

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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20 August 2004

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 27 AUGUST 2004** at **2:00 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**
Audit Committee 14 June 2004 (Pages 1 - 4)
4. **APPOINT VICE-CHAIR OF THE AUDIT COMMITTEE**
5. **EXTERNAL AUDIT PMP REPORTS 2002-3**
Report by Internal Audit Manager (Pages 5 - 20)
6. **EXTERNAL AUDIT REPORT HMI 2002-3**
Report by Internal Audit Manager (Pages 21 - 24)
7. **RECENT EXTERNAL AUDIT ISSUED REPORTS 2003-4**
Report by Internal Audit Manager (Pages 25 - 42)
8. **AUDIT SCOTLAND REVIEW OF INTERNAL AUDIT (FOLLOW UP)**
Report by Internal Audit Manager (Pages 43 - 74)
- E1 9. **EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004/5**
Report by Internal Audit Manager (Appendix 6 is Exempt) (Pages 75 - 104)
10. **KPMG WORK PLAN FOR INTERNAL AUDIT PARTNERING CONTRACT**
Report by KPMG (Pages 105 - 108)

- 11. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2004-5**
Report by Internal Audit Manager (Pages 109 - 112)
- 12. UNAUDITED ANNUAL ACCOUNTS - 31 MARCH 2004**
Report by Head of Strategic Finance (Pages 113 - 154)
- 13. DISASTER RECOVERY PLAN**
Report by Head of ICT and Financial Services (Pages 155 - 158)
- 14. INTERNAL AUDIT PARTNERSHIP**
Report by Head of Strategic Finance (Pages 159 - 160)

The Committee will be asked to pass a resolution in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public for items of business with an "E" on the grounds that it is likely to involve the disclosure of exempt information as defined in the appropriate paragraph of Part I of Schedule 7a to the Local Government (Scotland) Act 1973.

The appropriate paragraph is:-

- E1** **Paragraph 1** Information relating to a particular employee, former employee or applicant to become an employee of, or a particular office-holder, former office-holder or applicant to become an office-holder under the authority.

AUDIT COMMITTEE

Councillor Donald MacMillan
Councillor Gary Mulvaney (Chair)
Councillor John Tacchi

Councillor John McAlpine
Councillor Elaine Robertson

Contact: Melissa Stewart

Tel. No. 01546 604406

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on MONDAY, 14 JUNE 2004**

- Present:** Councillor Gary Mulvaney(Chair)
- Councillor Donald MacMillan Ian Ross
Councillor Elaine Robertson Christopher Valentine
Councillor John Tacchi
- Attending:** Charles Reppke, Head of Democratic Services & Governance
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Steve Keightley, KPMG
Ian Bell, Audit Scotland
- Apologies:** Councillor John McAlpine

1. MINUTES

- (a) The Committee approved the minutes of the Audit Committee of 20 February 2004 as a correct record.

Arising from Item 10 (**Disaster Recovery Plan**) the Committee requested an update for the next meeting as a matter of urgency and also requested that the Head of ICT and Financial Services write to Members of the Committee within the next week advising of the date for completion of the plan.

- (b) The Committee approved the minutes of the Audit Committee of 31 March 2004 as a correct record.
- (c) The Committee approved the minutes of the Audit Committee of 29 April 2004 as a correct record.

2. EXTERNAL AUDIT REPORTS 2001-2

Internal Audit had prepared a list of all external audit management letters produced by Audit Scotland for 2001-2 and 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 request that a further column be added to future reports including the original implementation date.

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

3. EXTERNAL AUDIT REPORTS 2002-3

Internal Audit had prepared an up to date list of all external management reports produced by Audit Scotland in 2002-3. Details of the results of a review of progress being made by management in implementing the outstanding recommendations were outlined.

Decision

1. To note the contents of this report and request that this be followed up by Internal Audit.
2. To request confirmation of advertising details for the Planning Officer for Community Care post.
3. To request a report on adaptations for the next meeting of the Committee.
4. That in view of the forthcoming consultation on Clinical Strategy for NHS Argyll and Clyde, the action at Number 1 (page 39) may be rendered pointless and the consensus of the Committee is that no action should be taken to progress this matter at present.

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

4. EXTERNAL AUDIT PMP REPORTS 2002-3

Audit Scotland have a statutory responsibility 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 2002-3 was Performance Management and Planning (PMP) Reviews and an update on progress made by management in implementing remaining issues was provided.

Decision

1. To note the contents of the report and request that this be followed up by Internal Audit.
2. That the Head of Community Care provide a presentation on the outstanding points listed in the PMP Review to the next meeting of the Committee.

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

5. EXTERNAL AUDIT REPORT HMI 2002-3

A Review regarding the progress made by Community Services Management in the implementation of key recommendations from the Accounts Commission Report titled "Moving To Mainstream – The Inclusion of Pupils With Special Educational Needs In Mainstream Schools" had been performed by Internal Audit, the result of which were outlined.

Decision

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

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted)

6. EXTERNAL AUDIT REPORTS 2003-4

Internal Audit had prepared an up to date list of all external audit management reports produced by Audit Scotland in 2003-4. Details regarding the results of a review of the progress made by management of the outstanding recommendations were outlined.

Decision

1. To note the contents of this report and request that this be followed up by Internal Audit.
2. That a report be brought to the next meeting of the Committee updating Members of the asset management strategy proposals.

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

7. IFCS STATEMENT 2003-4

The Council's Senior Management have a responsibility to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of this system. Internal Audit have provided an annual overall assessment of the robustness of the Internal Financial Control System for financial year 2003-4 for the Chief Executive and this was submitted for consideration.

Decision

To note the contents of the report.

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

8. INTERNAL AUDIT ANNUAL REPORT 2003-4

The Internal Audit Annual Report for 2003-4, which outlined duties and audits carried out during this period, was submitted for approval.

Decision

To approve the Internal Audit Annual Report for 2003/4.

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

9. ANNUAL AUDIT PLAN 2004-5

The Committee considered a report outlining in detail the areas that will be audited in 2004-5 which comply with recommendations made by Audit Scotland to provide additional information to Auditees.

Decision

To approve the Annual Audit Plan for 2004-5

(Ref: Report by Internal Audit Manager dated 4 May 2004, submitted).

10. APPOINT VICE-CHAIRMAN OF THE AUDIT COMMITTEE

The Committee agreed to continue this matter to the next meeting to allow Members of the Committee the opportunity to express an interest in the position.

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

PMP EXTERNAL AUDIT REPORTS 2002 – 03.

1. SUMMARY

As part of Audit Scotland's statutory responsibilities, they are required to satisfy themselves that the Council has in place appropriate management arrangements to secure value for money from the resources available to it. The method used in 2002 - 2003 was to review Council best value progress through Performance Management and Planning (PMP) reviews.

2. RECOMMENDATION

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 local management in implementing the agreed actions outlined in the remaining Audit Scotland PMP reports.

3.2 At 30 July 2004, Internal Audit carried out a review to establish what progress local management had made in implementing the agreed actions raised in the remaining PMP reviews. Appendix 1 sets out the overall updated position. Internal Audit can report that the outstanding recommendation for Fleet Management contained in Appendix 2 has now been completed. Appendices 3 and 4 cover the remaining actions to be implemented with management comment appended. Internal Audit will continue to monitor and report on those recommendations still to be implemented.

3.3 As requested at the previous Audit Committee, the Head of Community Support will attend today and present a report with regard to points outstanding from the PMP review on Community Care. The report is given in Appendix 5.

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 30 July 2004.

30julyprogreport30July

APPENDIX 1**EXTERNAL AUDIT PMP REPORTS**

Appendix No.	PMP Report Name	No. Of Original Recommendations May 2002	No. Of Recommendations Outstanding as at 30 July 2004
2	Fleet Management	6	0
3	Corporate Approach	23	1
4	Community Care	22	2

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APPENDIX 2

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. Audit Scotland date for further follow up.	7. Progress as at 30 July 2004.
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"> - identified all stakeholders - confirmed customer needs, priorities, expectations and perceptions - agreed realistic standards and targets - agreed information reporting requirements 	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. (Grade 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.	Complete.

APPENDIX 2

ARGYLL & BUTE COUNCIL - 2002/2003 AUDIT
 PERFORMANCE MANAGEMENT AND PLANNING –
 FOLLOW UP AUDIT OF FLEET MANAGEMENT SERVICES
 (TRANSPORTATION)

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

APPENDIX 3

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. Audit Scotland dates for follow up.	7 Progress as at 30 July 2004.
<p>22. Complete implementation of management information systems to deliver required performance information</p>	<ul style="list-style-type: none"> • The Council is to review its management information systems Nov 02 • Recommendations as how to improve systems Dec 02 • Implement action Plan Mar 03 	<p>The Council will have information systems, which will enable it to provide the information that stakeholders require.</p>	<p>The Council has undertaken a review of the information systems and made recommendations for improvement. Corporate Policy has also established a research forum. However the finally implementation of the recommendations is likely to be delayed due to the restructuring of the organisation as it would not be wise to implement a number of recommendations until the correct structures are in place. (B)</p>	<ul style="list-style-type: none"> ▪ Knowledge Management Report to Management Team (19th Dec 2002) (See 21.1) ▪ Establishment of research forum. (23.2) 	<p>Initially scheduled for March 2003</p> <p>Could be delayed until autumn depending on the Best Value Task Force - Autumn 2003 – September 2003</p>	<p>The internal research network has been established and meets on a frequency of 5-6 meetings per year.</p> <p>Key aspects of the knowledge management review will be addressed as part of the new approach to performance management. A project plan is being prepared for this work.</p>

APPENDIX 3
IMPROVEMENT ACTION PROGRESS REPORT

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

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	7. Progress as at 30 July 2004.
1. Need for frontline staff to have a better understanding and application of Best Value.	Staff began 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)	Quality Assurance Team – vacancies and Manager involved in Complaints, investigations by DMT.	October 2003	Completed 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)	Copies of Plans available.	December 2003	Complete see Appendix 5 Report Section 3.4
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)		February 2004	This outstanding recommendation will be addressed as a matter of priority and a framework should be approved by Social Work Management Team in October 2004.

APPENDIX 4

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	7. Progress as at 30 July 2004.
12. Need for staff to understand the plan.	As above.	As above.	Discussed with Managers. Service Officers had input to them. (B)		December 2003 (provisional)	Complete see Appendix 5 Report Section 3.4
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)	HQ Community Care PDR training objectives – collated. Supervision notes available.	LINK TO POINT 4	Complete see Appendix 5 Report Section 3.4
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)		February 2004	This will be progressed once the Service Officer, Planning is in post and a framework agreed by Social Work Management Team in October 2004.

APPENDIX 4

IMPROVEMENT ACTION PROGRESS REPORT

<p>A – The council manager can demonstrate that implementation has progressed as planned in the original improvement action template i.e. action complete or planned milestones met and on target.</p>	<p>C – Progress is less than intended in the original improvement action template. The council manager cannot demonstrate they have plans in place to complete the action.</p>
<p>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>D – 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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**PERFORMANCE, MANAGEMENT AND PLANNING AUDIT
– COMMUNITY CARE SERVICES**

1. INTRODUCTION

- 1.1 A Performance, Management and Planning Audit was undertaken by Audit Scotland in 2001-02. A number of actions required to be progressed as a result of recommendations arising from the Audit. Good progress has been made with all but 5 of the 22 recommendations having been implemented.

The Audit Committee has requested an update on the outstanding issues which is set out below.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the progress made to date and the constraints experienced in implementing the 5 outstanding recommendations.

3. DETAIL

- 3.1 The PMP Audit focussed on all of Community Care Services which was recognised as a major piece of work spanning a range of Residential and Community Services for Older People, Dementia, Learning Disability, Physical Disability, Mental Health, Substance Misuse and Carers.

- 3.2 The majority of recommendations were addressed within the first yearly review period and Recommendation 1 “Need for frontline staff to have a better understanding and application of Best Value” was addressed in April this year with Workshops held for staff across Argyll and Bute.

- 3.3 The remaining outstanding recommendations are:

- Recommendation 4 – “Need for more explicit link between local Service Centre Plans within best Value framework”.
- Recommendation 5 – “Need to develop framework to improve links between Service Centres, Service Officers and Planners”
- Recommendation 12 – “Need for staff to understand the Plan”.
- Recommendation 14 – “Need for Service Centre business plans to link to the Service Plan”.

APPENDIX 5

- Recommendation 19 – Service centre business plans need to develop local performance measurement criteria.

Progress on these has been hindered because of delays in putting the new departmental structure in place. At this time, some two years later, we have just completed the recruitment process for the final 2nd Tier post in the required structure. Additionally, the lack of stability in the Service Manager posts has seriously affected our ability to address these recommendations.

3.4 Progress to date on recommendations 4, 12 and 14 is that a Workshop was held in November 2003 with Service Managers where a template was agreed to ensure consistency of approach in the preparation of Service Centre Plans throughout Argyll and Bute. This addresses all issues outstanding within these recommendations.

3.5 The Four Service Centres because of recruitment issues have made different progress in finalising these Service Centre plans.

- Oban, Lorn & Isles – In draft.
- Mid Argyll – Completed but being amended following agreement on a core template.
- Helensburgh – Currently being worked on.
- Bute and Cowal – Plan produced in draft in 2002 before Service Centre Manager left to take on a new role external to Council. The report was not accessible to the New Service Manager.

The four Service Centre Plans will be considered by Social Work Management Team in August 2004.

3.6 Recommendation 5

The recommendation relating to the development of a framework to improve links between Service Centres, Service Officers and Planners will be able to be addressed in the very near future as the last of our 3rd Tier posts and the Service Officer – Planning, post which has been vacant for 18 months are now being recruited to. This outstanding recommendation will be addressed as a matter of priority and a framework should be approved by Social Work Management Team in October 2004.

3.7 Recommendation 19

Recommendation 19 relates to Service Centre business plans requiring to develop local performance measurement criteria. Again, this should be progressed once the Service Officer, Planning is in post and a framework agreed by Social Work Management Team in October 2004.

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APPENDIX 5

4. **CONCLUSION**

4.1 Progress on the 5 outstanding recommendations from the Audit of Community Care Services is being made with the expectation that these will be fully implemented by October 2004 now that all 2nd and 3rd Tier posts have been recruited.

5. **IMPLICATIONS**

Policy: None.

Financial: None.

Legal: None.

Personnel: None.

Equal Opportunities: None.

Director of Community Services
6 July 2004

For further information contact: Sandra Greer
Head of Community Support
Dalriada House
Lochnell Street
Lochgilphead

Tel: 01546 604526

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

HMI REPORT 2002 – 2003

1. SUMMARY

The Accounts Commission issued a report in May 2003 covering Moving to Mainstream – The Inclusion of Pupils with Special Education Needs in Mainstream Schools. Internal Audit, the results of which are detailed below, has performed a review regarding the progress made by Community Services management in the implementation of key summary report recommendations.

2. RECOMMENDATION

2.1 The contents of this report are noted and are 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 key 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 July 2004 good progress has been made and only one recommendation remains to be implemented. Management have informed Internal Audit that they are working towards the remaining implementation date. (See Appendix 1).

3.3 A meeting was held between the Head of Secondary Education and Internal Audit in July 2004 in order to establish how best to deal with the recommendations contained in the main HMI report of May 2003. It was concluded that Internal Audit would carry out a review of the main HMI report recommendations pertinent to Council's and Schools, prior to the next meeting of the Audit Committee. This would thereby allow the current position to be confirmed and identify any areas from the main report still to be addressed.

4. CONCLUSIONS

Internal Audit will continue to monitor progress by Community Services management regarding the issues raised in both the key 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 30 July 2004.

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Action Plan: Moving to Mainstream

No	Recommendation	Responsible Officer	Community Services Management Response	Update 30 July 2004
	Building capacity for inclusion.			
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.	Working towards June 2005.
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.	Complete.
	Quality & Attainment.			
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.	Complete.

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

RECENT EXTERNAL AUDIT ISSUED REPORTS 2003 – 2004.

1. SUMMARY

This report contains the executive summaries and action plans for 3 new reports issued by Audit Scotland since the last Audit Committee. Internal Audit has performed a review of the progress being made by management in implementing these outstanding recommendations. The results are detailed below. These reports will be incorporated into the new reporting system for the next Audit Committee.

2. RECOMMENDATIONS

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

3. DETAILS

- 3.1 Audit Scotland in June 2004 issued a report entitled Regularity & Governance 2 regarding their review of the Council's regularity and governance arrangements including cash income and banking, trading accounts and budgetary control. As at 30 July 2004, there are 7 recommendations remaining to be implemented. Four of these relate to cash income and banking with implementation dates of June 2004. Management have reported work as ongoing and that they will be completed by August 2004. Of the remaining 3 recommendations one had an implementation date of August 2004 and has been reassigned by management to October 2004. Work for the other 2 is ongoing. The Executive Summary and Action Plan are appended in Appendix 1 for your review.
- 3.2 Audit Scotland issued a report in June 2004 entitled Networking Overview. The report covers their review of Information and Communications Technology (ICT), which underpins the provision of vital management information to all sectors at a corporate and departmental level. The review generated 5 recommendations and as at 30 July 2004 there are now 4 remaining to be implemented. Comments have been obtained from local management with regard to these. The Executive Summary and Action Plan are appended in Appendix 2 for your review.
- 3.3 Audit Scotland issued a report in July entitled Best Value Transitional Audit. The review was carried out because the Local Government in Scotland Act 2003 established Best Value and community planning as statutory duties for councils. As a result, the Accounts Commission introduced new arrangements for the audit of Best Value. A cyclical approach has been adopted. Normally, the audit of Best Value would only be carried out once in a three year period at each council, in contrast to the annual approach of the performance, management and planning (PMP) audits.

With the cyclical approach, it could be up to three years before some council's are exposed to a full audit of Best Value. In the intervening years, between full reviews, the external auditor will carry out short follow-up reviews. As this

Council was not included in the 2003/04 programme of Best Value audits, high-level transitional work has been carried out and a report issued. There are no recommendations generated by this report but guidance is offered regarding areas for improvement to ensure that frameworks in place are effective. The Strategic Management Team (SMT) has requested that an action plan be prepared in response to the report. Internal Audit will report on implementation progress of the agreed actions. The Executive Summary and Action Plan are appended in Appendix 3 for your review.

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 30 July 2004.
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1. Executive Summary

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 2003/2004 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 cash income and banking, trading accounts and budgetary control.
- 1.5 This is our 2nd regularity and governance report of 2003/2004.

Summary of Main Findings

- 1.6 **Cash Income & Banking.** In the cash offices reviewed, we have identified areas where the physical security arrangements for storing cash and other income could be improved. All cash receipting staff should also be issued with an official receipt book and steps taken to ensure that all customers are provided with a payment receipt. A comprehensive procedures document should also be prepared.
- 1.7 **Trading Accounts.** Argyll & Bute Council has made significant progress in preparing for trading accounts. Extensive criteria have been developed for identifying service areas where trading accounts should be prepared. However, this criteria would appear to indicate that officers should also consider treating Building Services activity as a significant trading operation. The format and content of the reporting and monitoring processes remain to be agreed. Budgetary targets should be set for the next 3 years to ensure that the current and projected financial position may be monitored against the statutory requirement for trading accounts to breakeven over the 3-year period.
- 1.8 The Financial Regulations require to be updated to reflect management duties and responsibilities.
- 1.9 **Budgetary Control.** The overall projected financial position of the Council to 31 March 2004, as at 31 December 2003, is a deficit of £284,000, which is to be financed from the existing General Fund Reserve. One of the authority's trading account groups is currently projected to produce a year-end deficit. Officers have reported that they are taking steps to address this situation.
- 1.10 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.

