA
Senior Audit Manager	Brian Howarth, ACMA
Audit Senior	Ian Bell, CPFA
Audit Senior	Neil Cameron, CPFA
Assistant Auditor	Laurence Slavin, IIA
Audit Senior (ICT)	Marius Rautenbach
Assistant Auditor - Graduate	Keira Shepperson

2.7 We commenced our fieldwork in December 2003, including both systems and performance audit work. During the period July to September 2004, we will concentrate on the financial statements in order to meet Audit Scotland's prescribed sign-off date of 30 September 2004. We will complete the audit of specified grant claims throughout the year to meet the required submission dates.

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## Audit Objectives and Testing

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### Audit Objectives

- 3.1 External audit is the activity statutorily superimposed upon an audited body's accountability which provides an independent and objective check on the stewardship function. Its overall purpose is to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable it to provide assurance to the public that those responsibilities have been reasonably discharged.
- 3.2 In general, an external auditor's objectives are to:
- (a) provide an opinion on, to the extent required by the relevant authorities, the audited body's financial statements and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board
  - (b) review and report, to the extent required by relevant legislation and the requirements of Audit Scotland's Code of Audit Practice, on
    - (i) the audited body's corporate governance arrangements as they relate to
      - the audited body's review of its system of internal control
      - the prevention and detection of fraud and irregularity
      - standards of conduct, and prevention and detection of corruption
      - its financial position
    - (ii) aspects of the audited bodies arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and, (in relation to relevant local government bodies), the audited body's arrangements for preparing and publishing specified performance information, and the audited body's compliance with requirements in relation to Best Value.

### *Statutory Duties in Relation to Local Government Bodies*

- 3.3 The external auditor has specific statutory duties as contained principally within Part VII of the Local Government (Scotland) Act 1973. These duties are as follows:
- To audit the financial statements of the audited body and place a certificate on the statements to the effect that the audit has been conducted in accordance with Part VII of the Act.
  - To satisfy himself that the financial statements have been prepared in accordance with all statutory requirements applicable to them.
  - To satisfy himself that proper accounting practices have been observed in the preparation of the financial statements.
  - To satisfy himself that the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
  - To satisfy himself that a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information.
  - To hear an interested person's objection to the financial statements.

- To consider certain matters relating to legality.
- To consider certain matters relating to loss and deficiency.

Additionally, under the Local Government Planning and Land Act 1980 and the Local Government Act 1988, the auditor is required to give a written opinion on the prescribed financial objectives applicable to a local authority's direct labour and direct service organisations.

- 3.4 The duties and responsibilities placed upon public sector auditors are wider in many respects than those of their private sector counterparts, stemming from the acknowledged public interest in the propriety and the economy, efficiency and effectiveness in the use of public funds. The wider responsibilities of the auditor are fully detailed in Audit Scotland's Code of Audit Practice. The attached plan has been prepared in accordance with the Code.
- 3.5 Our responsibilities also encompass the certification of grant claims, dealing with any formal complaints and drawing to the attention of the Controller of Audit any matters that could give rise to a statutory report.

### **Audit Approach**

- 3.6 Our audit approach is outlined in the Audit Services' Audit Manual which is required to comply with the Code of Audit Practice. The approach will seek to gain assurance that:
- The body's system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of the authority's assets and interests.
  - The body has adequate Corporate Governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability.
  - The systems of internal control provide an adequate means of preventing or detecting material mis-statement, error, fraud or corruption.
  - Transactions have been processed and recorded in accordance with statutory and management requirements.
  - The financial statements are fairly presented.
  - The body has made proper arrangements for securing value for money in its use of resources.
  - The body has properly considered and acted upon all matters of legality.

***Corporate Governance Arrangements***

3.7 The review of the body's Corporate Governance arrangements requires us to complete a standard checklist covering issues relating to systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the authority's financial position.

***Systems of Internal Control***

3.8 The review of systems of internal control has a dual purpose in that they contribute to both:

- The assessment of the audited body's corporate governance arrangements in so far as they relate to the systems of internal control.
- The process of arriving at an appropriate audit opinion on the financial statements by establishing the extent to which the information provided by the financial systems can be relied upon.

3.9 It is not possible to review all the main financial systems in each audit year, although we would intend to review and have covered all main systems over the five-year appointment.

3.10 The final decision on work to be undertaken will depend on factors such as materiality, risk assessment with regard to the control environment and management concerns, and previous work undertaken.

***Internal Audit***

3.11 Internal audit is provided by the Council's in-house Internal Audit section, supported by KPMG. The main duty of Internal Audit is to provide an assurance to management on the accounting and internal control systems within the body. The procedures used to provide that assurance are broadly similar to those used by External Audit. As a result we may place reliance on the work of Internal Audit subject to examination of their files to confirm the adequacy of work for our purposes. The areas where we propose to place reliance on the work of Internal Audit in 2003/04 are listed in paragraph 5.6.

***Performance Audit***

3.12 The Performance Audit Division of Audit Scotland has advised that for 2003/04 there are two strands to the performance audit element of our audit plans:

- Undertaking field work on topics which form part of Audit Scotland's Performance Audit Directorate's centrally directed studies programme (detailed in section 5); and
- Reviewing the body's arrangements for collecting, recording and publishing performance information.

***Legality Issues***

- 3.13 We are required to keep under review the legality of significant transactions and events and have an awareness of the key requirements of relevant statutory provisions. The legality of items of account are considered by the:
- Inclusion of all significant legal requirements in audit programmes and checklists used in the conduct of the audit.
  - Deployment of staff who have substantial experience of the public sector's legal framework.
  - Assessment of the arrangements the audited body has in place to obtain advice on legal matters.
  - Review of minutes for items where staff have raised concerns to ensure that those are adequately followed-up and resolved.
  - Provision of written confirmation by the audited body that staff are not aware of any possible non-compliance with the law or regulations which could have a material effect on the body's operation (i.e. SAS 440 letter).

***Financial Statements***

- 3.14 It is management's responsibility to ensure the preparation of financial statements by 30<sup>th</sup> June which present fairly the financial position of the audited body at the year-end and its income and expenditure for the year. Thereafter, External Audit are required to provide an independent opinion on the financial statements by 30<sup>th</sup> September. Standard Audit Services final accounts programmes will be used, tailored to meet the particular needs of the Council. Representations will be sought from management in respect of key judgements.

***Nature of Audit Testing***

- 3.15 The Audit Services Audit Manual states that the most efficient and effective method of obtaining the assurances noted above is a risk based audit approach, which takes cognisance of the existence and efficacy of key internal controls and risk. As a result, the system reviews will be based on these key controls and any audit testing will be directed into ensuring their existence. We will use standard Audit Services documentation that shows the overall objective and the expected controls required to achieve these objectives. Audit work should then identify and appraise these key controls by using a selection of possible audit tests identified within the standard documentation.
- 3.16 Sample sizes for testing controls depends on the frequency with which the control is operated. Sample sizes for substantive tests of individual transactions are determined by the combination of the assessed levels of control risk and inherent risk.
- 3.17 As stated earlier the bulk of our work will be systems based and will take cognisance of the key controls. Due to time restrictions, and to make best use of audit resources (in any year), reliance will be placed on Internal Audit. This is done on an annual basis following discussions with the Audit Manager.

- 3.18 Provided internal control is found to be operating satisfactorily, assurance can be taken for the purposes of the financial statements. Substantive procedures at the final accounts stage can then be reduced and all substantive assurance will be gained from analytical procedures. Analytical procedures systematically analyse and compare related figures, trends, ratios and other data with the aim of providing evidence to support the audit opinion.
- 3.19 Where possible, the use of CAATs (Computer Assisted Audit Techniques) will be incorporated into the audit tests as this will allow a more focused sample to be chosen; examples of CAATs may include overtime/bonus payments over a prescribed level, creditors invoices over a particular level.

## Audit Reporting

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- 4.1 Reports from the external auditor are the primary means by which the results of audit activity are brought to the attention of senior management of the audited body, elected members and other stakeholders, including the public. The target dates for the issue of planned audit outputs are listed in Appendix A but, in summary, the principal audit outputs are as follows.

### Reports to Management

- 4.2 Matters arising from each audit exercise will be reported to management on a timely basis throughout the year and will include an agreed action plan with agreed deadlines for implementation of audit recommendations and details of the officers responsible for their implementation.

### Auditor's Report

- 4.3 The Chief Auditor will provide a report to the Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements and including an opinion on those financial statements and on the Council's Statement of Internal Financial Control.