- 1.11 The factual content of the report has been agreed in discussion with appropriate officers from the Council. The Action Plan which sets out the proposed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.
- 1.12 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

2. Action Plan

No	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
	Cash Income & Banking - General				
1	A procedure manual covering receipting and banking should be drafted and issued to all staff. These procedures should incorporate the relevant information from the Council Financial & Security Regulations. Priority : Medium	Central Services Manager – Operational Services	Procedures issued to staff in Oban, Lorn & Isles. To be rolled out to other staff.	July 2004	Complete.
2	Internal Audit and Management should carry out surprise cashing up exercises on a periodic basis. Priority : Low	Internal Audit Management	Time has been detailed within the annual audit plan for 2004 – 05.	May 2004	Complete.
	Cash Income & Banking - Helensburgh				
3	Support Services staff should be provided with an official receipt book and these receipts should be issued for all cash received. Priority : Medium	Central Services Manager – Operational Services	Receipt book issued.	Done	Complete.
4	A notice should be displayed at the main reception to communicate to customers that an official receipt will be issued for all remittances. Priority : Low	As above	Notice to be written and distributed for display.	June 2004	Complete.

No	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
5	Income spreadsheets should be signed by the "counter" and counter-signed by the "checker". Priority : High	As above	Covered within procedures.	June 2004	Complete.
6	Physical security at Blairvadach should be improved. The Support Services Office should be fitted with a combination lock and. consideration should also be given to having a member of staff attend the reception desk at all times when the main door is unlocked Priority : Low	Central Services Manager – Operational Services	Shared Office; action to be considered jointly with other users.	July 2004	Improved procedures in hand. Will be completed by end of August 2004.
7	A larger safe should be acquired to allow cash to be securely held. Priority : Medium	As above	Review cash collection times to ensure banking done on receipt of such sums.	June 2004	Complete. A safe has been ordered.
8	Additional keys to the key box should be provided to, and held by, identified key holders. These should not be stored on the premises. Priority : Low	As above	Additional keys to be obtained and key holders identified.	June 2004	Currently under review August 2004.
	Cash Income & Banking - Dunoon and Rothesay				

No	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
9	The combination to open the security door in Dunoon should be changed on a periodic basis and after any member of staff, permanent or temporary, leaves their post. Priority : Low	As above	Agreed.	June 2004	Currently under review August 2004.
10	Additional keys to the safes should be provided to, and held by, identified key holders. These should not be stored on the premises. Priority : Low	As above	Additional keys to be obtained and key holders identified.	June 2004	Currently under review August 2004.
	Trading Accounts				
12	The treatment of Building Services as a "non-significant" operation should be reviewed. Priority : High	Head of Strategic Finance	Building Services will be treated as a Significant Trading Activity.	September 2004	Complete
13	Officers should ensure adequate monitoring arrangements for trading account operations are introduced. Priority : High	Head of Strategic Finance	Monitoring of trading operations will be incorporated into normal budget monitoring routine with a focus on the breakeven position.	June 2004	Complete
14	3 year rolling targets should be approved for the trading activities Priority : Medium	Head of Strategic Finance	Assumed position is for a breakeven over the 3 years but this will be reviewed annually.	Ongoing	Ongoing

No	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
15	Officers should ensure that Interest on Revenue or Stock balances is included when calculating the anticipated surplus / deficit position and costs included in the BVACOP definition of "Total Costs" should be included in monitoring statements. Priority : Low	Finance Manager – Development Services	This has been introduced.	Immediate	Complete
16	Officers should determine the form and content of Trading Accounts and the accompanying Annual Reports, ensuring they comply with the minimum guidance requirements. Priority : Medium	Finance Manager – Development Services	The form and content of Trading Accounts have been standardised and now comply with minimum guidance requirements.	Immediate	Complete
17	A timescale for future service reviews should be identified. Priority : Low	Head of Strategic Finance	An annual review of potential trading services will take place.	April 2005	Ongoing
18	The Security and Financial Regulations should be amended to incorporate changes arising from the introduction of Trading Accounts Legislation. Priority : High	Head of Democratic Services & Governance	Trading accounts legislation will be reflected in the new regulations to be issued this year.	August 2004	Implementation delayed due to move to Council Constitution Model and problems in recruiting a Corporate governance and Risk Manager. Completion now December 2004.

EXECUTIVE SUMMARY

Introduction

1.1 Computerised systems are central to virtually all the financial and management systems deployed by public sector bodies. Information and Communications Technology (ICT) also underpins the provision of vital management information to all sectors at a corporate and departmental level. From a Corporate Governance perspective the overall arrangements for the management of ICT in the Council are considered in the following key areas:

- strategy
- installation management
- security of ICT assets
- networking
- organisational structure
- service delivery
- contingency planning

1.2 The majority of the areas mentioned above were previously reviewed and reported on in an Internal Audit Report dated 18 November 2002 titled "Review of Information Technology". The Council is progressing actions arising from this review. As part of our 2003/04 audit activity we reviewed the networking component of Argyll and Bute Council's ICT provision.

1.3 This report summarises the findings from our Networking Overview and, where appropriate, makes recommendations to address the weaknesses identified.

Summary of Main Findings

1.4 As part of the ongoing reorganisation the Council recently appointed the Head of ICT and Financial Services.

1.5 The Council adopted PRINCE2 project management methodology and has committed resources to train PRINCE2 practitioners.

1.6 The Council is establishing an ICT Steering Group, part of its objective is to formulate an overall ICT Strategy for the Council.

1.7 The Modernising Government Agenda increases the use of electronic communication and the demands placed on the network. The network infrastructure appears to be reaching capacity at times. Options for increasing the capacity are under consideration, including amongst others Broadband and Voice over IP (Internet Protocol), the latter being new technology that can carry voice communications over data networks.

1.8 The Council is in the process of developing an Information Security Management System, including network security policies.

Conclusion

The changes resulting from the Modernising Government agenda will inevitably increase the demands on the Council's networking infrastructure. The ability of the existing infrastructure to meet these demands was not clear at the time of our review, although indications are that the infrastructure was at times reaching capacity.

The implementation of the recommendations contained in the Internal Audit report and those contained in this report will strengthen the control environment and assist steering of the Council's networking infrastructure, supporting the achievement of the Council's objectives.

ACTION PLAN

No.	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
1	<p>We support the creation of an ICT Steering Group and recommend that the ICT Strategy should embrace a network strategy that is capable of supporting the Council's Strategic Objectives.</p> <p style="text-align: right;">High Risk</p>	Head of Financial and Information Technology Services	The ICT Strategy Working Group has been established with the aim of formulating a strategy and monitoring its implementation.	August 2004	This recommendation will be completed September 2004.
2	<p>The responsibility for control and co-ordination of devices connected to the network should be clearly defined. A Council-wide network strategy recommended in point 1 above can serve as good starting point, supported by clearly defined management responsibilities to address this potential risk.</p> <p style="text-align: right;">High Risk</p>	IT Infrastructure Manager	The Council's Strategic Management Team (SMT) is considering a revised method of desktop management. This includes centralising the control and co-ordination of devices connected to the network. However the implementation of such controls depends very much on the ongoing network monitoring and intrusion detection systems outlined in recommendations 3 and 4 below.	August 2004	The Council's Strategic Management Team (SMT) is still considering a revised method of desktop management. It is unlikely that this will centralise the control of devices connected to the network. However some controls have been introduced to provide co-ordination of the connection of devices to the network.
3	<p>Ongoing monitoring of the network's ability to function within acceptable parameters should be implemented. This monitoring should provide valuable information relating to traffic volumes</p>	IT Infrastructure Manager	The Council has invested in HP Openview to assist with the monitoring of the network's ability to function. However the limited	August 2004	Report went to the Corporate Services Management Team but additional resources could not be made

No.	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
	<p>data flows, trends and anomalies to aid management and strategic planning functions.</p> <p style="text-align: center;">Medium Risk</p>		<p>resources available within the networks section at present and the increasing workload will impact on our ability to proactively monitor the network. A paper will be presented to the SMT requesting additional resources. Also, HP Openview does not easily provide information relating to traffic volumes, data flows, trends and anomalies. Other products are being evaluated to address these areas of concern and some funding has been made available for this.</p>		available.
4	<p>The Council should consider employing an intrusion detection system on their networks to help detect any unauthorised activity. Such monitoring should be automated, with the IDS (Intrusion Detection System) configured to send alerts and reports on activity.</p> <p style="text-align: center;">Medium Risk</p>	IT Networks Manager	<p>Agree. An analysis of the products available will be undertaken and, subject to appropriate funding being available, an appropriate system will be implemented.</p>	Sept. 2004	Report went to the Corporate Services Management Team but additional resources could not be made available.
5	<p>Recent changes to procedures should be documented and collated</p>	IT Networks Manager	<p>Agree. A procedure database will be</p>	March 2004	Complete.

No.	Recommendation	Responsible Officer	Action	Implementation Date	Update as at 30 July 2004
	for ongoing reference. <i>Medium Risk</i>		completed and updated as changes are agreed.		

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Executive Summary

- The Local Government in Scotland Act 2003 established Best Value and community planning as statutory duties for councils. As a result, the Accounts Commission has introduced new cyclical arrangements for the audit of Best Value. Normally, the audit of Best Value will only be carried out once in a three-year period at each council. As it will be up to three years before some councils are exposed to a full audit of Best Value, there is a need for some high-level transitional work to be carried out at councils not included in the 2003/04 programme of Best Value audits.
- There are four main objectives in carrying out the transitional work at the councils not being covered in year one of the audit of Best Value:
 - ◆ to help councils develop their response to the new legislation and to prepare for the full audit;
 - ◆ to provide the Best Value audit team with background information on key areas, helping to inform the full audit in subsequent years;
 - ◆ to contribute to the selection of councils for the 2005 programme of Best Value audits; and
 - ◆ to identify possible examples of good practice.
- To complete the transitional work, auditors have drawn on their existing knowledge of the Council and on information readily available, and then produced a position statement on five selected areas:
 - ◆ the performance management system;
 - ◆ elected members and their scrutiny role;
 - ◆ service performance;
 - ◆ public performance reporting; and
 - ◆ community planning.
- This report summarises Argyll & Bute Council's current arrangements in each of these areas. No action plan is to be agreed. Instead the Council is to progress its Best Value and community planning arrangements through its own continuous improvement strategies.
- The Council has demonstrated commitment to development of its Best Value and community planning frameworks to meet the requirements of the 2003 Act. It has made progress on a number of fronts and is reviewing current practice in a number of areas. Areas of good practice include:

Performance Management System

- ◆ The Council has an approved Performance Management System in place;

- ◆ A formally documented Service planning system has been approved and is in place;
- ◆ A regular quarterly review process is undertaken which monitors implementation progress in respect of service action plans;
- ◆ A Citizens Panel has been set up and Benchmarking mechanisms put in place for feedback;
- ◆ An Audit Committee, which promotes internal controls, meets regularly and reviews progress on internal and external audit reports. A programme of formal scrutiny and service reviews has recently been re-established;

Service Performance

- ◆ The creation of a Best Value network, which aims to raise awareness and develop a better understanding of best value within services.

Public Performance Reporting

- ◆ A wide range of informative information is held on the Council's website, including minutes of all committee meetings and performance indicator information
- ◆ A Public Performance Report is produced and available to all households in the area each year.

Community Planning

- ◆ A Community Planning Partnership was launched in 2001, comprising representatives from 23 organisations;
 - ◆ A Community Plan Action Plan has been agreed in conjunction with formalised monitoring arrangements;
 - ◆ The ongoing development of a new Community Planning Partnership framework to facilitate the integration of the Social Inclusion Partnerships and deliver the principles behind the Scottish Executive's regeneration statement and the Local Government Scotland Act;
- However, there are a number of areas where action should be taken to ensure that the frameworks in place are effective in demonstrating a positive impact on service delivery. The main areas where action is planned or where action should be considered by the Council are.

Performance Management System

- ◆ Closer alignment of service plans to budgets;
- ◆ Development and inclusion of a balanced set of local indicators which are both SMART and Outcome based;
- ◆ Review mechanism for updating service plans;

- ◆ Implement balanced scorecard approach across services;
- ◆ Implement mechanism to monitor overall performance against corporate objectives;
- ◆ Provide clearer link between corporate and service objectives.

Elected Members and their Scrutiny Role

- ◆ Facilitate scrutiny by elected members of performance reports;
- ◆ Improve monitoring arrangements in respect of the recommendations arising from reviews and allow for member scrutiny of this process;
- ◆ Agree a best value strategy and ensure effective leadership by elected members;
- ◆ Review performance reporting system to provide a single report containing both financial and performance information.

Service Performance

- ◆ Review and standardise the format and content of the service plan performance reports to ensure they provide an effective assessment of service performance for users.
- ◆ Public Performance Reporting
- ◆ Publish Public Performance Reports timeously;
- ◆ Corporate Public Performance Reports to incorporate service objectives and local indicators;
- ◆ Services to develop their own local public performance reporting frameworks.

Community Planning

- ◆ Implementation of the revised community planning structure.

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

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

AUDIT SCOTLAND REVIEW OF INTERNAL AUDIT (FOLLOW-UP)

1. SUMMARY

1.1 Audit Scotland has now completed and issued in July 2004 a national and local report on their review findings. The review concentrated 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 The contents of this report are noted and are to be followed up by Internal Audit.

3. DETAILS

3.1 As a result of the recent national assessment follow up by Audit Scotland of the 2001 national report 'A Job Worth Doing', Argyll & Bute Council has moved to band one status from band 4.

3.2 The Audit Scotland follow up review was based on the Council's compliance with 15 statements of good practice and resulted in us being placed in the top performing band in 10 of them and in the second top performing band for the remaining 5. This performance enabled the Council to achieve band one status.

3.3 Attached in Appendix 1 are extracts from the local report issued by Audit Scotland in July 2004 and covers the strengths and areas for improvement identified by the review. The reports action plan is also included with agreed implementation dates for all 15 recommendations. As at 30 July 2004 there are 7 recommendations, which have been addressed leaving 8 to be progressed of which 2 are assigned to the Corporate Services Department.

4. CONCLUSIONS

The review by Audit Scotland has recognised the effort that has been expended over the last 3 years by the Council and the benefits coming from the partnership with KPMG in achieving band one status. However there are still areas for improvement and these will be progressed through the local report action plan to ensure that the Council becomes fully compliant with the Code.

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 30 July 2004.

30julyprogreport30July2004

Argyll & Bute Council – 2003/2004

A job worth doing follow-up report

Raising the standard of internal audit in Scottish Councils

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Executive Summary

Background

1. All councils are required to have arrangements in place for ensuring propriety, regularity and Best Value in their stewardship of public funds. It is the responsibility of management to ensure that adequate internal controls are in place which:
 - ensure that their council's resources are applied in the manner, and on the activities, intended
 - deter fraud and irregularity
 - ensure the most effective use of resources.
2. Internal audit aids management by objectively examining, evaluating, and reporting to management on the adequacy of internal control arrangements.
3. Critical to the success of internal audit is the clear recognition by management of its own responsibilities and those of internal audit. The CIPFA statement on the role of the finance director in local government¹ states 'the responsibility for ensuring effective internal audit should be that of a senior director who is at the heart of the corporate management of the authority'.
4. In August 2001, Audit Scotland prepared a national report 'A Job Worth Doing' – Raising the Standard of Internal Audit in Scottish Councils. The study was requested by the Accounts Commission in order to establish a clear picture of performance of internal audit services in all councils in Scotland, and to provide benchmarking data to support continuous improvement. In the 2001 study, council performance was assessed against the 2000 CIPFA Code of Practice for Internal Audit in Local Government (the Code) and councils were placed in one of four performance bands:
 - four councils almost fully complied with the Code (band 1)
 - sixteen councils generally complied with the Code (band 2)
 - eight councils partially complied with the Code (band 3)
 - four councils generally did not comply with the Code (band 4).
5. Argyll and Bute Council were, in 2001, one of the four councils who generally did not comply with the Code (see Exhibit 1 on page 3).
6. Following the national report in August 2001, a local report was issued to management in Argyll and Bute Council. This outlined the strengths and weaknesses of the internal audit section and made specific recommendations to address the weaknesses identified. The Council was expected to use the information in both the national Accounts Commission's report and the local report to challenge their current levels of performance and take action to achieve the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government.

¹ *Statement on the Role of the Finance Director in Local Government*, CIPFA 1999.

Why Conduct a Follow Up Audit

7. The Accounts Commission wishes to ensure that councils adopt the highest standards of internal control and financial stewardship. However, the Controller of Audit's Overview of the 2001/02 local authority audits, published in February 2003 noted 'It is disappointing that auditors' reports on 2001/02 local authority audits continue to contain references to weaknesses in financial controls'. It also noted that 'external auditors' reports for 2001/02 identify a significant number of cases where they were unable to place reliance on internal audit or where the degree of reliance was limited.
8. It is therefore important to find out how much progress councils have made since the original study, in particular whether the 12 councils in the lower two performance bands have improved their performance and whether the councils in the higher bands have been able to maintain a reasonable standard of performance. In addition, it is important that councils as a whole have made progress in addressing the weaknesses identified in 'a job worth doing'.
9. Audit Scotland has undertaken a follow up value for money study, on behalf of the Accounts Commission, looking at the internal audit arrangements in Scottish councils. A national report summarising the findings from the study for all Scottish councils has been issued by Audit Scotland. This local report is intended to provide an independent assessment of the performance of internal audit at Argyll and Bute Council and identify, where appropriate, actions to assist the Council in obtaining best value from internal audit services.

Objectives for the Audit

10. The aim of the follow up audit was to examine the arrangements for securing internal audit services and to benchmark internal audit service performance. This was done by re-assessing the extent to which the authority's internal audit services meet standards of good practice documented by the "Code of Practice for Internal Audit in the United Kingdom", (CIPFA, October 2000) in relation to the following 6 issues:
 - setting clear and properly focused objectives for their work
 - maintaining audit independence
 - resourcing their work programme
 - planning and controlling their work
 - reporting and follow-up arrangements
 - being accountable for their performance.
11. Within these issues, 15 statements of good practice were considered and an assessment made of Internal Audit's compliance with these statements. The assessment was based on interviews and evidence gathered from the Council's Chief Executive, Head of Strategic Finance, and the Internal Audit Manager.

Overall Conclusion

12. The results of the national assessment summarising the extent of council compliance with the CIPFA Code of Practice standards of good practice are shown in appendix 2. The assessment shows councils have made improvements in all aspects of internal audit since the original study in 2001, although there is still scope for further improvement. The performance of councils was split into 4 bands (see Exhibit 1) and Argyll and Bute Council is included in band one. This is a significant improvement from band four in 2001. This band includes those councils that most fully comply with the CIPFA Code.

Exhibit 1**Number of councils in each performance band**

The number of councils in the highest performance band has risen from 4 to 17.

Performance band	Number of councils	
	2004	2001
1. Almost fully comply	17	4
2. Generally comply	11	16
3. Partially comply	4	8
4. Generally did not comply	0	4

Source: External auditors' returns 2001 and 2004

13. Our general view is that the Council complies almost fully with most of the 15 statements of good practice. A more detailed assessment together with a comparison with other Scottish Council's is recorded at appendix 3.

Summary of Main Strengths and Areas for Improvement

14. The Council's internal audit arrangements were reassessed in early 2004. We noted that the Council has well developed procedures and performance in most areas of the study. Examples of good practice already in place include:
- Internal audit has a clear terms of reference (TOR) document. This specifically refers to the CIPFA Code of Practice, has been approved by the Audit Committee, and is widely communicated throughout the Council via the intranet
 - Internal Audit is accountable to an Audit Committee. This meets every quarter and consists of 5 elected member plus 2 members of the public, who were appointed for their interest in audit and/or Council matters. The Section 95 officer (Head of Strategic Finance), Internal Audit Manager, and External Auditor are invited to attend all meetings
 - The Internal Audit Manager provides an overall assessment to both management and the Audit Committee of the robustness of internal control for the Council's main systems, based on the work done in the year
 - All audit reports are issued in the name of the Internal Audit Manager, and do not require to be approved by the Head of Strategic Finance

- Internal Audit determines its own priorities, based on a risk assessment and in consultation with management
 - Audit plans are prepared after consultation with managers across the council. The Strategic Audit Plan and Annual Audit Plan are approved by the Audit Committee
 - Progress on the annual audit plan is reported quarterly to the Audit Committee
 - External audit consult with internal audit prior to preparing annual plans (and vice versa) to highlight areas where external audit can place reliance on internal audit's work. Regular meetings are held between the Internal Audit Manager and external audit to monitor progress of each others annual audit plans
 - The Council has a partnership agreement with KPMG. This provides internal audit with access to relevant people with specialist experience whenever required. It also enables structured professional training to be provided
 - An Annual Audit Report is produced, and a summary is presented to the Audit Committee. This provides an overall assessment on internal audit's performance for the year, and an audit opinion based on the work carried out during the year
 - Recent audit reports demonstrate that internal audit agree specific, measurable, achievable, realistic, time based (SMART) action plans with management
 - All staff are involved with professional accounting bodies and have to abide by their respective codes of ethics.
15. Areas where we consider Internal Audit's or Council procedures could be further developed include:
- The anti fraud and corruption strategy and fraud response plan do not provide sufficient guidance regarding the roles and responsibilities of internal audit and management, nor do they include a protocol for informing the police
 - The corporate risk register has only been in operation for nine months and still requires to be fully tested to confirm whether it is robust
 - The strategic plan does not provide details of any high risk factor areas that have been eliminated from the plan due to manpower or skills shortages
 - There is no procedure requiring Heads of Service/Directors to inform or remind internal audit of any impending inspectorate visits
 - Audit files contain no distinction between compliance and substantive tests, nor is there any guidance available regarding indicative sample sizes
 - The performance reports to the Audit Committee are slightly misleading since they report whether, on average, reports are issued within 10 days of completion, and whether the overall percentage of jobs are completed on time. While this is useful, it should be supplemented with statistics for each job carried out.
16. The report contains an action plan, (section 2) which sets out suggested actions to be taken in response to audit findings. The action plan should be read in conjunction with the relevant references from the main report (section 3).
17. The co-operation and assistance afforded to audit staff during the course of the work is gratefully acknowledged.

Action Plan

Page/ Para Ref	No.	Recommendation	Responsible Officer	Action	Date	As at 30 July 2004
		Internal audit set clear and properly focused objectives				
11/3	1.	Internal Audit TOR should be reflected in the council's standing orders and financial regulations.	Head of Democratic Services and Governance	The Internal Audit TOR will be included in the revised Scheme of Administration etc.	Dec 2004	Ongoing
11/3	2.	The anti fraud and corruption strategy and fraud response plan should be updated to clearly reflect the roles and responsibilities of internal audit and management, and should include a protocol for informing the police.	Head of Democratic Services and Governance	The anti fraud and corruption policy will be updated as part of (1) above.	Dec 2004	Ongoing
		Planning and controlling internal audit work				
15/3	3.	The authority's risk management process should be formalised. This should be tested by internal audit and incorporated into their risk assessment process.	Head of Democratic Services and Governance	A Risk Strategy is being developed and a draft will be available by the end of July 2004. A report setting out the proposed future action on Risk Management & Governance Strategy will be submitted to the SMT in August 2004.	August 2004	Complete
15/3	4.	The strategic audit plan should be more specific regarding the nature of audit work to be carried out, or the Departments that will be audited, over the period of the plan.	Internal Audit Manager	The Annual Audit Plan for 2004/2005 contains more detail, and has been issued to all Departmental Directors.	Implemented	Complete.

Page/ Para Ref	No.	Recommendation	Responsible Officer	Action	Date	As at 30 July 2004
15/3	5.	Management should be informed of any high risk factor areas that have been eliminated from the plan due to manpower or skills shortages within internal audit.	Internal Audit Manager	To be addressed in the 3 year Audit Plan for 2005/2008.	Sept 2004	Ongoing
16/3	6.	The budget for special investigations should be reviewed for appropriateness.	Internal Audit Manager	A review is carried out on a monthly basis with the Audit Committee informed of all changes.	Ongoing.	Complete.
16/3	7.	A procedure requiring Directors to inform/remind internal audit of any impending inspectorate visits should be established.	Internal Audit Manager	A memo has been sent to Departmental Directors asking them to inform Internal Audit of any impending inspectorate visits.	July 2004	Complete.
16/3	8.	Audit test lead schedules should clearly describe the test carried out, the findings/conclusions reached, and the recommendations.	Internal Audit Manager	Test schedules are being introduced across all audits 2004/2005.	Implem- ented	Complete.
16/3	9.	The audit manual should incorporate the procedures for completing compliance and substantive audit testing, and should provide guidance on sample sizes.	Internal Audit Manager	The training manual covers compliance and substantive testing. This will be integrated with the Internal Audit Manual.	Sept 2004	Ongoing
16/3	10.	The audit manual should be updated and/or appropriate training should be provided to internal audit staff to advise them of good practice for audit working papers (regarding completion of audit tests, file referencing, signing off etc).	Internal Audit Manager	KPMG, in co-operation with Internal Audit, will provide training.	Sept 2004	Ongoing

Page/ Para Ref	No.	Recommendation	Responsible Officer	Action	Date	As at 30 July 2004
		Resourcing the internal audit work programme				
18/3	11.	Given the large geographic area of the Council, an increased number of portable laptops should be provided to internal audit staff.	Internal Audit Manager	Internal Audit has received new laptops and at present these are sufficient to fulfil our present operational requirements.	Implemented	Complete.
18/3	12.	Continuous Professional Development records should quantify the number of hours gained during the year. It should be ensured that these meet with the relevant professional body's requirements.	Internal Audit Manager	An appropriate amendment has been made.	Implemented	Complete.
		Holding internal audit to account for its performance				
21/3	13.	The Audit Committee should be provided with information regarding the percentage of recommendations that have been implemented within an appropriate timescale.	Internal Audit Manager	A new process for reporting is presently being defined.	Nov 2004	Ongoing
21/3	14.	The performance data provided to the Audit Committee regarding the percentage of reports issued within 10 days of work being completed, and the percentage of audit assignments in the audit plan completed within budget should be provided for each audit assignment as well as the overall average.	Internal Audit Manager	A new process for reporting is presently being defined.	Nov 2004	Ongoing
21/3	15.	Internal audit's preliminary arrangements towards gaining EFQM accreditation should be pursued to completion.	Internal Audit Manager	Further work will be done in co-operation with KPMG.	Dec/ Jan 2004/ 2005	Ongoing

Introduction

1. Local Authorities are required to have in place arrangements for ensuring propriety, regularity and Best Value in their stewardship of public funds. It is the responsibility of management to ensure that adequate internal controls are in place:
 - to ensure that their council's resources are applied in the manner, and on the activities, intended
 - to deter fraud and irregularity
 - to ensure the most effective use of resources.
2. Internal audit supports management in maintaining sound corporate governance and internal controls. It does this by objectively examining and evaluating council systems and reporting any inadequacies in internal control for action by management.
3. 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 (the Code). Councils were placed in one of four performance bands depending upon the extent to which they complied with the Code. The report made recommendations to councils on how to improve their internal audit service.
4. Since 2001, there have been a number of developments which impact on councils' arrangements for internal audit and the skills that internal auditors will need to provide an effective audit service. From 2002/03, the Accounting Code of Practice (ACOP) required local authorities to include within their accounts a statement on their system of internal financial control. Internal audit services have a key role to play in producing evidence to support this statement. In addition, risk management has assumed a higher profile since the original study and there is increasing pressure on councils to have well-developed audit committee arrangements.
5. All of these factors have an impact on councils' arrangements for internal audit and the skills that internal auditors will need to provide an effective audit service. This report assesses current council performance and makes recommendations that will assist the councils to develop an excellent internal audit service for the future.

Objectives of the audit

6. The overall aim of the follow up study is to measure the progress councils have made since the publication of 'A Job Worth Doing'. The study also aims to help councils achieve Best Value from their internal audit arrangements and to achieve the highest standards of governance and financial stewardship.
7. The Council was re-assessed against the CIPFA Code in early 2004 using the original study methodology developed by Audit Scotland. Six critical success factors/issues were identified and assessed, with these being supported by fifteen statements of good practice set out in the CIPFA Code of Practice. The critical success factors were identified as:

- setting clear and properly focused objectives for their work
 - maintaining audit independence
 - resourcing their work programme
 - planning and controlling their work
 - reporting and follow-up arrangements
 - being accountable for their performance.
8. Audit Scotland has undertaken this follow up study by assessing the performance of internal audit services in all Scottish councils against the six critical success factors and the standards set by the CIPFA Code of Practice.
9. A new CIPFA Code was published in September 2003 to take account of new Accounts and Audit regulations in England. Although the Code has been radically restructured, it is still based on the 1990 Auditing Practices Board (APB) guidelines. To enable the measurement of progress by councils on a consistent basis, the re-assessment was based on the 2000 CIPFA Code. However, additional questions covering the changes made in the 2003 Code - mainly in relation to audit committees and internal control statements – were asked to enable Audit Scotland to assess the degree of change required in Scottish councils to meet the obligations of the new Code.
10. The assessment was based on interviews and evidence gathered from the Council's Chief Executive, Head of Strategic Finance, and the Internal Audit Manager. In addition, benchmarking information on the Council's Internal Audit service was collected, including an analysis of staffing numbers, expenditure and level of qualification.
11. Details of the study scoring methodology are given in appendix 1. The results of the national assessment summarising the overall extent of council compliance with the CIPFA Code of Practice standards of good practice are shown in appendix 2. The assessment shows councils have made improvements in all aspects of internal audit since the original study in 2001, although there is still scope for further improvement. The performance of councils was split into 4 bands (see Exhibit 1 on page 3) and Argyll & Bute Council is included in band 1. This is a significant improvement from band 4 in 2001. Band 1 refers to those councils that most fully comply with the CIPFA Code.
12. The remainder of section 3 addresses each of the six critical success factors and compares expected good practice for the fifteen statements of good practice with findings obtained following interviews and evidence gathered. For each critical success factor we have recorded areas where we consider that Internal Audit's procedures are well developed and areas where we consider improvements could be made. In each of the statements of good practice we have concluded whether Argyll & Bute Council's performance has improved since the 2001 study. This is also recorded in more detail in appendix 3, together with a comparison with other Scottish councils.

CRITICAL SUCCESS FACTOR 1: Setting Clear and properly focused objectives

Broad expectations of good practice

1. To assess Internal Audit's success in setting clear and properly focussed objectives, three statements of good practice were compared to the current practices and procedures operating locally. The three statements of good practice were:

Statement 1. Within this critical success factor it is expected that in addition to financial regulations and standing orders, internal audit sections will have clear and formal terms of reference (TOR) that establish the responsibilities and objectives of internal audit and define the scope of its activities. These terms of reference should have been subject to consultation and agreement with heads of service, councillors, and members of the audit committee or similar scrutiny mechanism, where there is one. The terms of reference should be communicated widely across the council.

Statement 2. Managers should have established and be maintaining an adequate system of internal control to enable them to discharge their responsibilities. Internal audit are expected to evaluate the adequacy and effectiveness of controls.

Statement 3. The roles of staff, management and internal audit in relation to fraud should be clearly defined and communicated.

Summary of findings

2. The key areas where either Argyll & Bute Council's procedures or approach are well developed include the following:
 - Internal audit has a clear TOR document. This specifically refers to the CIPFA Code of Practice, has been approved by the Audit Committee, and is widely communicated throughout the Council via the intranet
 - The communication arrangements between the Audit Committee, elected members, and the Internal Audit Manager are clearly set out in the TOR
 - There is a clear separation between the respective roles of management and internal audit. Management are responsible for the operation of their systems and the inherent controls within them. Internal audit are responsible for ensuring that these controls operate effectively
 - Heads of Service have been made aware that they should consult any major system changes with Internal Audit
 - The Internal Audit Manager provides an overall assessment to both management and the Audit Committee of the robustness of internal control for the Council's main systems, based on the work done in the year
 - The Internal Audit Manager reports the basis for complying with Section 95 of the Local Government (Scotland) Act 1973 to the responsible finance officer. To help demonstrate this, records of meetings with Directors, at which internal financial control statements are reviewed, are retained
 - Internal Audit produce a "Focus Reports". These highlight any frauds or serious control weaknesses, and are circulated to External Audit/ KPMG/ Members/ Directors/ Heads of Service on a confidential basis. The first one was prepared for

the 6 months to 30 September 2003 and was issued in October 2003. It is intended to report quarterly thereafter. Frauds detected can (and have) had an impact on risk rankings within the Annual Internal Audit Plan

- The Council has a Whistle-blowing Policy for employees to report concerns at work on a confidential basis. This forms part of the induction programme for new employees, and is communicated to all staff via the Council intranet.
3. Areas where the Council's procedures or approach are identified as being weak or in need of improvement included the following:
- The TOR are not reflected in the council's standing orders and financial regulations. The Internal Audit Manager advised us that there are plans to address this, however, it is the responsibility of Corporate Services to implement any changes

Refer to Action Point No. 1

- There is an anti fraud and corruption strategy and fraud response plan. However, we do not consider that these fully reflect the roles and responsibilities of internal audit and management since:
 - They do not give general guidance on the requirements for alleged cases of fraud or corruption to be reported immediately to directors (nor are directors responsibilities regarding prevention of fraud very specific)
 - They do not note the requirement for directors to notify internal audit of suspected cases of fraud
 - They do not note the requirement for internal audit to carry out fact finding (nor is Internal Audit's role in preventing fraud very specific)
 - They do not specify how and when to confront the accused
 - There is no link to the Council's disciplinary procedures
 - There is no guidance regarding when to contact police.

Refer to Action Point No. 2

Conclusion

4. The Internal Audit section has demonstrated improvements in statements of good practice 1, 2 and 3 since the original study in 2001. The Council is now in the top performing band for statements of good practice 1 and 2, and in the 2nd top performing band for statement of good practice 3.
5. Recommendations 1 and 2 are designed to help improve the existing good practices being followed by the internal audit section in setting clear and focussed objectives.

CRITICAL SUCCESS FACTOR 2: Maintaining internal audit independence

Broad expectations of good practice

1. To assess Internal Audit's success in maintaining independence, two statements of good practice were compared to the current practices and procedures operating locally. The two statements of good practice were:

Statement 4. The internal audit section is expected to have independence in terms of its organisational status to permit it to properly perform its duties. It is not enough for internal audit actually to operate with due independence – it also must be seen to be independent.

Statement 5. The internal audit section is expected to be free of operational responsibilities. Each internal auditor should have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgement, express opinion and present recommendations with impartiality.

Summary of findings

2. The key areas where the Council's procedures or approach are well developed include the following:
 - The Internal Audit Manager reports direct to the Council's Section 95 officer (Head of Strategic Finance)
 - All audit reports are issued in the name of the Internal Audit Manager, and do not require to be approved by the Head of Strategic Finance
 - Various aspects of internal audit work are reported quarterly to the Audit Committee. In addition, the internal Audit Manager has regular informal meetings or emails with the Chair of the Audit Committee. Internal Audit performance is reported annually to the Audit Committee
 - Internal Audit determines its own priorities, based on a risk assessment and in consultation with management
 - Internal Audit have unrestricted access to all people, systems, documents and property, as they consider necessary for the proper fulfilment of their responsibilities. This is clearly specified in the Authority's TOR and is also incorporated in contract clauses for major joint funding projects (such as the PPP for waste management)
 - The Internal Audit Manager is free to report without fear or favour, has the right of final edit and issues reports in his own name or the name of the auditor who carried out the work
 - Internal audit is independent of any line management tasks. This is specifically referred to within the TOR
 - There is a staff register of interests, which records details of family members and close friends of internal audit staff who work for other services in Argyll and Bute Council. The Internal Audit Manager does not allow systems operated by these people to be audited by the appropriate internal audit staff member

- Planned assignments are undertaken by a small group of four auditors, the background of whom is known to management. This, combined with the staff register of interests helps ensure that jobs are appropriately assigned to avoid conflicts of interest of a personal or past history nature.
3. There are no areas where the Council's procedures or approach are identified as being weak or in need of improvement.

Conclusion

4. The Internal Audit section has demonstrated improvements in statements of good practice 4 and 5 since the original study in 2001, and is now in the top performing band for each of these statement of good practice.

CRITICAL SUCCESS FACTOR 3: Planning and controlling internal audit work

Broad expectations of good practice

1. To assess Internal Audit's success in effective planning and controlling of work, four statements of good practice were compared to the local practices and procedures. The four statements of good practice were:

Statement 6. Internal audit should identify potential internal control system problems, prioritise concerns, and plan its work from the basis of a risk assessment of a wide range of risks across the council – including both financial and operational systems.

Statement 7. Internal audit should have a structured planning framework of strategic plans, annual plans, and project plans for individual assignments. Work should be prioritised and managed in line with internal audit's assessment of corporate risks.

Statement 8. Internal audit should seek to foster constructive working relationships and mutual understanding with management, external auditors, inspectorates, any other review agencies and, where one exists, with the audit committee or equivalent mechanism.

Statement 9. A sound system of control of the internal audit unit and of individual assignments should exist to ensure that internal audit objectives are achieved and work is performed effectively. The Chief Internal Auditor should have suitable arrangements for managing internal audit work.