### Report to Members

- 4.4 At the conclusion of each year's audit, a report addressed to the audited body and the Controller of Audit will provide a summary of the significant matters arising from the audit. This will be submitted to Council members for consideration by the Audit Committee as soon as possible after the formal completion of the audit of the financial statements.

### Agreement and Submission

- 4.5 Draft reports will, in the main be discussed with the Head of Strategic Finance and/or appropriate Departmental Directors to confirm their factual accuracy, but there will be circumstances where clearance by certain technical officers may be necessary, and in such circumstances we will approach the relevant officers for their comments.
- 4.6 A courtesy copy of all formal reports submitted will be sent to the Chief Executive, Head of Strategic Finance, appropriate Directors and Internal Audit.
- 4.7 All formal reports, or a summary thereof, will be made available, to the Audit Committee for its consideration.

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## Audit Plans

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### *Long Term Plan*

- 5.1 We prepare a long term plan from which our annual plan is drawn. It has been developed using a risk based approach and has been influenced by factors such as the new systems to be introduced. However, it is emphasised that the long term plan is not immutable and will be reassessed in the light of actual coverage, major new developments and changing priorities.

### *2003/04 Annual Audit Plan*

- 5.2 In devising the current annual audit plan, the following factors were taken into consideration:
- (a) Work undertaken in previous years;
  - (b) Meetings held with senior officers including the Head of Strategic Finance to discuss any potential problem areas and areas of audit interest; and
  - (c) Discussions held with the Internal Auditor to assess the nature and type of work undertaken and to make an initial assessment of its impact on our proposed work plan. Regular meetings will be held with internal audit during the course of the audit.

### *Follow Up Audits from Previous Years*

- 5.3 Follow up audits will be undertaken as part of the 2003/04 audit to determine whether previous recommendations have been implemented. We shall concentrate on ensuring that the matters noted in the Report to Members are addressed and this will involve meetings with relevant authority staff to assess progress against the agreed action plans and collating appropriate supporting evidence. We shall determine the extent of reliance which can be placed on existing follow-up reporting systems.

### *Review of Systems*

- 5.4 In accordance with our 5-year audit plan we will evaluate the key systems in place and to the extent this evaluation allows, place reliance on the internal controls within those systems. The following are the areas chosen for audit review in 2003/04:

(1) Payroll

Payroll is a main financial system and we plan to undertake an annual coverage of this area. In this, our third year of the audit appointment, we plan to undertake audit work focussing on the processing and payment of manual workers. It is planned to perform this work in April 2004.

The objectives of this audit are to confirm:

- Payments are made only to valid employees;
- All data input to the system is properly authorised;
- Data (particularly standing data) is accurate and complete;
- Payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc; and



- Payroll costs are correctly recorded in the financial ledger.

## (2) Ordering & Certification

We plan to undertake a comprehensive review of the ordering and certification process. It is proposed that this work be performed in February 2004.

The objectives of this audit are to confirm:

- Only goods and services that are required for the audited body's business are ordered;
- Orders are placed only after costs have been ascertained;
- Orders are placed only with authorised suppliers;
- Invoices are passed for payment to the correct supplier and only for goods/services received; and
- Invoices are correctly coded for posting to the financial ledger.

We shall be flexible in our approach to this area to ensure that we take into cognisance the introduction of the computerised Purchase Order Processing System.

## (3) Cash Income & Banking

We plan to undertake audit testing at the TP&S Cash Office in Helensburgh and the Rothesay Cash Office. An approach has been agreed with Internal Audit which ensures maximum coverage of the cash office locations.

The objectives of these audits are to confirm:

- Officers receiving cash are unable to misappropriate funds without detection;
- Cash is promptly and fully banked;
- Payments received are promptly processed and correctly recorded in the financial ledger; and
- Security for unbanked cash is adequate.

## (4) Council Tax Billing & Collection

As an important income system we intend to review the council tax billing and collection cycles. It is planned to perform this work in March 2004.

The objectives of this audit are to confirm:

- All relevant data from the valuation list is promptly and correctly transferred to the billing system;
- Bills are correctly calculated (including discounts, reliefs etc) for all relevant properties;
- Only valid amendments can be made to the billing system;

- Payments received are promptly processed and correctly posted to taxpayers' accounts;
- Write offs, cancellations and refunds are properly controlled; and
- Arrears follow up procedures are properly controlled.

## (5) Capital Accounting

Internal Audit are planning to perform a review of the Council's property holdings in December 2003 / January 2004 to ensure that progress is being made the creation of an Asset Management Plan (AMP).