Summary of findings

2. The key areas where the Council's procedures or approach are well developed include the following:
 - Internal Audit priorities are based on a risk assessment process which includes, as one of its factors, the opinion of management. As part of the 3 year strategic plan, management are asked to assess the risk factors associated with a wide range of areas within the systems they are responsible for, and to arrive at an overall risk index
 - The risk index forms the basis for prioritising audit work
 - The Strategic Audit Plan in place at the time of the assessment covers the years 2002/03 – 2004/05. This is reviewed every year on an ongoing basis to reflect the changed priorities of the Council
 - Audit plans are prepared after consultation with managers across the council. The Strategic Audit Plan and Annual Audit Plan are approved by the Audit Committee
 - An audit agreement documents is prepared for each audit assignment. These allocate resources, set out the scope and objectives of the assignment and establish target timescales for completion and reporting
 - Progress on the annual audit plan is reported quarterly to the Audit Committee
 - Any significant changes to audit plans require to be notified to, and approved by the Audit Committee

- Heads of Service are consulted in advance of the timing of audit work and indicative completion dates to minimise disruption
 - All audit files contain a “Note on Audit Planning Process”. This requires that the Auditor contacts the appropriate service manager and informs him/her of the scope of the audit, the audit approach, the names of auditors and timing/number of days of audit. This document also requires that the auditor keeps management updated of any findings throughout the audit, and that there is an exit meeting
 - External audit consult with internal audit prior to preparing annual plans (and vice versa) to highlight areas where external audit can place reliance on internal audit’s work. Regular meetings are held between the Internal Audit Manager and external audit to monitor progress of each others annual audit plans
 - The Internal Audit Manager attends all Audit Committee meetings, and holds informal meetings with the Chair of the Audit Committee throughout the year
 - There is an internal audit manual. This is available electronically to all internal audit staff
 - Internal audit staff are allocated to assignments according to their skills and experience and in accordance with their PDR. There are regular Internal Audit section meetings, at which progress of assignments is discussed
 - All audit files require to be reviewed by lead auditors or internal audit managers.
3. Areas where the Council’s procedures or approach are identified as being weak or in need of improvement included the following:

- The risk assessment process was developed in co-operation with KPMG and is explained in the strategic audit plan. Corporate Services are responsible for the authority’s risk management process and for the upkeep of the risk register. We were advised, though, that the post of Corporate Governance Manager has still to be filled, that the risk register has only been in operation for nine months and that it still requires to be fully tested to confirm whether it is robust. Internal audit advised us that they have carried out a brief review of the risk register, but do not always agree with its findings. They anticipate that the 2004-05/2007-08 strategic audit plan will take full cognisance of the risk register

Refer to Action Plan No. 3

- We do not consider the strategic audit plan is sufficiently informative regarding the nature of audit work (or at least the Departments that will be audited) over the period of the plan

Refer to Action Plan No. 4

- The strategic plan clearly notes the systems being audited, the days allocated to them, and the risk factor. However, there is no mention of any high risk factor areas that have been eliminated from the plan due to manpower or skills shortages within internal audit

Refer to Action Plan No. 5

- Progress on the annual audit plan is reported quarterly to the audit committee. The most recent report at the time of our fieldwork (in November 2003) demonstrated that Internal Audit were on course to complete most planned work. There were, however, a few significant overspends (special investigations, PIs and DLOs). While these were compensated by underspends elsewhere and by spending less

time on audit support work, there was a risk that one of the lower ranked audits (Public Transport) may require to be delayed until 2004/2005. We consider that the budget for special investigations may be underestimated, and that this requires to be reassessed

Refer to Action Plan No. 6

- There is no procedure requiring Heads of Service/Directors to inform or remind internal audit of any impending inspectorate visits

Refer to Action Plan No. 7

- A sample of 5 audit files were selected for audit testing to determine whether adequate working papers are prepared to support internal audit findings, conclusions and recommendations. Our testing highlighted that working paper files are comprehensive with adequate evidence of information obtained in support of findings. A Systems Audit Methodology (SAM) control summary was prepared for each of the systems covered by testing. However, we noted that:
 - although most SAM documents are cross-referred to audit testing schedules, the schedules do not, in our opinion, clearly describe the test carried out, the conclusions reached, or the findings/recommendations
 - in most files reviewed there were no distinctive compliance test or substantive test documents, nor was there guidance or an indication of sample sizes that should be used. We noted that this is not addressed by the audit manual. We consider these should be an integral part of a risk based audit approach
 - where compliance testing was carried out, the test programme was not always signed off to demonstrate whether the test was completed, nor was the test programme always cross referenced to the appropriate working paper in the audit file
 - the above often resulted in a lot of (good) work being carried out within the body of a file that could not be easily identified to any specific audit objective
 - there were a considerable amount of working papers which were not referenced.

Refer to Action Plan No. 8, 9 and 10

Conclusion

4. The Internal Audit section have demonstrated improvements in each of statements of good practice 6 to 9 since the original study in 2001. The Council are now in the top performing band for statements of good practice 8 and 9, and the 2nd top performing band in statements of good practice 6 and 7.
5. Recommendations 3 to 10 are designed to help improve the existing good practices being followed by the internal audit section in planning and controlling their work.

CRITICAL SUCCESS FACTOR 4: Resourcing the internal audit work programme**Broad expectations of good practice**

1. To assess Internal Audit's success in resourcing the section, two statements of good practice were compared to the local practices and procedures. The two statements of good practice were:

Statement 10. It is expected that the chief internal auditor will be suitably qualified and experienced in internal audit and is an effective manager. The internal audit section should have sufficient staff from a range of disciplines, with varying skills experience and qualifications. Any identified gaps should be filled via training and recruitment.

Statement 11. Internal audit staff are trained to meet the current and future challenges they are likely to confront. Within a framework of continuing professional development, training is tailored to the needs of individuals, planned, and continuous at all levels.

Summary of findings

2. The key areas where either the Council's procedures or approach are well developed include the following:
 - The Internal Audit Manager is professionally qualified and has wide experience of internal audit and its management
 - The present internal audit staffing structure was arrived at following the 2000/01 Audit Scotland national and local internal audit VFM reports, subsequently followed by a service review that was carried out by Professor Midwinter. The Council considers that the current structure enables it to meet its objectives
 - The Internal Audit section currently has 6 staff in post, of which 4 have Consultative Committee of Accountancy Bodies (CCAB) qualifications. One of the 4 staff with a CCAB qualification also holds an IT qualification. The other 2 staff members are working towards relevant qualifications
 - The Council has a partnership agreement with KPMG. This provides internal audit with access to relevant people with specialist experience whenever required
 - Audit staff have job descriptions that reflect their current positions
 - An induction programme is provided to new staff. Professional training is provided by KPMG on various areas that will provide staff with more knowledge on auditing techniques and issues. More specific training courses – such as contract audit, e procurement, benefit fraud surveillance training, CAAT training, – are also provided where required subject to budget availability
 - When audits are allocated to staff, it is determined whether there is sufficient knowledge on the subject by existing staff. If there isn't, KPMG are asked to provide training and/or an appropriate course is sought for employees
 - The Performance Development Review (PDR) process helps to demonstrate that various types of training are provided in a bid to tailor the needs of individual auditors.
3. Areas where the Council's procedures or approach are identified as being weak or in need of improvement included the following:

- In general, internal audit have adequate resources to enable it to meet its work objectives efficiently and effectively. However, our enquiries highlighted that there are only 2 laptops shared by the 6 internal audit staff, and that there have been no new laptops provided since 1998. This seems a low number, given the large geographical area covered by audit staff working in Argyll and Bute Council

Refer to Action Plan No. 11

- Continuous Professional Development (CPD) records are kept for all qualified staff. However, these only list courses attended. They do not quantify the total amount of CPD hours gained per year.

Refer to Action Plan No. 12

Conclusion

4. The Internal Audit section have demonstrated improvements in statements of good practice 10 and 11 since the original study in 2001. The Council is now in the top performing band for statement 10, and the 2nd top performing band for statement 11.
5. The 2001 national report identified that a richer skill mix was most commonly found in better performing councils. The 2004 national report highlighted that a higher proportion of internal audit staff (55% in comparison with 45%) now hold a professional accountancy qualification. Argyll and Bute Council have attained Band 1 status (i.e. those Councils that most fully comply with the CIPFA Code) with 67% of staff having a professional accountancy qualification.
6. Recommendations 11 and 12 are designed to help improve the existing good practices being followed by when resourcing the internal audit work programme.

CRITICAL SUCCESS FACTOR 5: Effective reporting and follow up arrangements

Broad expectations of good practice

1. To assess Internal Audit's success in reporting and follow up arrangements, two statements of good practice were compared to the local practices and procedures. The two statements of good practice were:

Statement 12. Internal audit should ensure that findings, conclusions and recommendations arising from each internal audit assignment are communicated promptly to the appropriate level of management and that responses are provided to these findings.

Statement 13. Internal audit should produce reports and submit them to management to ensure that proper consideration is given to the issues raised and recommendations made. Internal audit is responsible for ensuring that management has implemented recommendations or has understood and assumed the risk of not taking action. The results of follow up work should be used by internal audit to update its risk assessment and plan its future work.

Summary of findings

2. The key areas where either the Council's procedures or approach are well developed include the following:
 - An Annual Audit Report is produced, and a summary is presented to the Audit Committee. This provides an overall assessment on internal audit's performance for the year, and an audit opinion based on the work carried out during the year
 - The audit manual has procedures in place for producing and clearing reports
 - Before issuing final reports, internal audit discuss the contents with management, and submit a draft to confirm the factual content
 - There is a statement in each report that highlights management's responsibility regarding acceptance of the risk of non-implementation of recommendations
 - Recent audit reports demonstrate that internal audit agree specific, measurable, achievable, realistic, time based (SMART) action plans with management. These identify the person responsible for implementing recommendations and set timescales. All action plan items are graded between fundamental, major, and minor
 - Where service managers fail to implement improvement actions, this is reported to Directors and Heads of Services. In more extreme cases, this is reported to the Audit Committee, who can request that managers provide them with a written explanation regarding why a recommendation has not been implemented.
3. There are no significant areas where the Council's current procedures or approach could be improved with regard to reporting and follow up arrangements.

Conclusion

4. The Internal Audit section has demonstrated improvements against statements of good practice 12 and 13 since the original study in 2001, and is now in the top performing band for each of these.

CRITICAL SUCCESS FACTOR 6: Holding internal audit to account for its performance

Broad expectations of good practice

1. To assess the success in holding Internal Audit to account for its performance, two statements of good practice were compared to the local practices and procedures. The two statements of good practice were:

Statement 14. The chief internal auditor is expected to promote and maintain adequate quality standards in the internal audit unit within a performance management framework. The performance of internal audit should be independently reviewed.

Statement 15. Internal audit should employ and demonstrate high standards of professional and ethical behaviour. To allow this, internal auditors staff are expected to be impartial and avoid any conflicts of interest.

Summary of findings

2. The key areas where either the Council's procedures or approach are well developed include the following:
 - Internal Audit is accountable to an Audit Committee. This meets every quarter and consists of 5 elected member plus 2 members of the public, who were appointed for their interest in audit and/or Council matters. The Section 95 officer, Internal Audit Manager, and External Auditor are invited to attend all meetings
 - An annual audit plan is presented to the Audit Committee
 - Internal Audit use a set of performance indicators to monitor their performance. These are reported annually to both the Audit Committee and the Senior Management Team
 - Questionnaires are also used to obtain feedback on performance. A copy of each questionnaire is retained in each working papers file. These are summarised, and the average "score" is reported to the Audit Committee at the year end
 - Internal Audit staff receive training on new systems or whenever there is a major change to a system. If this is not provided, the system managers may be called to the Audit Committee to explain why not
 - All staff are involved with professional accountancy bodies and have to abide by their respective codes of ethics
 - The performance of internal audit is developed through various means including the review process (i.e qualified accountants reviewing work of less experienced staff), induction training, PDR process and the production/update of an audit manual
 - A register of staff interests is kept up to date. This helps to ensure that internal auditors are seen to be impartial in discharging their responsibilities.
3. Areas where the Council's procedures or approach are identified as being weak or in need of improvement included the following:
 - Various performance indicators have been devised in consultation with the Audit Committee. On the whole we find these to be satisfactory. However, there are

areas where we consider improvements could be made to the information provided. These are:

- internal audit report the percentage of recommendations accepted by audit clients. We consider this would be improved if they were also to report the percentage of recommendations that have been implemented within an appropriate timescale
- the reported performance indicators show that 100% of reports are issued within 10 days of work being completed, and that 100% of audit assignments in the audit plan are completed within budget. This is somewhat misleading since it is known that certain audits missed one (or both) of these targets. Officers advised that these PIs are recorded as 100% since, overall, (i.e. on an average basis) each of these targets was achieved.

Refer to Action Plan No. 13 and 14

- Internal audit is not accredited under a national or international quality standard (eg Investors in People (IiP), European Foundation of Quality Management (EFQM), etc. We were advised, though, that the internal audit section has recently commenced the process towards gaining EFQM accreditation.

Refer to Action Plan No. 15

Conclusion

4. The Internal Audit section has demonstrated improvements in statements of good practice 14 and 15 since the original study in 2001. The Council now is in the top performing band for statement 15, and the 2nd top performing band for statement 14.
5. Recommendations 13 to 15 are designed to help improve the existing good practices being followed by the internal audit section in holding themselves to account for their performance.

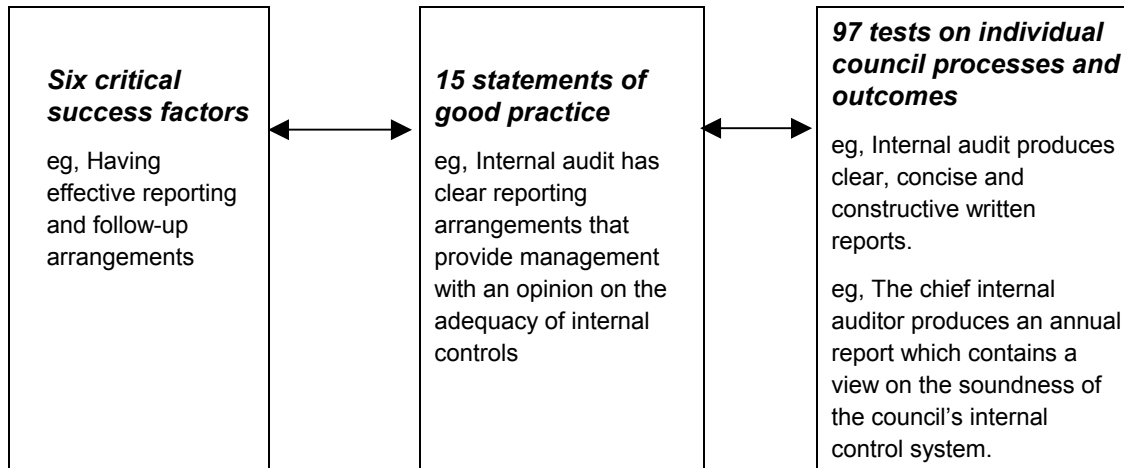
Appendix 1: Assessment methodology**Undertaking the assessment**

External auditors assessed each council's arrangements for internal audit against accepted good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government. The assessments for the follow-up study were completed during early 2004 and reflect councils' arrangements at 1 March 2004 while the assessments for the initial study were completed in February 2001.

The performance assessment framework used by external auditors is based on six critical success factors. Auditors scored council performance by testing almost 100 processes and outcomes within 15 areas of good practice (Exhibit A). These reflect the issues that the study advisory group for the initial study and other consultees (including council internal auditors and the Commission's appointed external auditors) felt were essential for delivering an effective internal audit service.

Exhibit A**Structure of the assessment**

Fifteen statements of good practice and 97 tests on council processes and outcomes support the six critical success factors.



Source: Audit Scotland

External auditors tested documentary evidence, processes and outcomes to assess the degree of compliance with good practice. The following example shows how the scoring system was applied to documentary evidence:

- 1 = 'no' – performance does not comply with good practice (eg, document does not exist or very early draft)

- 2 = 'qualified no' – performance on the whole does not comply with good practice (eg, terms of reference are available in draft but have yet to be approved and are not in use operationally, or a formally approved document which misses out most of the important issues)
- 3 = 'qualified yes' – performance on the whole complies with good practice (eg, formally approved document which misses some important issues or a draft document that, although yet to be formally approved, is in use operationally)
- 4 = 'yes' – performance complies with good practice (eg, formally approved document covering all of the important issues).

Consistency and validation checks

To ensure auditors' assessments were consistently scored, the study team provided training and undertook robust validation procedures including:

- holding training workshops for auditors to familiarise them with the methodology and assessment process
- holding further workshops to ensure that auditors' assessments were undertaken consistently
- conducting consistency checks on auditors' assessments and council data returns
- having a sample of 40% of assessments subjected to independent peer review by other external auditors.

Although the study team has made every effort to ensure that the assessments have been scored on a consistent basis, there always remains a small element of subjectivity in scoring performance.

Assessing overall performance

The scores for each test were used to calculate the average score for each statement. These were then used to calculate a council score for each of the six critical success factors.

In the initial study, scores for the six critical factors and the 15 statements for each council were used to create bands of performance. Exhibit B shows the link between council scores and performance bands. These same ranges were used in the follow-up study to place councils in performance bands.

Exhibit B**The link between council scores and performance bands**

Councils' actual scores from the initial study were used to assess overall compliance and to create performance bands.

Overall compliance with the Code²	Performance bands created from analysis of actual results – initial study	
%	Performance band	Range
83 – 100	1	3.50 - 4.00
70 – 83	2	3.10 - 3.50
50 – 70	3	2.50 - 3.10
25 – 50	4	1.75 - 2.50
0 – 25	5	1.00 - 1.75

Source: Audit Scotland

Exhibit C shows how the average scores convert to 'hotel star' ratings (see Appendix 2). The star ratings indicate each council's performance overall, and for each area. Because the ratings for each statement have been rounded adding them together may not produce the council's overall score.

Exhibit C**The relationship between 'hotel stars' and average scores**

The 'hotel stars' reflect the performance bands.

Average scores for each statement		'Hotel stars' symbol
Equal to or more than	But less than	
3.50	4.00	*****
3.10	3.50	****
2.50	3.10	***
1.75	2.50	**
1.00	1.75	*

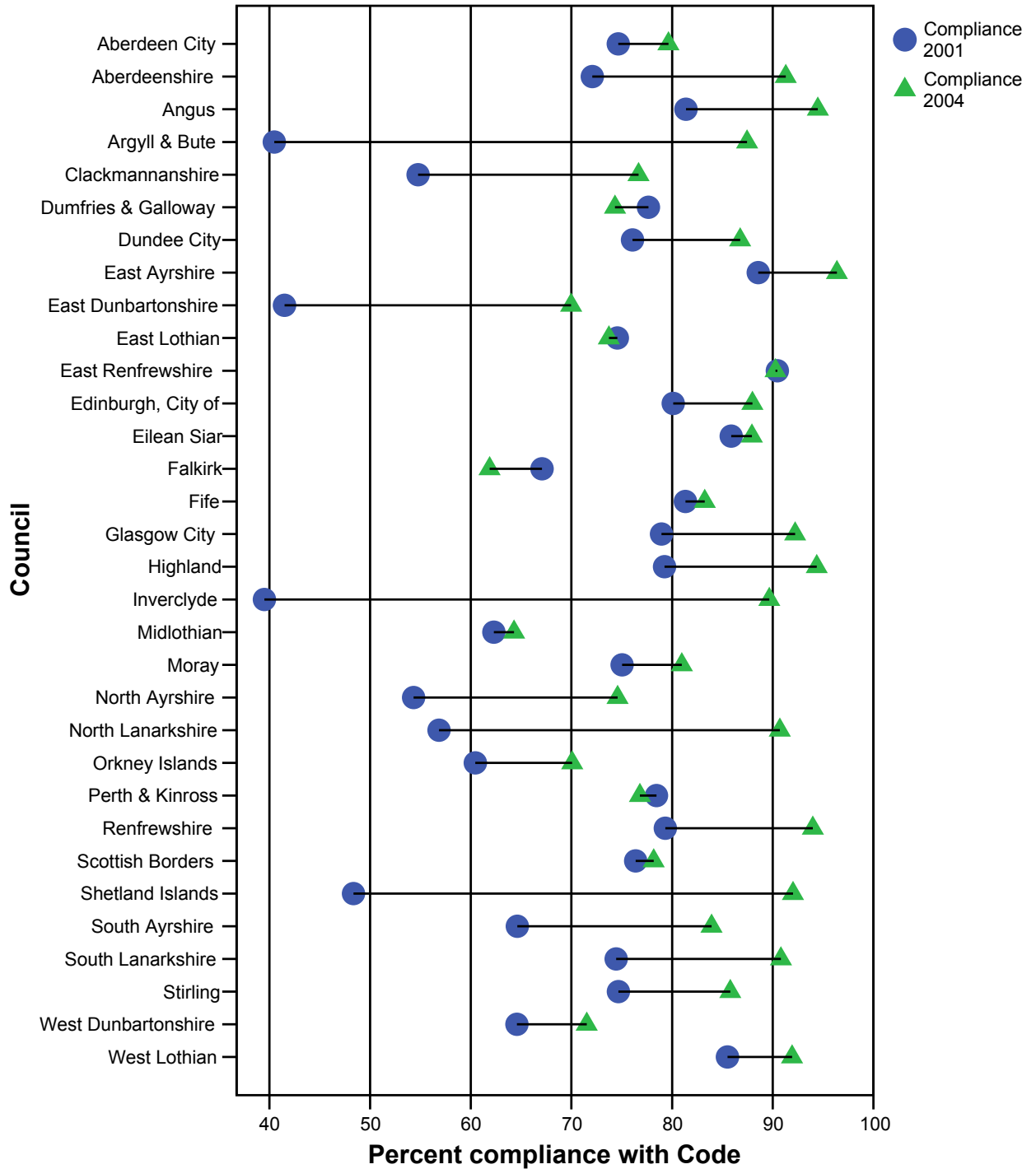
Source: Audit Scotland

² The percentage compliance was calculated for each score in the following manner – *Percentage compliance = (score - 1) / 3 * 100*. Because the lowest score that a council could achieve is 1 and the highest is a 4, a score of 2.5 represents a percentage compliance score of 50%.

Appendix 2: Extent of Council Compliance with the CIPFA Code of Practice

Councils' improvement since the initial study

Councils originally in the lowest performance band have made the greatest improvement.



Source: External auditors' returns 2001 and 2004

Appendix 3: External audit assessments by council

The colour of the 'hotel stars' indicates whether, in 2004, performance has improved (green), remained the same (black) or deteriorated (red) in comparison with 2001. Within bands, councils are listed in alphabetical order, not in order of performance.

	Internal audit has an agreed terms of reference	The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated	Internal audit has a clear role in relation to fraud	Internal audit has sufficient organisational status to be able to undertake its work effectively	Internal audit is free of operational responsibilities that could compromise its independence	Internal audit bases its work on a comprehensive risk assessment	Internal audit operates within a structured planning framework	Internal audit has effective relationships with council members, council managers, external audit, inspectorates and other agencies
	1	2	3	4	5	6	7	8
Band 1 Council								
Aberdeenshire	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★★★	★★★★★
Angus	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Argyll & Bute	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Dundee City	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★★★
East Ayrshire	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
East Renfrewshire	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Edinburgh, City of	★★★★★	★★★★★	★★★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★
Eilean Siar	★★★★★	★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Glasgow City	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★★★	★★★★★	★★★★★
Highland	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Inverclyde	★★★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
North Lanarkshire	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Renfrewshire	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Shetland Islands	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
South Lanarkshire	★★★★★	★★★★★	★★★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★
Stirling	★★★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
West Lothian	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Band 2								
Aberdeen City	★★★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★★★
Clackmannanshire	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★★★
Dumfries & Galloway	★★★★★	★★★	★★★★★	★★★	★★★★★	★★★★★	★★	★★★
East Lothian	★★★★★	★★★	★★★★★	★★★	★★★	★★	★★★	★★★★★
Fife	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★	★★★
Moray	★★★★★	★★★★★	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
North Ayrshire	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★	★★★★★
Perth & Kinross	★★★★★	★★	★★★★★	★★★★★	★★★	★★★★★	★★★	★★★★★
Scottish Borders	★★★★★	★★★★★	★★★	★★★★★	★★★	★★★	★★★★★	★★★★★
South Ayrshire	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
West Dunbartonshire	★★★	★★★	★★★★★	★★★★★	★★★★★	★★	★★★	★★★★★
Band 3								
East Dunbartonshire	★★★★★	★★★	★★★★★	★★★★★	★★★	★★	★★★	★★★
Falkirk	★★★	★★★	★★★★★	★★★	★★★	★★	★★★	★★★★★
Midlothian	★★★★★	★★	★★★★★	★★★	★★★★★	★★	★★	★★★
Orkney Islands	★★★★★	★★	★★★★★	★★★★★	★★★★★	★★★	★★★	★★★★★
Scotland	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

Number of councils by assessment band for each statement

Band	Assessment	1	2	3	4	5	6	7	8
1	★★★★★	25	12	26	24	24	12	13	25
2	★★★★	6	11	5	7	4	8	6	5
3	★★★	1	6	1	1	4	7	11	2
4	★★	0	3	0	0	0	4	2	0
5	★	0	0	0	0	0	1	0	0
	Total no. of councils	32	32	32	32	32	32	32	32

	Internal audit properly manages, controls and records its work	Internal audit is adequately staffed and resourced	Internal audit staff are suitably trained and developed	Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls	Internal audit follow up their recommendations to ensure action is taken	Internal audit has a performance management framework that ensures continuous review of its performance	The chief internal auditor promotes and maintains professional standards in internal audit
	9	10	11	12	13	14	15
Band 1 Council							
Aberdeenshire	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Angus	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Argyll & Bute	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Dundee City	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆	☆☆☆☆	☆☆☆☆☆
East Ayrshire	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
East Renfrewshire	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆☆☆
Edinburgh, City of	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Eilean Siar	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆
Glasgow City	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Highland	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Inverclyde	☆☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆
North Lanarkshire	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Renfrewshire	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Shetland Islands	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
South Lanarkshire	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Stirling	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆☆☆
West Lothian	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Band 2							
Aberdeen City	☆☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆
Clackmannanshire	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆	☆☆☆☆☆
Dumfries & Galloway	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆	☆☆☆	☆☆☆☆☆
East Lothian	☆☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆
Fife	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆☆☆	☆☆☆☆☆
Moray	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆	☆☆☆	☆☆☆	☆☆☆☆☆
North Ayrshire	☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆	☆☆☆☆☆
Perth & Kinross	☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆☆
Scottish Borders	☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆☆
South Ayrshire	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆	☆☆☆☆☆
West Dunbartonshire	☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆☆	☆☆	☆☆☆	☆☆☆☆☆
Band 3							
East Dunbartonshire	☆☆☆	☆☆☆☆	☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆	☆☆☆☆
Falkirk	☆☆☆☆	☆☆☆	☆☆	☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆☆
Midlothian	☆☆☆	☆☆☆	☆☆	☆☆☆☆	☆☆☆☆	☆☆	☆☆☆☆☆
Orkney Islands	☆☆☆☆☆	☆☆	☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆☆
Scotland	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆	☆☆☆☆	☆☆☆☆☆	☆☆☆☆☆

Number of councils by assessment band for each statement

Band	Assessment	9	10	11	12	13	14	15
1	☆☆☆☆☆	24	16	19	25	9	14	27
2	☆☆☆☆	6	11	6	3	9	5	1
3	☆☆☆	2	4	5	4	11	12	4
4	☆☆	0	1	2	0	2	1	0
5	☆☆	0	0	0	0	1	0	0
	Total no. of councils	32	32	32	32	32	32	32



ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004 – 2005.

1. SUMMARY

The Internal Audit Annual Plan requires that follow up reviews be conducted for all audits completed during the prior year. Internal Audit also document the progress made by departmental management in implementing the recommendations made by Audit Scotland and Internal Audit. Internal Audit is concerned that the current process of collecting evidence and subsequent reporting is inefficient for departments, internal audit and the Audit Committee. A new reporting system has therefore been devised and this is set out below.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 A proposal was sent to all Departmental Directors on 27 May 2004 to request that they assign a member of staff to act as co-ordinator for audit report responses from management within their departments. At the same time they were given an outline of what actions would be required and a timetable for when Internal Audit would review departmental responses prior to Audit Committee meetings. Each Director accepted the proposal and appointed members of their staff to the role of co-ordinator.

3.2 Discussions were held with Audit Scotland regarding our desire to increase the effectiveness of our reporting on both external and internal audit report recommendation implementation to the Audit Committee. They offered advice as to how they would like to see implementation of their recommendations reported in the future and combining this with our own ideas a new system and reporting format was developed. (See Appendices 1 to 4.)

3.3 Appendix 1 is a statistical summary of the 2003/04 Internal Audit reports issued by 31 May 2004 and details the number of recommendations contained in each report, number of recommendations to be implemented by the follow up date, the number implemented and those past their implementation date. The implementation date used for reporting to this Audit Committee is, 31 July 2004. A reference column has been added to provide a link to Appendix 2 where reasons are given by local management as to why recommendations have not been implemented by the agreed date. The same layout has been used for the reporting of Audit Scotland report recommendations.

3.4 Appendix 2 details under each report's title the recommendation that is still to be implemented, the department and Head of Service responsible and an explanation for the delay, the level of risk, original and a revised implementation date. The same layout has been used for the reporting of Audit Scotland report

recommendations.

- 3.5 All new external audit reports issued by Audit Scotland to the Council will be reported initially separately to the Audit Committee with their executive summary and action plan. Thereafter they will be included in the summary list in Appendices 3 & 4 of this report. Regarding external reports for PMP 2002/03 and HMI, these report recommendations are nearing full implementation and are the subject of separate reports to the Audit Committee.
- 3.6 The new system is more objective and focused, it reduces the number of pages that members need to review, increases the worth of the information reported, gives an overview in a statistical format of the progress of recommendation implementation, with comment provided by local management where implementation has been delayed.

REQUESTED SERVICE REPORTS

- 3.7 A report entitled Management of Community Equipment and Adaptations was issued by Audit Scotland in July 2003. At the last Audit Committee members requested that a report be presented on adaptations to the next meeting. A report has been prepared by the Head of Integrated Care. (See Appendix 5).
- 3.8 With regard to the above report, the Audit Committee requested confirmation of advertising details for the Planning Officer for Community Care post. A comment is attached from the responsible officer confirming the re-advertisement of the above post. (See Appendix 6).
- 3.9 Audit Scotland issued a report in April 2004 entitled Commissioning Community Care Services for Older People. At the last Audit Committee members requested that the responsible officer review the implementation date agreed with Audit Scotland regarding the Council analysis of unmet need. The responsible officer has considered the point made by members and has set a new implementation date of April 2005. Comment from the officer is given in Appendix 6.
- 3.10 Audit Scotland issued a report in March 2004 entitled Regularity & Governance 1 – Property Asset Management 2003 - 2004. As requested by the Audit Committee the Head of Infrastructure & Transport has arranged for a report to update members of the current position of Asset Management Strategy. (See Appendix 7).

4. CONCLUSIONS

The new system of reporting will be more objective in reporting terms for the Audit Committee. 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 30 July 2004.

30julyfinalreport30July

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Internal Audit Report Follow up - Summary

Audit	Action points raised	Points to be actioned by 31 July 2004	Points actioned by implementation date	Behind Schedule	Reference to Appendix 2
Budgetary preparation & control	6	6	1	5	A1,2,3,4,5
Debtor Accounts	6	6	4	2	B1,2
Government Grants – Supporting People	9	9	7	2	C3,9
Cash & Income Banking	12	12	10	2	D7,8
Council Tax & Non Domestic Rates	3	3	2	1	E3
Creditor Payments / Purchase Ordering & Certification	10	9	6	3	F2,3,9
Unified Benefits System	6	6	4	2	G1,5
Treasury Management	8	7	6	1	H8
Car Allowances	5	4	4	0	N/A
Registration of Births, Marriages and Deaths	2	2	1	1	I1
Payments to Voluntary Associations	3	3	2	1	J3
Contract Hire & Operating Leases	17	16	13	3	K2,6,11
DLO's	17	17	13	4	L6,14,15,17
Property Asset management	15	7	5	3	M2,4,8
Best Value Reviews & PMP	42	28	13	15	N2,3,10,12,13,14,17,19,24,25,30,32,35,41,42
Education – Schools NPDO	8	8	6	2	O6,8
Development & Environmental Services – Cambeltown Community	8	7	6	1	P8
Total	177	150	103	48	

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Action Points Behind Schedule – Internal Audit**A -Budgetary Preparation and Control**

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Budget setting and service planning will be linked in order to provide a more effective performance monitoring framework.	Chief Executive's - Head of Strategic Finance	Delayed until the appointment of the Policy & Strategy Manager and the temporary replacement of the Corporate Accounting Manager.	Fundamental	May 2004	None at present
2	The Financial and Security Regulations will be updated to reflect the changes in the structure of the Council.	Corporate Services - Head of Democratic Services and Governance	Restructuring of the Council caused this slippage.	Fundamental	December 2003	December 2004
3	Budget holders will be trained in their responsibilities for budgetary control.	Chief Executive's - Head of Strategic Finance	Delayed due to slippage in the implementation of the revised budgetary control arrangements and Financial and Security Regulations after the restructuring.	Fundamental	May 2004	None at present
4	Strategic Finance will issue a set of general procedures to ensure consistency of approach to budgetary control across the Council.	Chief Executive's - Head of Strategic Finance	Delayed for the same reasons as Point 3 above.	Fundamental	March 2004	None at present
5	Housing and Social work will develop more detailed budgetary control procedures based on the Council wide	Chief Executive's - Head of Strategic Finance	This has been overtaken by events as the process of budgetary control currently in place in Education will be rolled out to the Housing and Social	Fundamental	March 2004	None at present

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	policies.		Work services of Community Services.			

B - Sundry Debtor Accounts

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	The debtors user group will identify the categories of debt that will be provided for on issue in order to ascertain the types of income that is unlikely to be received.	Chief Executive's - Head of Strategic Finance	There hasn't been a debtors user group for several months. However, the next group, due to meet in October, will consider this topic.	Fundamental	July 2003	October 2004

C - Government Grants – Supporting People

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Details of the documentation outstanding from individual providers will be passed to supporting people on a regular basis.	Community Services Head of Planning & Performance	Last update was prior to audit and has not been done since, however an update to be sent to supporting people w/c 26 th July 2004 and will then be done monthly.	Fundamental	May 2004	Evidence to be reviewed.
9	Steps to be taken to appoint a dedicated I.T officer for supporting people. In the meantime the supporting people team will develop I.T procedures in conjunction	Community Services Head of Community Regeneration	I.T officer not appointed / designated as at 16/7/04	Material	June 2004	None at present.

	with Community Services I.T support, to cover the systems currently in use					
--	--	--	--	--	--	--

D - Cash & Income Banking

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
7	All postal remittances to Kilbowie House, Oban will be recorded and a register checked and signed by 2 staff members to reduce the risk of theft.	Operational Services -Head of Roads and Amenity Services	Only one person currently signs the register due to insufficient staff to enable two signatures. This will be implemented when the office is up to full staffing.	Fundamental	Immediate (October 2003)	None.
8	Segregation of duties should be introduced, in Kilbowie House, Oban, for staff involved in cash handling, recording of income, etc to reduce the risk of fraud or theft.	Operational Services -Head of Roads and Amenity Services	Insufficient staff to enable adequate segregation of staff within the office. This will be implemented when the office is up to full staffing.	Fundamental	Immediate (October 2003)	As a result of a 2004/05 audit this point was raised again and a new implementation date of December 2004 was agreed.

E - Council Tax & Non Domestic Rates

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Authorisation for the write off of NDR and Council Tax debtors will transfer to the Strategic Director of Corporate Services and the Financial and Security	Corporate Services - Head of ICT and Financial Services	Awaiting the revision of the Financial and Security Regulations	Minor	December 2003	December 2004

	Regulations will be amended to reflect this movement.				
--	---	--	--	--	--

F - Creditor Payments / Purchase Ordering & Certification

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	To develop an adequate benefit tracking system to ensure savings are achieved in accordance with the business plan.	Corporate Services - Head of ICT and Financial Services	Savings will not accrue at present as the system is currently being developed.	Fundamental	January 2004	September 2004
3	To develop adequate monitoring and reporting systems to ensure a progressive update of the system by departments.	Corporate Services - Head of ICT and Financial Services	The introduction of the system is at too early a stage for the full reporting systems to have been developed.	Fundamental	January 2004	December 2004
9	The Project Manager is to set up a tracking system to assess the soft process benefits to the Council arising from the implementation of the Pecos system.	Corporate Services - Head of ICT and Financial Services	Dependent on output from West of Scotland group – should have interim solution in place December 2004 although first process benefits not expected to be measurable until post April 2005.	Material	April 2004	Post April 2005

G - Unified Benefits System

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	The procedures manual to be revised/updated once the Comino benefits system has settled in.	Community Services Head of Community Regeneration	No formal procedures manual exists although instructions are issue to the appropriate staff members. Management will look at the possibility of producing manuals.	Material	April 2004	Evidence to be reviewed.

5	The duties of Benefit Fraud Officers are to be reconsidered when they come under the line management of the Benefits Officer.	Community Services Head of Community Regeneration	No evidence available at the time of the audit.	Material	April 2004	N/A
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H - Treasury Management

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
8	Officers who confirm transaction details with the bank should initial the dealing slip to confirm that the transaction amount is correct.	Chief Executive's - Head of Strategic Finance	Dealing slips had not been passed to Officers responsible for confirming details with the bank. An assurance has been given that this will done in the future.	Material	Immediate (April 2004)	Evidence to be reviewed.