Through discussion with internal audit we have agreed that this will be a joint review. The focus of this review is on the completeness and accuracy of the Estates managed asset register and the Finance managed asset ledger and to ensure that all Council properties are recorded in accordance with guidelines and are being managed and accounted for properly by the Council.

In addition we will fulfil the following audit objectives:

- Fixed assets are identified and classified in accordance with the Capital Asset Accounting Manual;
- Fixed asset are correctly recorded in the asset register;
- Fixed assets are valued in accordance with Manual;
- Fixed assets and capital charges are correctly recorded in the financial ledger; and
- Capital charges are made to service accounts in accordance with the Manual.

## (6) Trading Accounts

Section 10 of the 2003 Act requires local authorities to maintain and disclose trading accounts for significant trading operations from 2003/04, and for these accounts to break-even over a rolling three-year period.

We will assess the arrangements that the Council have in place to identify its trading operations and to consider the extent to which they are significant.

***Computer audit and e-Government Preparedness***

- 5.5 We will maintain focus on the changes being implemented as part of the Modernising Government agenda. The Modernising Government initiative resulted in a number of high profile projects, in terms of funding, timescales, and impact on both service providers and service receivers. We will review the ongoing implementation and monitoring of changes relating to ICT within the Council. The ICT review is planned during the latter half of the 2004 calendar year, providing the Council with the opportunity to bed down changes resulting from the ongoing reorganisation.

***Reliance on Internal Audit***

5.6 In addition to an annual overview of Internal Audit, reliance will be placed on systems audit work undertaken by Internal Audit. Reliance will be placed, in varying degrees, on systems audit work undertaken by Internal Audit in the following areas:

- Budgetary control;
- Payment of creditors;
- Debtors' accounts;
- Unified benefits;
- Non-domestic rates; and
- General ledger operations.

We will undertake reviews of the reports and files completed by Internal Audit, as part of the process of relying on their work. We also intend to examine the process by which the Internal Auditor has ascertained and reported progress against previous audit recommendations to the Audit Committee.

### ***Performance Audit***

#### *Centrally directed studies*

5.7 In August 2001, the Accounts Commission report '*A job worth doing – raising the standard of internal audit in Scottish councils*' examined the internal audit arrangements in Scottish councils. Council performance was assessed against the CIPFA Code of Practice for Internal Audit in Local Government and councils were placed in one of four performance bands depending on the extent to which they were assessed to have complied with the Code. A follow up audit will be carried out of the August 2001 review with the objectives to:

- Measure the progress made by councils as a whole for particular areas of concern, e.g. risk assessment and follow-up of audit recommendations; and
- Measure the progress made by individual councils.

A national follow-up report on a named council basis will be prepared and we will prepare a follow-up report specific to the council.

#### *Best Value*

5.8 The commencement of the Local Government in Scotland Act 2003 has introduced new responsibilities for the Accounts Commission in relation to auditing Best Value (BV). Full audits will take place on a cyclical basis, at present expected to be once every three years. Only a limited number of councils will be subjected to a full BV audit in year one. All other councils will be involved in transitional audit work.

5.9 Transitional arrangements will involve auditors producing a report on a selection of key issues relating to council's statutory duties as a result of the Local Government of Scotland Act. This will provide valuable information for the full BV audit and also provide the councils with an opportunity to prepare material that is likely to contribute toward their submissions to the full BV audit.

5.10 The full scope and objectives of the transitional audit are not yet finalised however examples of the areas likely to be involved are:

- Summary description of council's performance management system.

- Description as to how elected members scrutinise performance.
- Summary report on performance of each council service.
- Description of what council did during 2003 on public performance reporting.
- Description of current arrangements for community planning.

*HMI Inspectorate of Education*

- 5.11 As a result of the Standards in Scotland's Schools Act 2000, a five-year programme of inspections of the education functions in councils was established. Inspections are carried out jointly by HM Inspectorate of Education and auditors, in accordance with a Memorandum of Understanding.
- 5.12 No decisions have been made yet as to which councils are to be inspected as part of the 2003/04 programme. Argyll & Bute Council has not been subjected to an INEA (Inspection of Education Authorities) inspection yet and is aware that this could result in selection during 2003/2004.
- 5.13 The framework for the inspection process is described in the guide - "Quality Management in Education" (2000) – copies of which are available from the HMIE website or from Audit Scotland. A member of Audit Scotland staff will be assigned to the inspection team, if the inspection proceeds, and provision for this has been included with the audit plan.