I - Registration of Births, Marriages and Deaths

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Look at updating the registrar's page on the Council's website, including more useful information.	Corporate Services - Head of Democratic Services and Governance	Service has produced a booklet which is scheduled to be scanned onto the web.	Material	January 2004	August 2004

J - Payments to Voluntary Associations

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Council Officers, who act as advisors to Care & Repair, have no specific guidance on their responsibilities to the Council.	Community Services Head of Community Regeneration	This issue is currently being reviewed by Corporate Services.	Material	February 2004	October 2004

K - Contract Hire and Operating Leases

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	An introduction to operating leases will be developed for departmental staff.	Chief Executive's - Head of Strategic Finance	The leasing advisors have only recently been appointed and they will be involved in drafting this guidance.	Fundamental	April 2004	September 2004
6	A set of procedures for tendering, monitoring and terminating lease agreements will be developed.	Chief Executive's - Head of Strategic Finance	The leasing advisors have only recently been appointed and they will be involved in drafting the more detailed procedures as well as the introductory guidance.	Fundamental	April 2004	September 2004
11	Estates will ensure that all leased properties are reported to Strategic Finance to be classified as operating leases.	Corporate Services - Head of Legal and Protective Services	Procedure being implemented to ensure that all leased properties are reported to Strategic Finance.	Material	Immediate (November 2003)	August 2004

L - DLOs

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	Finance should issue guidelines to the Buildings DLO staff for the acceptable use of the 'sundries' account code to ensure that expenditure is correctly classified for budget monitoring purposes.	Chief Executive's - Head of Strategic Finance	This awaited the development of the DLO's business plan and will be issued soon.	Fundamental	Immediate (October 2003)	Evidence to be reviewed.
14	An integrated stores system should be introduced for the Buildings DLO to improve the inefficient processes currently employed.	Operational Services -Head of Facility Services	This has been delayed until the future of the DLO as a Council function has been resolved.	Fundamental	Immediate (October 2003)	N/A
15	The Buildings DLO costing system should be reconciled to the Oracle ledger to ensure that the correct figures are included in budget monitoring and the financial statements.	Chief Executive's - Head of Strategic Finance	The first reconciliation has been started but is in the process of being transferred from Strategic Finance to the departmental administration staff.	Fundamental	Immediate (October 2003)	September 2004
17	The Roads Costing System should be adapted for use by the DLO to improve the costing figures for Buildings DLO jobs.	Chief Executive's - Head of Strategic Finance	This has been delayed until the future of the DLO as a Council function has been resolved.	Fundamental	Immediate (October 2003)	N/A

M - Property Asset Management VFM

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	The Estates property listing will be reconciled to the Strategic Finance Asset Register.	Corporate Services - Head of Legal and Protective Services	The reconciliation work required between the Asset and Property Register is almost complete but is almost but is dependent on the finalisation of points 4 and 8 below.	Fundamental	April 2004	August 2004
4	74 properties included on the asset register but no in Estates records will be investigated and validated.	Chief Executive's - Head of Strategic Finance	The service has reported to us that this is almost complete. Evidence awaited	Fundamental	May 2004	August 2004
8	Strategic Finance to remove 11 properties on the Asset Register that Estates records showed as disposals.	Chief Executive's - Head of Strategic Finance	The service has reported to us that this is almost complete. Evidence awaited	Fundamental	April 2004	August 2004

N - Best Value Reviews and PMP

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	The Council will develop and adopt a Best Value strategy and vision in accordance with the ministerial Best Value guidance.	Chief Executive's - Policy and Strategy Manager	The person with responsibility for this action is off on long term sickness absence and the the outstanding work has been prioritised.	Fundamental	March 2004	September 2004
3	Services will develop a suite of local balanced performance indicators in accordance with Local Government in Scotland Act 2003.	Chief Executive's - Policy and Strategy Manager	The restructuring and staff sickness have delayed this.	Fundamental	April 2004	September 2004
10	Revise and expand the public	Chief Executive's -	The person with responsibility for this	Fundamental	February 2004	September 2004

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	performance reporting framework.	Policy and Strategy Manager	action is off on long term sickness absence and the the outstanding work has been prioritised.			
12	Identify which Corporate Governance commitments remain incomplete and take remedial action.	Corporate Services - Director of Corporate Services	The appointment of the Governance & Risk Manager means that this will be completed.	Fundamental	January 2004	December 2004
13	A Best Value service review programme will be developed for 2004.	Chief Executive's - Policy and Strategy Manager	The restructuring and staff sickness have delayed this.	Fundamental	February 2004	September 2004
14	Services that are high risk or have not undergone a PMP self-assessment exercise will be required to undertake a PMP self-assessment review and to formulate a plan and timescale.	Chief Executive's - Policy and Strategy Manager	The person with responsibility for this action is off on long term sickness absence and the the outstanding work has been prioritised.	Fundamental	May 2004	September 2004
17	The Council is to plan for the undertaking of a regular review of the progress of the Equal Opportunities Policy.	Chief Executive's - Policy and Strategy Manager	The person with responsibility for this action has been off sick. person with responsibility for this action has been off sick.	Material	January 2004	September 2004
19	Each service is to develop specific targets and initiatives to redress potential inequality and is to present progress on implementing these race equality targets as part of the quarterly reports to the SMT	Chief Executive's - Policy and Strategy Manager	The person with responsibility for this action has been off sick. person with responsibility for this action has been off sick.	Material	January 2004	August 2004
24	Audit Scotland is to work with Community Planning partners to develop a menu of key indicators to support effective	Chief Executive's - Policy and Strategy Manager	The Community Planning Partnership disputes the value of key indicators and are in discussion with Audit Scotland regarding resolution.	Material	April 2004	December 2004

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	performance management benchmarking and reporting.					
25	The Community Planning Manager and Partnerships Manager should develop an action plan outlining how it is going to address its responsibilities as outlined in the act and associated statutory guidance.	Chief Executive's - Policy and Strategy Manager	A review of this action plan has taken place and the decision taken is that there is no longer the need to have a specific action plan because of the Local Government (Scotland) Act 2003	Fundamental	March 2004	N/A
30	Feedback on the effectiveness of the Communication Action Plan will be reported to the SMT and the SPC.	Chief Executive's - Policy and Strategy Manager	In light of the Amey staff survey the SMT felt that this should not go ahead at present until the survey results had been analysed.	Material	February 2004	November 2004
32	The progress of the Organisation Action Plan is to be reviewed and reported to the SMT the EJCC and the Strategic Policy Committee.	Chief Executive's - Head of Personnel Services	Awaiting the finalisation of the restructuring of the Council.	Material	June 2004	November 2004
35	The Central Personnel Section are to agree and implement a comprehensive system of supervising/auditing departmental procedures to ensure compliance with corporate procedures.	Chief Executive's - Head of Personnel Services	Ongoing but disrupted by the impact of the organisational review on Personnel resources	Fundamental	Ongoing	No date given.
41	The Legal Services Strategy Review team is to ensure all planned actions are completed as soon as possible as it has taken 2 years for the review to	Corporate Services - Head of Legal and Protective Services	A report has gone to the SMT recently reporting on progress with regard to the Scrutiny Review of Legal Services. Work is ongoing with regard to considering service delivery options	Fundamental	March 2004	Ongoing

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	conclude.		on a strategic and local basis.			
42	Processes are to be put in place to measure the result of the review outputs in order to convince the External Auditor of their success and sustainability.	Corporate Services - Head of Legal and Protective Services	As above	Material	March 2004	Ongoing

O - Education VFM – Schools NPDO

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	The period between the appointment of the provisional preferred bidder and financial close is around 15 weeks less than average for similar projects.	Community Services Head of Service – Capital Project	In the process of re costing the project due to the change in scope. There will be a guarantee of costs beyond financial close by Precept. This supersedes the original action point.	Fundamental	Immediate (March 2004)	October 2004
8	There are no planned meetings between the PMB and members once the preferred bidder is selected.	Community Services Head of Service – Capital Project	Preferred bidder was only selected on the 15 th July 2004.	Fundamental	Immediate (March 2004)	No action as yet.

P - Development & Environmental Services VFM – Campbelltown Community Regeneration Project

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation	Revised implementation
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APPENDIX 2

					date	date
8	Consultants employed on behalf of the Council to be issued with copies of the Council's Contract Standing Orders.	Community Services Head of Community Regeneration	It is understood that consultants have been issued with copies, however no evidence was made available to confirm this.	Fundamental	Immediate (March 2004)	Evidence to be reviewed.

External Audit Report Follow up - Summary

Audit	Action points raised	Points to be actioned by 31 July 2004	Points actioned by implementation date	Behind Schedule	Reference to Appendix 4
2001/02 Management Report - Regularity and Governance	2	0	0	0	
Final Report Argyll & Bute Council 2001/02	2	1	1	0	
2001/02 Performance Audit - Trading Standards	2	0	0	0	
2002/03 Regularity & Governance (2)	7	2	2	0	
2002/03 Performance Audit - Management of Community Equipment and Adaptations	19	6	3	3	A6,17,19
Report on the 2002/03 Audit	5	3	3	0	
Commissioning Community Care Services for Older People	4	1	1	0	
2002/03 E-Government Preparedness	2	0	0	0	
Prudential Code	7	2	0	2	B2,6
Total	50	15	10	5	

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Action Points Behind Schedule - Audit Scotland Reports

A - 2002/03 Performance Audit – Management of Community Equipment and Adaptations

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	Explore the effect of demographic and other environmental changes in planning for the future needs of the service.	Community Services Planning Officer Community Care	Officer only recently appointed.	None Assigned.	None	October 2004
17	Performance information should be made publicly available within the Council's framework for PPRg.	Community Services Planning Officer Community Care	Officer only recently appointed.	None Assigned.	None	October 2004
19	Council budgeting process should be reviewed for major and minor adaptations and the level of unmet need determined and reported.	Community Services Head of Planning & Performance and Head of Community Support	This has been delayed due to the size and task of restructuring.	None Assigned.	December 2003	December 2004

B - 2003/04 Prudential Code

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Strategic Finance will calculate the outstanding Incremental Cost of Borrowing indicator as required by the Code.	Head of Strategic Finance	CIPFA have yet to clarify how this indicator should be calculated so it is still outstanding.	Priority: Medium	June 2004	October 2004
6	The Financial and Security Regulations will be updated to reflect the requirements of the Prudential Code.	Head of Strategic Finance	Awaiting the publication of the revised Financial and Security Regulations by Corporate Services.	Priority: Medium	June 2004	October 2004

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ADAPTATIONS REPORT - 2002/2003

1. INTRODUCTION

This report provides an update on the management of Community Equipment and Adaptations in terms of audited systems that relate to service delivery, finance, planning, statistical systems and joint working with NHS Argyll & Clyde within the Joint Partnership / Joint Future arrangements.

2. RECOMMENDATIONS

2.1 That a full integrated review of all Council and NHS Argyll & Clyde operational, service delivery and staffing issues will progress with the development of a 3-5 year business case being presented for 31st March 2005. This will cover the variety of issues being audited within a single business plan with specific timescales identified within an agreed financial framework.

This recommendation is in line with the recommendation presented to the Scottish Executive as part of the updated Joint Partnership agreement dated 30th May 2004.

3. DETAILS

3.1 Information Systems:

The OLM system used within Social Work is presently significantly under utilised by operational, planning and finance staff. Consequently the council continues to have difficulty in maintaining an integrated statistical and financial system that allows for straightforward audit of equipment and adaptations.

The OLM system is presently subject to a departmental review of all the component parts, operational, statistical and financial that will allow for an integrated audit trail.

3.2 Joint future Agenda:

The Joint Future "Partnership Agreement" between the Council and NHS Argyll & Clyde was updated for 30th May 2004 and submitted to the Scottish Executive. An explicit recommendation within the paper was that a 3-5 year integrated business plan would be provided for all client groups for 31st March 2005. Within the plans for Older People's Services and Physical Disability will be specific reference to the development and financing of equipment and adaptations.

The content of the plan will include recommendations relating to service delivery models, storage, cleaning and transport issues, delivery and installation processes, monitoring levels of unmet need, information on

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APPENDIX 5

recycling, integrated management systems all of which will be within an identified joint financial framework.

3.3 Training:

The Joint Future “Partnership Agreement” noted above included a specific training plan to enhance the development of the integrated agenda between the Council and NHS Argyll & Clyde. The training plan is a piece of work that is subject to ongoing change and will be formally reviewed annually in preparation for the new financial year.

3.4 Implementation Dates:

Previous report indicated a variety of implementation dates for the August and December of 2004. Having given a commitment to the Scottish Executive to prepare an integrated business from the Council and NHS Argyll & Clyde plan for 31st March 2005. Consequently, it is recommended that the same implementation date is agreed in order that the different recommendations made relating to equipment and adaptations are built into the same integrated process and timescale rather than being dealt with separately.

4. CONCLUSIONS

- 4.1 Full review of the Department’s OLM information system is being progressed. This will allow for an audit system that serves operational, financial, statistical and planning issues.
- 4.2 A full review of all operational, service delivery and integration matter between the Council and NHS Argyll and Clyde will progress with the development of a 3-5 year business case being the outcome for 31st March 2005. This will cover the variety of issues being audited within a single business plan with specific timescales identified within an agreed financial framework.

5. IMPLICATIONS

Policy: This meets the Council's policy to deliver quality services to people with disabilities.

This meets the Council's policy of joint working with the NHS within the Joint Future agenda.

Financial: None at this time.

Legal: Meets statutory requirements to assess and provide services to people affected by a disability.

Personnel: None

Equal Opportunities: None

For further information please contact

James Robb,
Head of Integrated Care
Dalriada House
Lochgilphead
Tel: 01546-604827 / 01436-658751

12th August 2004

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**ARGYLL & BUTE COUNCIL
DEVELOPMENT SERVICES**

**AUDIT COMMITTEE
27 AUGUST 2004**

ASSET MANAGEMENT STRATEGY REPORT - 2004

1. INTRODUCTION

The appointment of a Chief Asset Manager on 21st June and the Asset Managers 's official transfer at end of July have been allocated the task of developing an agreed Council wide Asset Management Strategy.

2. RECOMMENDATIONS

2.1 The Audit Committee notes the content of this report.

3. DETAILS

3.1 The Chief Asset Managers preliminary investigation was to establish size and scale of the current asset base, values, quantities, and asset category types presently held by the Council. In addition there was a phase of process mapping for the various stages of Asset Management and control.

3.2 The investigation and development of a draft Asset Management Strategy is currently in progress; it is linked to council goals and objectives, corporate and service plans.

3.3 A number of background investigations were made into the approach of Asset Management within other council's, such as Glasgow City, North and South Lanarkshire, and Renfrew shire. This was in order to obtain a current view of Asset Management development.
Other sources of reference information have been professional institutions with expertise in Asset Management, and also government sources such as Audit- Scotland & Office of the Deputy Prime Minister (ODPM).

4. CONCLUSIONS

As of now Asset Management is in an early development form, but this will change from a development to an implementation phase of ' on-line' computer systems and databases.

The general trend is to support the introduction of 'Balanced Scorecards' as being the approach and method to be used for appraisal and ranking of capital items within Asset Management Strategy.

4.1 The proposed programme for asset management is in draft form and is subject to ongoing review and internal scrutiny, and should be available to SMT for review in September.

5. IMPLICATIONS

None

For further information please contact John Macnicol, Chief Asset Manager (01436 65 8964)

J Macnicol
Chief Asset Manager
05 August 2004

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

KPMG work plan for Internal Audit partnering contract

1. SUMMARY

- 1.1 This report proposes a schedule of work to be undertaken by KPMG as internal audit partners with the in house internal audit team and requests that the Committee approve it.

2. RECOMMENDATIONS

- 2.1 That this committee approves the proposed work plan for the current year.

3. DETAILS

- 3.1 Following a review of the internal audit function at all Scottish Local Authorities performed by Audit Scotland and a consequent review of the internal audit provision at Argyll and Bute Council by Professor Arthur Midwinter of the University of Strathclyde, the Council entered into a partnership agreement with the accounting and advisory firm KPMG.
- 3.2 The objective of the partnering arrangement is to develop the internal audit function at the Council to a position where:
- It services the Council's internal audit requirements in accordance with good practice; and
 - In any follow-up review of internal audit functions at Scottish Local Authorities by Audit Scotland, that of Argyll and Bute will be classed as amongst the best.
- 3.3 It is reported elsewhere about the results of Audit Scotland's follow-up review. The purpose of this report is to inform the Committee about how KPMG and Argyll and Bute's internal audit team intend to build on the work already undertaken and specifically the input provided by KPMG.
- 3.4 The Appendix details a work plan for 2004-2005 agreed with Internal Audit. The main points of this plan are:-
- Continuing to support the development of the internal audit team in terms of compliance with the CIPFA code of practice for internal audit and in particular at ways in which to embed continuous improvement (by use of the EFQM framework);
 - Assistance with the Council's risk management process and its use as a basis for the development of a new strategic plan for internal audit;
 - Production of an Audit Committee handbook to assist members in discharging their responsibilities;
 - Provide training for the Audit Committee and members of the internal audit team. Training will address areas raised in Argyll and Bute Council's

local follow-up report by Audit Scotland. For example, the selection of a testing methodology in the course of audits and issues surrounding sample sizes, materiality and interpretation. It is also proposed to undertake training on general IT controls which are common in undertaking system reviews.

- KPMG propose to conduct two audits. Firstly a review of IT Disaster Recovery arrangements and secondly to look at the implementation of e-planning. These two audits will use resources from KPMG's specialist Information Risk Management (IRM) team.

4. 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)

Steve Keightley
Manager
29 July 2004
KPMGworkplan2004

Appendix

Activities	Days	Detail	Personnel	Timescale
Risk Assessment / Audit Strategic Plan 2005 onwards	25	Assist with development of risk management process across the Council and its basis for the 3/5 year strategic audit plan. Scope outlined in covering report.	Steve Keightley	25 days from end of July to November
Management and professional support	15	Advice and information relating to audit practice. Support with Local Report recommendation implementation. Scope outlined in covering report.	Steve Keightley main contact	Throughout the year
Training - formal	15	Audit Committee training / induction for new start / IT in systems audits / direct audit testing. Scope outlined in covering report.	Steve Keightley with assistance from Information Risk Management (IRM) and public sector teams	Throughout the year
Audit Committee Handbook	10	Production of handbook to assist members of the Audit Committee in understanding their role and responsibilities. Further detail in covering report.	Steve Keightley	Draft for discussion by end of August
IT audit	20	1/ Disaster Recovery 2/ e-planning. Scope of each audit in covering report.	IRM Team	1/ Delayed to October at the request of management 2/ August / September
Other direct audit time	20	EFQM. Scope outlined in covering report.	Performance Improvement Team	November / December
Audit committee attendance	8		Steve Keightley / Grant Macrae	Throughout the year
Meetings/relationship management/audit functioning	12		Various	Throughout the year
Total	125			

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
27 AUGUST 2004

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2004 - 2005

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to 30 July 2004. The objective of the report is to advise members of the progress of the annual audit plan. (See Appendix 1).

2. RECOMMENDATION

2.1 The Audit Committee is asked to approve the progress made with the annual audit plan for 2004 - 05.

3. BACKGROUND

3.1 The progress report contained in Appendix 1, lists the audits scheduled for the financial year 2004 –2005 and ordered by section and level of completion.

3.2 As at 30 July 2004 out of 20 core financial systems audits, 3 have been completed with final reports issued. Of the remaining 17 audits, 5 have been started this leaves 12 audits to be progressed throughout the remainder of the financial year.

3.3 A total of 11 non-financial audit areas have been planned for this financial year. As at 30 July 2004 a total of 3 audits have been completed. This leaves 8 audits of which 2 audits have been started leaving 6 audits to be progressed throughout the remainder of this financial year. Of the remaining 6 audits KPMG has been assigned 2.

3.4 A total of 160 days have been set aside within the Annual Audit Plan for Special Investigations. As at 30 July 2004 a total of 23 days have been expended on one investigation.

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

4. SUMMARY OF 1st QUARTER AUDIT ACTIVITIES FOR 2004 - 2005

4.1 In the 1st quarter good progress was made with all audits and this puts the section in a reasonable position to progress the rest of the annual audit plan.

5. CONCLUSION

Progress is being made on audits planned for 2004 – 05.

6. IMPLICATIONS

- | | | |
|-----|----------------------|---|
| 5.1 | Policy: | Update on audit plan for 2004 – 05. |
| 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 30 July 2004.
30julyprogreport30July

APPENDIX 1

Assessment of audit days: 2004-2005 strategic plan

AUDIT WORK SCHEDULE	Last audited	Risk ranking	Original Estimated Audit Days 2004-05	Revised Estimated Audit Days 2004-05	Actual Audit Days 2004-05	Balance
Core financial systems						
COMPLETE						
Government Grants - Education	2003-04	1	21	21	28	-7
Stock taking	2003-04	1	16	16	19	-3
Cash & Income Banking - Oban	2003-04	1	21	21	23	-2
STARTED						
Car Allowances	2003-04	3	21	21	6	15
HR Payroll	2003-04	3	43	43	8	35
E-Procurement Creditors	2003-04	2	31	31	1	30
Unified Benefits System	2003-04	2	51	51	2	49
Budgetary preparation & control - Education	2003-04	1	16	16	1	15
NOT STARTED						
Capital Accounting	2003-04	1	21	21	0	21
Purchases of equipment and Materials	2003-04	2	21	21	0	21
Purchase Ordering and Certification	2003-04	3	31	31	0	31
Debtor Accounts	2003-04	1	21	21	0	21
Housing Rents	2003-04	1	21	21	0	21
Council Tax & NDR	2003-04	2	31	31	0	31
General Ledger Operations	2003-04	2	21	21	0	21
Treasury management	2003-04	2	21	21	0	21
Tendering Procedures	2003-04	3	21	21	0	21
Capital Contracts	2003-04	3	21	21	0	21
Direct Transport Costs	2003-04	4	21	21	0	21
Following Public Pound Voluntary Organisations	2003-04	4	21	21	0	21
Section Total			492	492	88	404
Non-financial systems / Best Value / VFM						
COMPLETE						
Chief Exec Pls	2003-04	1	43	43	35	8
Chief Exec Corporate Gov.	2003-04	1	32	32	6	26
Operational Services Ferry Review	2003-04	2, 8	21	21	25	-4
STARTED						
Chief Exec Best Value Interim	2003-04	3	32	32	4	28
Chief Exec Performance Management Planning (PMP)	2003-04	3	35	35	3	32
NOT STARTED						
DLO	2003-04	1	21	21	0	21
DSO	2003-04	4, 7, 9	48	48	0	48
Community Services - Transport	2003-04	3, 4, 11	21	21	0	21
Community Services - Education	2003-04	9, 10	21	21	0	21
Development Services - e-Planning KPMG	2003-04	3, 6	21	21	0	21
Corporate Services IT KPMG	2003-04	1	32	32	0	32
Section Total			327	327	73	254
Actual Direct Audit Time			819	819	161	658
Special investigations contingency						
Dangerous Buildings	-	-	160	160	23	137
Section Total			160	160	23	137
Other Areas						
Risk assessment, strategic plan, annual plans			30	30	3	27
Follow-up external audit management letter			21	21	16	5
Internal audit follow up			50	50	26	24
Section Total			101	101	45	56
TOTAL			1080	1080	229	851

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ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE

COUNCIL
23 JUNE 2004

2003/04 ANNUAL ACCOUNTS (UNAUDITED)

1. SUMMARY

Departments have adhered to approved budgets and savings have been generated in loan charges and local tax income. The “free” General Fund Reserve has increased to £6.023m. This includes the transfer of £0.208m on the closure of Direct Labour Organisation and Direct Service Organisation Reserves. In addition the sum of £5.758m requires to be carried forward and earmarked within the General Fund Reserve. The total of the General Fund Reserve stands at £11.781m on the face of the Council’s Accounts.

The Housing Revenue Account Reserve now stands at £0.474m, an increase of £0.051m.

The Council is no longer required to maintain separate accounts for Direct Labour Organisations and Direct Service Organisations. However the financial performance of Significant Trading Organisations requires to be disclosed separately in the Accounts. Significant Trading Organisations achieved a net surplus overall of £0.115m. None returned a deficit.

2. RECOMMENDATIONS

2.1 Members note the unaudited accounts.

3. DETAIL

3.1 Introduction

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

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

It should be noted that the Accounts have still to be audited. The Auditors certificate and letter to Members will be submitted to Members immediately after the completion of the audit anticipated for 30 September 2004. Figures are therefore subject to change.

3.2 Outturn for the Year on the General Fund

3.2.1 A surplus of £1.779m was achieved in the General Fund. In addition funding of £5.758m requires to be carried forward and earmarked within the General Fund Reserve in order to meet future expenditure.

3.2.2 The following table summarises how the surplus for the year has arisen. For the purpose of comparison, the budget for 2003/04 has been taken as the original approved budget plus any supplementary estimates agreed to by Committee. Adjustments to budget have also been made in respect of additional revenue support grant and items transferred from revenue to capital.

	£m
Savings in loan charges	0.385
Increased collections on local taxes	0.975
Overall savings by departments against budget	0.419
Sub total	1.779
Funding to be carried forward and earmarked in Reserve	5.758
Earmarked funding at start of financial year	(1.671)
Transfer from DLO/DSO Reserves	0.208
Surplus for year per Accounts	6.074

3.3 General Fund Reserve

3.3.1 The General Fund Reserve at 31 March 2003 amounted to £5.707m of which £1.671m was earmarked. This left a “free” balance of £4.036m. The “free” Reserve now stands at £6.023m and the overall Reserve stands at £11.781m when earmarked funds are included.

	£m
“Free” Reserve at 31 March 2003	4.036
Surplus from loan charges, local tax income and departmental savings	1.779
Transfer from DLO/DSO Reserves	0.208
“Free” Reserve at 31 March 2004	6.023
Funding to be carried forward and earmarked in Reserve	5.758
Total Reserve per Accounts	11.781

3.4 Earmarked Funds

3.4.1 Funding to be carried forward for specific purposes and earmarked within the Reserve stood at £1.671m at 31 March 2003. It now stands at £5.758m. The table below gives details of these funds.

	£m
Waste Management PPP Smoothing Fund	1.086
Corporate Property Strategy	0.030
Change Management Funding	0.030
Area Budgets	0.015
Risk Management Fund	0.041
Community Safety	0.086
Revenue Funding For IT From "top slice"	0.092
Digital Communities	0.245
Modernising Government Fund	0.043
Works Committed Or Commenced By Roads But Not Completed Or Paid For	0.386
Social Work Funding	£m
Preserved Rights & Free Care	0.841
Residential Care	0.662
Home Care	0.232
Learning Disability Services	0.374
Supporting People	0.282
Direct Payout	0.107
Other Social Work Funding	<u>0.212</u>
	2.710
Underspends in 2003/04 used to fund savings in 2004/05 budget	0.994
Total Earmarked Funds	5.758

3.5 Housing Revenue Account

3.5.1 The Housing Revenue Account Reserve at 31 March 2003 amounted to £0.423m. A surplus of £0.184m has arisen for the year to 31 March 2004. A transfer to the General Fund of £0.143m was made to offset the reduction in central support allocations as agreed by the Council in February 2003. Interest of £0.010m on the Reserve has been added. The total sum carried forward at 31 March 2004 therefore amounts to £0.474.

3.6 Significant Trading Organisations

3.6.1 The requirement to maintain separate accounts for Direct Labour Organisations and Direct Service Organisations under the Compulsory Competitive Tendering legislation ended on 31 March 2003. Councils are now required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling 3 year period. This rolling 3 year period will not commence until 2005/06 (ie the first full 3 financial year following 31 March 2003). Supplementary information on the financial performance of Significant Trading Organisations must be given in the Accounts and this is laid out in note 6 of the Consolidated Revenue Account. All of the Significant Trading Organisations achieved a breakeven during 2003/04 and an overall surplus of £0.115m. Details of the services classified as Significant Trading Organisations was reported to the Strategic Policy Committee of 18 December 2003. The only variance from this has been the reclassification of Building Maintenance as a Significant Trading Organisation.

3.7 Reserves and Balances

- 3.7.1 The Council accepted in principle as part of the budget proposals to
- provide for a 2% general contingency
 - to establish within the General Fund Reserve a departmental contingency of 0.5% to allow departments to manage their financial position across more than one financial year
 - to establish a development fund of 0.5% to finance initial costs on a pay back basis for spend to save projects.

These proposal were dependent upon the General Fund Exceeding a given level and it was remitted to me to bring forward in due course more detailed proposals on how these arrangements would operate. I will bring forward a report on the position with regard to Reserves and Balances to an early meeting of the Strategic Policy Committee. This will not be delayed pending completion of the audit of the accounts.

3.8 Prudential Code

- 3.8.1 Under the Prudential Code a range of indicators were established as part of the budget process. These should be reviewed at least as part of each budget cycle and upon completion of the annual accounts. In respect of this latter requirement I will bring forward a report to an early Strategic Policy Committee reviewing our prudential indicators in the light of the unaudited Accounts.

3.9 Statement on the System of Internal Financial Control 2002/03

The Code of Practice on the Annual Accounts includes a requirement to prepare a statement on the system of internal financial control. My statement appears on the final page of the Accounts and is drawn from the Internal Audit Manager's statement on the adequacy and effectiveness of the internal financial control system of the Council. The Internal Audit Manager presented his statement to the Audit Committee on 14 June 2004.

My statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for Internal Audit.

Although some weaknesses in the system of financial control have been identified, most of these have been rectified between the time of Internal Audit identifying the weakness and the time of preparation of this report. The key remaining areas for the Council to address are the development of a risk management strategy and the development of asset management planning. With the recent appointments to the posts of Risk and Governance Manager and Chief Asset Manager work on these two areas will commence when the appointees take up their posts.



**UNAUDITED ACCOUNTS FOR THE PERIOD
1 APRIL 2003 TO 31 MARCH 2004**

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Introduction

This foreword is intended as a comment on Argyll and Bute Council's financial position as presented within the Statement of Accounts for the financial year 2003/2004.

Accounting Policies

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

The Financial Statements

Consolidated Revenue Account

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

Housing Revenue Account

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

Council Tax Income Account

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

Non-domestic Rate Income Account

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

Consolidated Balance Sheet

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

Statement of Total Movement in Reserves

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

Consolidated Cash Flow Statement

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

Statement of Responsibilities

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

Statement on the System of Internal Financial Control

This statement sets out the framework within which financial control is managed and reviewed over the main components of the system, including the Internal Audit arrangements.

Major Changes in Accounting Practice

The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). The annual accounts for 2003/2004 have been prepared in compliance with the 2003 Statement of Recommended Practice (SORP). The format of the Consolidated Revenue Account reflects the requirements of the Best Value Accounting Code of Practice (BVACOP).

Financial Reporting Standard 17 (FRS17) - "Retirement Benefits" is to be implemented over a three year period into Public Sector Accounts, with 2003/04 being the third year. For the financial year ended 31 March 2004 the full impact of FRS17 is shown through the Consolidated Revenue Account and the Balance Sheet. This impact has been reversed out of the Consolidated Revenue Account as a Contribution to/(from) Pensions Reserve to reflect that there should be no impact on the "Amount to be met from Government Grants and Local Taxation. A note to the Balance Sheet is required of the balance sheet asset or liability of retirement benefits as calculated in accordance with FRS17 and an analysis of the movement of the surplus / deficit over the financial year. Also shown within the Consolidated Revenue Account is the history of gains and losses expressed as a percentage of assets and / or liabilities. These disclosures comply with the SORP.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2004. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17 issued by the Institute and the Faculty of Actuaries.

Property Valuations

In accordance with the 2003 Statement of Recommended Practice (SORP) all properties are required to be formally revalued at intervals of not more than five years. The five year rolling programme of revaluation of all land and buildings started in 1999/2000 was completed during 2003/2004.

General Fund

The following table summarises how the surplus for the year has arisen. For the purpose of comparison, the budget for 2003/2004 has been taken as the original approved budget plus any supplementary estimates agreed by Committee. Adjustments to budget have also been made in respect of additional revenue support grant and items transferred from revenue to capital.

Savings on Budget:	£'m
Savings in Loan Charges	0.385
Increased Collections on Local Taxes	0.975
Overall Savings by Departments Against Budget	0.419
Sub-Total	1.779
Funding to be Carried Forward and Earmarked in Reserve	5.758
Earmarked Funding at Start of Year	(1.671)
Transfer From DLO/DSO Reserves	0.208
Surplus for Year Per Accounts	6.074

The General Fund Reserve at 31 March 2003 amounted to £5.707m of which £1.671m was earmarked. This left a "free" balance of £4.036m. The "free" Reserve now stands at £6.023m and the overall Reserve stands at £11.781m when earmarked funds are included.

	£'m
"Free" Reserve at 31 March 2003	4.036
Surplus From Loan Charges, Local Tax Income and Departmental Savings	1.779
Transfer From DLO/DSO Reserves	0.208
"Free" Reserve at 31 March 2004	6.023
Funding to be Carried Forward and Earmarked in Reserve	5.758
Total Reserve Per Accounts	11.781

Significant Trading Organisations

The requirement to maintain separate accounts for Direct Labour Organisations and Direct Service Organisations under the Compulsory Competitive Tendering legislation ended on 31 March 2003. Councils are now required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. This rolling three year period will not commence until 2005/2006 (i.e. the first full three financial years following 31 March 2003). Information on the financial performance of Significant Trading Organisations must be given in the Accounts and this is laid out in note 6 of the Consolidated Revenue Account.

During 2003/2004 the Council's Significant Trading Organisations achieved a surplus of £0.115m. The surplus is part of the General Fund. All the Significant Trading Organisations met their financial objective. In a period of financial constraints the overall contribution is a welcome outcome and reflects positively upon the Council's management of trading activities.

Housing Revenue Account

The HRA balance stands at £0.474m at 31 March 2004 and is an increase of £0.051m from the 31 March 2003 balance of £0.423m. The main factors giving rise to the reduction in the balance are as follows:

	£'m
Reduction in Repairs and Maintenance	0.045
Reduction in Supervision and Management	0.188
Reduction in Capital Financing	0.178
Net Increase in Other Income Less Other Expenditure	0.175
Increased Income	0.586
Void House Rents and Provision for Bad Debts	(0.103)
Reduction in Rental Income	(0.299)
Other Movements	(0.133)
Increased Expenditure	(0.535)
Surplus for Year	0.051

A contribution of £0.327m to supplement the capital expenditure programme took place during the year in line with the approved budget.

Capital Expenditure and Borrowing

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

	Composite Programme £'m	Housing Revenue Account £'m
Net Allocation	19.131	2.007
Usable Capital Receipts	2.162	1.673
Capital Financed from Current Revenue	0.016	0.327
Gross Consent	21.309	4.007
Capital Expenditure	20.274	3.648
Excess Expenditure (Receipts)	(1.035)	(0.359)

This includes Public Transport Fund projects where the underspend was £1.826m. After adjusting for this, the position on the main capital programme expenditure exceeded consent and receipts by £0.791m. Full use of the tolerance limits on capital expenditure was planned.

The composite programme includes all services other than Police, Fire and the Housing Revenue Account. Joint Boards control capital expenditure on Police and Fire and are reported separately thereon. The Housing Revenue Account covers capital expenditure on the Council's stock of houses.

Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. The composite programme includes additional consent in relation to Public Transport Funded projects that the Council secured in competition, securing much needed additional investment in the Council area.

The external borrowing of the Council at 31 March 2004 amounted to £196.28m. The majority of this was financed by the Public Works Loan Board (£169.18m), with the remainder coming mainly from the money market. During the year the Council completed £1.25m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council carried out several debt rescheduling exercises totalling £39m during the year, resulting in a change in the repayment profile of the loans outstanding and a reduction in interest rates payable and also repaid prematurely debt of £21.22m.

Statement on the System of Internal Financial Control

Some weaknesses in the system of financial control were identified during the year. Most of these were rectified between the time of Internal Audit identifying the weakness and preparation of this report.

Other Significant Matters

The Council has secured funding under the new housing partnership programme. This funding has been utilised to carry out an option appraisal and feasibility study for a large scale voluntary transfer of the housing stock. The Council is now in the implementation phase in the lead up to full stock transfer. Preparation of the business plan will take place over the next six months with approval "in principle" to proceed being sought by the end of 2004. A ballot of tenants is planned for early 2005.

In common with other Councils a significant investment in school building is required. The Council has been successful in securing revenue support towards a Public Private Partnership for school buildings. The Council is developing a Pathfinder Non-Profit Distributing Organisation (NPDO) approach for the PPP. The project is currently in the procurement phase. During 2003/2004 an invitation to negotiate was issued and bids received were evaluated, leading to the appointment of a provisional preferred bidder. The Council is working with the provisional preferred bidder to finalise their selection as preferred bidder. Financial close is planned during 2004/2005.

Restructuring

During 2003/2004 the Council carried out an internal restructuring. Major business and organisation change of this nature always represents a potential risk to the control environment. However the year end outturn has resulted in a generally satisfactory position and Internal Audit's annual report allows me to take comfort that, other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.

Prudential Code

Until 31 March 2004 local authority capital expenditure was controlled by capital spending consent issued under Section 94 of the Local Government (Scotland) Act 1973. This limited the amount of capital expenditure a council can incur. From 1 April 2004 these consents were abolished and local authority capital expenditure and borrowing are now regulated by the Prudential Code, a regime of self regulation.

Under the Prudential Code the Council must ensure that

- Capital expenditure plans are affordable;
- Borrowing is sustainable and prudent;
- Treasury management reflects good professional practice.

Conclusion

The Council ends the year with an improved general fund balance. Improvements in council tax collection, savings in loan charges and containment of expenditure in departments have contributed to this position.

The Council will continue to pursue initiatives to secure additional funding. Budgetary control will continue to have a high profile to ensure effective financial control within services.

A handwritten signature in black ink, appearing to read 'Bruce West'.

Bruce West
Head of Strategic Finance
June 15, 2004

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. ACCRUALS OF INCOME AND EXPENDITURE

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

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

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

Interest payable on external borrowing and internal interest have been accrued in the period to which they relate on the basis of the overall economic effect of the borrowing.

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

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

2. OVERHEADS

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

3. PENSIONS

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

3.1 Teachers

This is an unfunded scheme administered by the Scottish Executive. The pension cost charged in the accounts is the contribution rate set by the Scottish Executive on the basis of a notional fund.

3.2 Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme.

Financial Reporting Standard 17 (FRS17) - "Retirement Benefits" is to be implemented over a three year period into Public Sector Accounts with 2003/2004 being the third year. For the financial year ended 31 March 2004 the full impact of FRS17 is reflected within the accounts.

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

4. CAPITAL ACCOUNTING

4.1 Accounting Policy Statement

Under statute councils are required to adopt proper accounting practices. The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised as representing proper accounting practices. Services have been charged for the assets based on their value rather than on the financing costs of debt outstanding on the asset.