*The Prudential Code*

- 5.14 The Prudential Code for Capital Finance in Local Authorities is being developed by CIPFA to support the new system of controls on local authority capital investment in England, Wales and Scotland. This will replace the present regulatory frameworks governing local authority capital expenditure (e.g. 'section 94' in Scotland) and be implemented from the financial year 2004/05.
- 5.15 In practice this will mean the requirements of the Prudential Code having to be taken into account in the process for setting 2004/05 budgets, i.e. during 2003/04.
- 5.16 During 2003/04 Audit Scotland will perform a review to confirm that the Council are taking appropriate steps to prepare for the implementation of the Prudential Code.

*Performance Information*

- 5.17 Councils have a statutory duty to ensure that they have arrangements in place for collecting, recording, and publishing performance indicators. The "2002 Direction" issued by the Accounts Commission in November 2002 relates to the financial year 2003/04. Performance information facilitates the making of appropriate comparison by reference to the criteria of cost, economy, efficiency and effectiveness between:
- the standards of performance achieved by different authorities in that financial year; and
  - the standards of performance achieved by authorities in different financial years.
- 5.18 Our statutory duty is to be satisfied that the authority has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything is accurate and complete.

*Local Studies – PPP/PFI Projects*

- 5.19 As part of our audit work in 2003/2004 we will be considering the PPP/PFI projects for the Council. Our role in the review of the PFI/PPP process will involve a review of the project management arrangements, including procurement and, separately from Performance Audit work, as required, comment on the organisation's accounting treatment
- 5.20 It is expected that we will be able to give a preliminary view on the proposed accounting aspects of the PFI proposals and raise any early concerns regarding the proposed accounting treatment.

*Grant Claims*

- 5.21 Audit certification is required on the following specified grant claims and other Scottish Executive returns:
- Housing and Council Tax Benefit Subsidy Claim
  - Supporting People
  - Discretionary Housing Payments
  - Non-Domestic Rates Income Return
  - Certificate of Housing Capital Payments and Receipts
  - Certificate of Non-Housing Capital Payments and Receipts
  - ERDF Grants
  - Social Inclusion Partnership

## Audit Fee & Output Summary

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6.1 The agreed audit fee has been appropriately set above the indicative level, that is:

Auditor Remuneration	£168,000
Fixed Charge	£66,500
Total Proposed Fee	£234,500

6.2 As stated in the Code of Audit Practice our objectives are to:

- Provide and opinion on (to the extent required by the relevant authorities) the Board's financial statements and the regularity of transactions in accordance with standards and guidance issued by the Auditing Practices Board.
- Review and report on, to the extent required by relevant legislation and the Code of Audit Practice, the Board's corporate governance arrangements as they relate to:
  - The review of the systems of internal control;
  - the prevention and detection of fraud and irregularity;
  - standards of conduct and prevention and detection of corruption; and
  - the financial position
- Review and report on, to the extent required by relevant legislation and the Code of Audit Practice, aspects of the Board's arrangements to manage its performance as they relate to economy, efficiency and effectiveness in the use of resources.

6.3 The work to be undertaken for 2003/2004 includes systems reviews of Payroll, Ordering & Certification, Cash Income & Banking, Council Tax and specific testing of Capital Accounting and Trading Accounts. We will also review the improvements introduced in budgetary control and review the system of follow-up of audit recommendations undertaken by the internal auditor. The existence and adequacy of key financial controls, will be examined, as disclosed in the statement of internal control at the year-end.

6.4 Computer audit activity will focus on changes being implemented as part of the Modernising Government Agenda.

6.5 Performance audit will cover the follow-up review of Internal Audit Services, examination of management arrangements for the introduction of the Prudential Code, transitional Best Value Arrangements, PPP/PFI management arrangements, Statutory Performance Indicators and commitment to the HMI inspection team.

6.6 Grant claims will be certified as they arise.

6.7 The annual financial statements will be subjected to audit review and relevant audit report (certificate) provided on those accounts.

6.8 In meeting these objectives in 2003/2004, we intend to deliver the following outputs:

OUTPUT	TIMESCALES
<i><b>Audit Reports (opinions)</b></i>	
Audit opinion on the financial statements and on the statement of internal financial controls	30 September 2004
Performance Indicators	31 August 2004
Audit opinions on grant claims and other returns:	All within 3 months of receiving certified claim and full supporting schedules
<i><b>Management Reports</b></i>	
Probity and Regularity - Regularity and Governance Report	Three reports between February and September 2004
Probity and Regularity - Computer Audit Report	30 September 2004
Performance Audit - Follow up: 'A Job Worth Doing'	31 August 2004
Performance Audit - Best Value Transitional Audit	31 July 2004
Performance Audit - Local Study – Arrangements for the Introduction of the Prudential Code	31 March 2004
Performance Audit - Local Study – Arrangements for the Education PPP/PFI	31 October 2004
Probity and Regularity - Final Report to Members and the Accounts Commission	30 November 2004

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

**AUDIT COMMITTEE**  
**20 FEBRUARY 2004**

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**ANNUAL AUDIT PLAN 2004 - 2005**

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**1. SUMMARY**

This report introduces the Annual Audit Plan for 2004/05 which is part of the 3 year Strategic Audit Plan/Audit Needs Assessment presented and approved by the Audit Committee on the 24<sup>th</sup> May 2002.

**2. RECOMMENDATIONS**

2.1 The Annual Audit Plan for 2004/05 is approved. In approving this, Members should consider whether additional resources be provided or audit scope, timescales and assessments modified.

**3. DETAILS**

3.1 As an ongoing 3 year audit programme the Annual Audit Plan for 2004/05 is attached. (See Appendix 1).

3.2 The Audit Plan for 2004/05 has been drawn up from an Audit Needs Assessment prepared in conjunction with our internal audit partners KPMG and Council senior management. Audit Scotland have reviewed and agreed the plan.

3.3 The number of audit days for 2004/05 is shown against each audit area. In accordance with the Strategic Audit Plan some new areas will be addressed in 2004/05 that were not covered in 2003/04.

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

**4. CONCLUSIONS**

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

**5. IMPLICATIONS**

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

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

Ian Nisbet

Internal Audit Manager 20February2004.

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## ANNUAL AUDIT PLAN 2004-2005

<i>Core Financial Systems</i>	<b>Risk Ranking</b>	<b>Last Audited</b>	<b>Audit Days 2004/05</b>
Budgetary preparation and control	1	2003/04	16
Debtor accounts	1	2003/04	21
Housing Rents	1	2003/04	21
Government grants	1	2003/04	21
Stock taking	1	2003/04	16
Capital Accounting	1	2003/04	21
Cash and income banking	1	2003/04	21
Council tax and non-domestic rates	2	2003/04	31
Creditor payments	2	2003/04	31
Purchases of equipment and materials	2	2003/04	21
Unified benefits system	2	2003/04	51
General ledger operations	2	2003/04	21
Treasury management	2	2003/04	21
Capital Contracts	3	2003/04	21
Car allowances	3	2003/04	21
Payroll	3	2003/04	43
Purchase ordering and certification	3	2003/04	31
Tendering procedures	3	2003/04	21
Direct transport costs	4	2003/04	21
Payments to voluntary associations	4	2003/04	21
<b><i>Subtotal Core Financial Systems</i></b>			<b>492</b>

<i>Non-Financial Systems / Best Value / VFM</i>	<b>Risk Ranking</b>	<b>Last Audited</b>	<b>Audit Days 2003-04</b>
DLO's	1	2003/04	21
IT / MIS strategy and controls	1	2003/04	32
Performance Indicators	1	2003/04	43
Corporate governance compliance / risk management	1	2003/04	32
Operational Services	2, 8	2003/04	21
Best Value reviews	3	2003/04	32
Performance indicators (PMP)	3	2003/04	35
Community Services - Education	3, 4, 11	2003/04	21
Development Services	3, 6	2003/04	21
DSO's	4, 7, 9	2003/04	48
Community Services - Housing and Social Work	9, 10	2003/04	21
<b><i>Subtotal Non-Financial</i></b>			<b>327</b>

<i>Special Investigation/ Risk Assessment/ Follow-up</i>	<b>Last Audited</b>	<b>Audit Days 2003-04</b>
Special investigations contingency	2003/04	160
Risk assessment, strategic plan, annual plans	2003/04	30
Follow-up external audit management letter points	2003/04	21
Internal audit follow up	2003/04	50
<b><i>Subtotal Special Investigation/ Risk Assessment/ Follow-up</i></b>		<b>261</b>

<b>Total</b>	<b>1080</b>
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**Note:** It is intended that where reviews are repeated in subsequent years, that the focus / emphasis will change. For example, payroll will be audited every year but it will cover main departments on a rotational basis.

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**Disaster Recovery Project Update**  
**Head of ICT and Financial Services**
**Audit Committee****Tender Timescale**

The Disaster Recovery tender was issued via the Authorities Buying Consortium (ABC) on Thursday 8<sup>th</sup> January. Responses are due back to the ABC by 12 noon on Thursday 29<sup>th</sup> January. A total of 14 key servers were included in the proposals (7 Unix and 7 NT) with suppliers expected to provide direct replacements for all or any of the servers in the event of a disaster.

Comprehensive Disaster Recovery Plans have been completed for all key servers and the three existing server rooms.

Work has started on preparing the new Disaster Recovery facility in Ardrishaig and the site should be ready by the time the project team have completed the evaluation of the tender responses. The work comprises upgrades to the building security, including replacement doors, barred windows, air conditioning and perimeter alarm as well as upgrades to the electrical supply and backup communication links. It must be stressed that the full co-operation of our colleagues in Property is required to ensure our implementation deadlines are met.

The Disaster Recovery project team are expected to bring forward final recommendations to the Strategic Management Team by 1<sup>st</sup> March.

The full timetable for the evaluation of the tender responses is as follows:

1.	Tender Response	29/1/04
2.	Opening of Tenders	2/2/04
3.	Initial Evaluation of Tenders	3/2/04 - 5/2/04
4.	Short Listing	6/2/04
5.	Arrange Site Visits	6/2/04
6.	Full Evaluation of Tenders	9/2/04 - 13/2/04
7.	Site Visits	16/2/04 - 18/2/04
8.	Appraisal	19/2/04 - 20/2/04
9.	Final Site Visits (if required)	23/2/04 - 24/2/04
10.	Prepare Recommendations Report	25/2/04 - 27/2/04
11.	Issue Recommendations Report to Management Team	1/3/04
12.	Advise Tenderers of Outcome	3/3/04
13.	Issue Letter of Acceptance to successful Tenderer	5/3/04
14.	Finalise Recovery Plan	26/3/04

The project documentation, including copies of the tender, tender advertisement, server and server room plans, evaluation criteria reports and background papers are available in the Disaster Recovery public folder.

Judy Orr  
Head of ICT and Financial Services  
29 January 2004

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**ARGYLL AND BUTE COUNCIL  
STRATEGIC FINANCE****AUDIT COMMITTEE  
20 FEBRUARY 2004**

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**ANNUAL ACCOUNTS 2003-04**

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**1 INTRODUCTION**

- 1.1 This report advises the Audit Committee on the plans in place for financial year end 31 March 2004 and the preparation of the Council's annual accounts for 2003-04.

**2 RECOMMENDATIONS**

- 2.1 To note that plans are in place to prepare the Councils annual accounts, consistent with the Accounting Code of Practice, and submit them to Council prior to 30 June 2004 in line with the Scottish Executive's requirements.

**3 DETAIL**

- 3.1 The draft guidance on Audit Committee Principles being prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA) suggests that audit committees have an overview of the plans made for preparation of councils annual accounts.
- 3.2 A set of instructions for the end of the financial year has been drafted. These cover close down at the end of the financial of the councils financial systems and the preparation of a set of accounts in line with professional and legislative requirements.
- 3.3 The project plan included with the instructions is fairly detailed and includes the following milestones:
- Capital expenditure, capital charges and treasury management revenue accounts completed by 11 May
  - Revenue expenditure, creditors, debtors, accruals and prepayments completed by 7 May
  - Council tax and NDR entries completed by 14 May
  - Review and adjustments to ledger and central and dept cost allocations completed by 14 May
  - Preparation of draft annual accounts including report by Head of Strategic Finance by 14 June
- 3.4 The plans are in line with previous years. Previously external audit have been satisfied with the quality of working papers and general arrangements for preparation of the annual accounts. The plan should result in annual accounts prepared by the required deadline of 30 June and with supporting documentation of a standard to enable completion of the audit by the required deadline of 30 September.
- 3.4 A copy of the full set of instructions is available from the Head of Strategic Finance if required.

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