4.2 Fixed Assets

a) Categories of assets

Fixed assets are categorised into classes as follows:

Operational assets:

- Council Dwellings;
- Other Land and Buildings;
- Vehicles, Plant and Equipment;
- Infrastructure Assets, e.g. highways;
- Community Assets, e.g. museum exhibits, parks;

Non-operational Assets, e.g. investment properties, surplus properties.

b) Recognition

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

c) Measurement

Infrastructure and community assets are included in the balance sheet at historical cost, net of depreciation where appropriate.

Operational land and property is divided into two distinct categories for valuation purposes.

Where there is no discernable market value in respect of the continuation of existing use, properties will be valued on the basis of a depreciated replacement cost, net of obsolescence and depreciation.

Where operational properties are considered to be devoted to a use to which there is a discernable market, such properties will be valued on the market value in existing use basis.

Non-operational land and properties and other non-operational assets, including investment properties and assets that are surplus to requirement, are included in the balance sheet at market value.

d) Revaluations

When an asset is included in the balance sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet. The difference between the value and the amount at which the asset was included in the balance sheet prior to the latest revaluation is credited or debited to a fixed asset restatement reserve. The Council has a rolling programme in place to revalue all of its property assets over a five year period.

e) Disposals

The receipts arising from the disposal of fixed assets have been dealt with on an accruals basis, and the net book value of the asset disposed of written off against the fixed asset restatement reserve.

f) Depreciation

All assets, other than Land, Non-operational Buildings and Community Assets, are being depreciated over their useful economic lives. This policy complies with the requirements of Financial Reporting Standard 15 (FRS15) - "Tangible Fixed Assets".

The Council depreciates its fixed assets on a straight line basis (with the exception of certain IT equipment, which is based on a reducing balance) over the expected life of the asset, after allowing for the residual value of an asset as follows:

Operational Buildings – Other	-	20 – 50 years
Operational Buildings – Dwellings	-	30 years
Infrastructure	-	40 years
Vehicles	-	4 – 20 years
Plant and Equipment	-	3 – 10 years
Vessels	-	25 years

g) Charges for the use of Fixed Assets

General fund service revenue accounts, central support services and trading services are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. Capital charges in the HRA cover the statutory capital financing charges. The notional interest rate is 3.5% for assets other than infrastructure and community assets, where it is 4.625%. Interest payable, including interest payable under finance leases, and provision for depreciation are charged to an asset management revenue account.

However, in order to disclose the authority's corporate net operating expenditure, capital charges to services need to be reversed out and replaced by depreciation and external interest payable for financing. This reconciliation is performed in the Asset Management Revenue Account.

Net operating expenditure contains accounting entries that should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a second reconciliation is needed to reverse out charges in respect of depreciation and amortised government grants deferred and to replace them with Minimum Revenue Provision as represented by the cost of financing borrowing. This is accomplished in the line "Contributions to Capital Financing Reserve" in the Consolidated Revenue Account.

4.3 DEFERRED CHARGES

Deferred charges represent capitalised expenditure that does not result in, or remain matched with, tangible fixed assets.

Expenditure is written off to the service revenue account in the year in which that expenditure is incurred on the basis that no long-term benefit accrues directly to the authority from the expenditure.

Net operating expenditure contains accounting entries that are not revenue bases and should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a second reconciliation is needed to reverse out capital financed deferred charges. This is done by an adjustment in the Capital Financing Reserve.

One exception to this is where expenditure is incurred in the provision of wheeled bins in write off to service revenue account over a ten year period, on the basis that the bins will have a useful life of ten years and will provide benefit to the Council in the operation of refuse collection services for that period.

4.4 GOVERNMENT GRANTS

Grants and other contributions relating to fixed assets are credited to a government grants deferred account and released to the asset management revenue account in line with depreciation.

4.5 FINANCE LEASES

Rental payments under finance leases are apportioned between the finance (interest) charge and the reduction of the outstanding obligation. The former is charged to the Asset Management Account, the latter to the Capital Financing Reserve.

5. STOCK & WORK IN PROGRESS

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

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

6. RESERVE FUNDS

Repairs and Renewals Funds have been established in accordance with the Local Government (Scotland) Act 1975. The Council has Repairs and Renewals Funds in relation to Vehicles and Plant, Education and Historic Land Contamination in respect of the Council Waste PPP.

Reserve Funds for the Direct Labour and Direct Service Organisations have been established in accordance with the relevant CIPFA Code of Practice. A Capital Fund has also been established within the Direct Labour Organisation.

7. OPERATING LEASES

Where a lease is classified as an "operating lease" as defined by Statement of Standard Accounting Practice 21 (SSAP 21) - "Accounting for Leases and Hire Purchase Contracts", the annual rentals are charged to the appropriate Revenue Account.

8. ASSETS FINANCED BY COVENANT SCHEMES

The accounting treatment of assets financed under Covenant Schemes is in accordance with Section 4.1 of Guidance Note 1 - "Covenant Schemes Accounting Treatment and Disclosures" - issued by the Local Authority (Scotland) Accounts Advisory Committee (LA(S)AAC). The Council's indebtedness is recorded as a Deferred Covenant Liability in the Consolidated Balance Sheet. The assets have been valued in accordance with Note 4 above.

9. LOANS FUND

In accordance with the Local Government (Scotland) Act 1975 Schedule 3 (12), the Council administers a Loans Fund. All loans raised by the Council are paid into the fund and are pooled. Interest and expenses of the Loans Fund have been calculated and allocated to the revenue account on the basis of debt outstanding on each account at the start of the financial year with a pro-rata adjustment in respect of new advances. Redemption of debt has been calculated and provided for in the Revenue Account on an annuity basis. Interest on revenue balances is allocated on the basis of monthly balances held on the respective accounts.

10. PUBLIC PRIVATE PARTNERSHIP

The accounting treatment of the waste management Public Private Partnership is in accordance with FRS5 - "Reporting the Substance of Transactions" and Treasury guidance.

11. POST BALANCE SHEET EVENTS

Where a material post balance sheet event occurs which:

- ◆ Provides additional evidence relating to conditions existing at the balance sheet date; or
- ◆ Indicates that application of the going concern concept to a material part of the authority is not appropriate.

changes will be made to the amounts included within the Statement of Accounts as well as details of the nature of the post balance sheet event.

12. PROVISIONS

Provisions are recognised in the Statement of Accounts where they meet the following criteria:

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

13. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

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

14. VALUE ADDED TAX (VAT)

VAT is included in income and expenditure accounts only where it is irrecoverable.

2002/03		2003/04		
Actual Net Expenditure £'000	Note	Actual Gross Expenditure £'000	Actual Gross Income £'000	Actual Net Expenditure £'000
		Council Services		
71,609	Education Services	90,363	15,749	74,614
10,948	Environmental Services	21,681	10,316	11,365
7,613	Cultural and Related Services	10,711	3,348	7,363
3,010	Planning and Development Services	4,623	1,484	3,139
30,799	Social Work Services	71,147	40,639	30,508
4,733	Housing Services (Non-HRA)	21,142	19,205	1,937
19,553	Roads and Transport Services	30,214	10,650	19,564
895	Trading Services	2,532	1,570	962
	Central Services			
1,350	- Central Services to the Public	2,845	1,180	1,665
3,037	- Corporate and Democratic Core	3,487	108	3,379
1,341	- Non-distributed Costs	1,325	-	1,325
(116)	- Other Operating Income and Expenditure	90	123	(33)
12,803	Payments to Joint Boards	14,344	-	14,344
167,575	General Fund Services	274,504	104,372	170,132
636	Housing Revenue Account	14,784	14,968	(184)
168,211	Net Cost of Services	289,288	119,340	169,948
(73)	(Surplus)/Deficit on Trading Undertakings not included in Net Cost of Services			(108)
(1,196)	Asset Management Revenue Account			3,503
-	Gains/losses on the repurchase or early settlement of borrowing			-
(8,894)	Interest and investment income			(7,748)
7,639	Pensions interest cost and expected return on pension assets			9,014
165,687	Net Operating Expenditure			174,609
(636)	Surplus/(deficit) transferred to/(from) HRA Balances			184
(1,966)	Contribution to/(from) Funds and Earmarked Reserves			(248)
(133)	Contribution to/(from) HRA Balance			(143)
(3,119)	Reconciling amount for loans fund repayment			(218)
624	Contribution to/(from) the pensions reserve			(1,159)
160,457	Amount to be met from Government Grants and Local Taxation			173,025
99,463	General Government Grants			109,147
36,383	Income from Council Tax			37,419
29,831	Non-domestic Rates Redistribution			32,533
5,220	Net General Fund Surplus / (Deficit)			6,074
487	Balance on General Fund Brought Forward			5,707
5,707	Balance on General Fund Carried Forward			11,781

1. Joint Boards

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

2002/03		2003/04
£'000		£'000
369	Strathclyde Passenger Transport	398
7,079	Strathclyde Police Joint Board	8,207
4,197	Strathclyde Fire Joint Board	4,580
1,131	Dunbartonshire and Argyll & Bute Valuation Joint Board	1,132
27	Authorities Buying Consortium	27
12,803	Total Joint Boards	14,344

2. Asset Management Revenue Account

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

2002/03		2003/04
£'000		£'000
12,704	Charge for Depreciation/Impairment	13,597
16,466	External Interest Payable	15,415
(29,807)	Capital Charges	(24,888)
(559)	Release of Government Grant	(621)
(1,196)	Net Expenditure / (Income)	3,503

3. Contributions to Capital Financing Reserve

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

2002/03		2003/04
£'000		£'000
604	Capital Financed from Current Revenue - General Fund	16
12,086	Principal Loans Fund Instalment	13,499
(12,704)	Depreciation/Impairment	(13,597)
(3,664)	Deferred Charges Written off to Revenue	(757)
559	Release of Government Grant	621
(3,119)	Total Contribution to Capital Financing Reserve	(218)

4. General Fund Balance Carried Forward

The following committed sums are included in the General Fund balance carried forward of £11.781m:-

	£'000
Waste Management PPP	1,086
Corporate Property Strategy	30
Modernising Government Fund	43
Digital Communities	245
Area Budgets	15
Risk Management Fund	41
Works Committed and Commenced Prior to Start of Financial Year on Roads Projects	386
Community Safety Forum Contributing to Drugs Rehabilitation	4
Community Safety Partnership	82
Social Work Funding	2,710
Underspends in 2003/04 Used to Fund Savings in 2004/05 Budget	994
IT Top Slice	92
Change Management	30
Total Committed Funds	5,758

5. Operating Lease Rentals Paid

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2003/04 are as follows:

2002/03 £'000		2003/04 £'000
68	Land and Buildings	95
895	Vehicles	1,037
203	Plant and Equipment	315
1,166	Total	1,447

In respect of vehicles the Council recovered £0.089m of leased car costs from its employees during 2003/04.

The Council is committed to making payments of £1.557m under operating leases in 2004/05. These can be analysed as follows:

	£'000
Leases expiring in 2004/2005	215
Leases expiring between 2005/2006 and 2008/2009	1,056
Leases expiring after 2008/2009 onwards	286
Total	1,557

6. Significant Trading Organisations

Details of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations are as follows:

Roads and Lighting Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	12,906	10,465		
		Expenditure	12,823	10,415		
-	-	Surplus/(Deficit)	83	50	-	-

Waste Management Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	4,990	4,775		
		Expenditure	4,982	4,770		
-	-	Surplus/(Deficit)	8	5	-	-

Leisure Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	2,898	3,150		
		Expenditure	2,884	3,145		
-	-	Surplus/(Deficit)	14	5	-	-

Catering and Cleaning Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	7,157	6,996		
		Expenditure	7,153	6,993		
-	-	Surplus/(Deficit)	4	3	-	-

Building Maintenance Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	2,633	1,809		
		Expenditure	2,627	1,804		
-	-	Surplus/(Deficit)	6	5	-	-

7. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.578m was incurred during 2003/04 and is included within service expenditure as follows:

2002/03 £'000		2003/04 £'000
220	Staff advertising	333
18	Leaflets and publications	42
74	Statutory notices	69
145	Other	134
457	Total	578

8. Agency Income

The Council has agency agreements with the Scottish Veteran Garden City Association and the Margaret Blackwood Housing Association whereby the Council arranges for maintenance to be carried out on their housing stock. There is also an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2003/04 income from these agreements amounted to £0.181m (2002/03 - £0.176m).

2002/03 £'000		2003/04 £'000
1	Scottish Veteran Garden City Association and Margaret Blackwood Housing Association - repair of houses	1
175	Scottish Water	180
176	Agency Income	181

9. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £0.733m. The goods and services provided during the year were as follows:

Name of Body	Purpose of work	Income £'000	Expenditure £'000
North Lanarkshire Council	Cleaning and Catering - Kilbowie OC	111	100
Strathclyde Police	Cleaning of Police Stations	108	98
Strathclyde Fire	Maintenance of Fire Stations	180	163
Various Public Bodies	Grounds Maintenance	53	50
Various Councils	Provision Of Science Packs And Health Packs	18	14
Various Councils	Staff Support	8	8
Inverclyde Council	Teacher Cover Primary Schools Schools	1	1
West Dunbartonshire Council	Provision Of Special Education Needs	254	242
		733	676

10. Health Act 1999 Pooled Funds and Similar Arrangements

The Council has a joint working arrangement with NHS Argyll and Clyde whereby it provides, but NHS Argyll and Clyde pays for, certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2003/04 income from this source amounted to £2.895m and the related expenditure was £5.116m. These sums can be analysed as follows:

Purpose of Service	Income £'000	Expenditure £'000
Care of the elderly	1,466	2,580
Provision of services for people with learning disabilities	1,137	1,984
Provision of services for people with mental health problems	292	552
	2,895	5,116

11. Teachers Pensions - Administered by Scottish Public Pensions Agency

2002/03		2003/04
2,026	Amount paid over (£'000)	3,006
6.90%	Rate of contribution (%)	6.90%
436	Amount of added years awarded by the Council (£'000)	445
7	Discretionary payments made by the council (£'000)	-

From 1 April 1999 the Council became responsible for the "Strain on the Fund" costs resulting from early retirements, and during 2003/04 these amounted to £300,815.

12. Members' Allowances

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

2002/03 £'000		2003/04 £'000
209	Basic Allowance	210
203	Special Responsibility Allowance	215
412	Total Allowances	425

13. Officers' Emoluments

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

2002/03	Remuneration Band	2003/04
No		No
50	£40,000 - £49,999	32
28	£50,000 - £59,999	18
6	£60,000 - £69,999	3
3	£70,000 - £79,999	4
-	£80,000 - £89,999	-
1	£90,000 - £99,999	1
-	£100,000 - £109,999	-
-	£110,000 - £119,999	1

14. Related Party Transactions

During the year transactions with related parties arose as follows:

	Income £'000	Expenditure £'000
Central Government and Agencies:		
Revenue Grants: Revenue Support Grant	109,147	
Non-domestic Rates	32,534	
Housing Benefits / Support Grant	14,445	
Council Tax Benefit Subsidy	4,752	
Other Government Grants	23,173	
Capital Grants: European Grants	193	
Sportscotland	341	
School Buildings Improvements Fund	737	
Other Government Capital Grants	228	

Related Bodies:

Transactions with related bodies during the year totalled 16,976

Of these, transactions with the following exceeded £10,000:

Joint Boards (see note 1 for further details)	14,344
Strathclyde Passenger Transport - Concessionary Fares	1,808
Argyll, the Islands, Loch Lomond, Stirling and the Trossachs Tourist Board	22
Bute Council on Alcohol	38
COSLA	83
Dunoon and Cowal Youth Project	19
Islay and Jura Community Enterprise	71
Nadair Trust	13
NHS Argyll and Clyde	227
Oban and Lorn Enterprises - Atlantis Leisure	296

Other Related Party Transactions:

Transactions in which members have a significant interest 69

During the year there was one company in which members had a significant interest and where the total of transactions exceeded £10,000. This was as follows:

	£'000
Trident Taxis	62

15. Waste Management Public Private Partnership

The Council has entered into a Public Private Partnership for the provision of its waste disposal service. This agreement requires the provider to upgrade or replace three waste disposal sites, two transfer stations and five civic amenity sites. In addition, the provider will also provide composting facilities to meet waste diversion targets. When the agreement ends in September 2026 the provider will hand back to the Council the waste disposal facilities with a life of 5 years.

The Council has paid a service charge of £4.111m which represents the value of the service provided from 1 April 2003 to 31 March 2004. Under the agreement the Council is committed to paying the following sums:

Period	£'000
2004/07	14,105
2007/12	25,497
2012/17	28,265
2017/22	31,396
2022/27	29,980
Total	129,243

This equates to £5.573m per annum over the life of the contract.

16. Fees Payable to Audit Scotland

In 2003/04 the following fees relating to external audit and inspection were incurred:

2002/2003 £'000		2003/2004 £'000
190	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor	223
4	Fees payable in respect of other services provided by the appointed auditor	1
194		224

17. Pension – Local Government Superannuation (Scotland) Scheme

As stated in note 3 of the Statement of Accounting Policies, the Council participates in the Local Government Pension Scheme administered by the City of Glasgow Council's Strathclyde Pension Fund. This Fund provides members with defined benefits relating to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

17.1 Amount Charged to Operating Profit

The following table shows an analysis of the pension costs that would have been charged to operating profit under FRS 17: -

	Year to 31 March 2004 £'000	Year to 31 March 2004 % of Payroll
Amount Charged to Operating Profit		
Service Costs	6,054	14.2%
Past Service Costs	23	0.1%
Curtailments and Settlements	773	1.8%
Decrease in Irrecoverable Surplus	-	-
Total Operating Charge (A)	6,850	16.1%
Amount Credited to Other Finance Income		
Expected Return on Employer Assets	7,748	18.2%
Interest on Pension Scheme Liabilities	(9,014)	-21.1%
Net Return (B)	(1,266)	-2.9%
Net Revenue Account Cost (A)-(B)	8,116	19.0%

17. Pension Costs - FRS 17 Disclosure Continued

17.2 Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Year to 31 March 2004 £'000
Actual return less expected return on pension scheme assets	19,563
Experience gains and losses arising on the scheme liabilities	(512)
Changes in financial assumptions underlying the present value of the scheme liabilities	-
Actuarial gain / (loss) in pension plan	19,051
Increase / (decrease) in irrecoverable surplus from membership fall and other factors	-
Actuarial gain / (loss) recognised in the STRGL	19,051

17.3 History of Experience Gains and Losses

Difference between the expected and actual return on assets	19,563
Value of assets	138,298
Percentage of assets	14.1%
Experience gains / losses on liabilities	(512)
Present value of liabilities	161,310
Percentage of the present value of liabilities	-0.3%
Actuarial gains / losses recognised in STRGL	19,051
Present value of liabilities	161,310
Percentage of the present value of liabilities	11.8%

Further details on pension assets and liabilities are provided in note 14 to the balance sheet.

2002/03		2003/04	2003/04
Actual		Actual	Budget
£'000		£'000	£'000
	Expenditure		
4,713	Repairs and Maintenance	4,549	4,594
4,050	Supervision and Management	4,230	4,418
4,766	Capital Financing Costs	4,382	4,560
615	Void House Rents	684	696
62	Bad Debt Write Off	115	
8	Increase in Provision for Bad or Doubtful Debts		
588	Other expenditure	497	517
700	Contribution to Capital Financing Reserve	327	380
15,502	Total Expenditure	14,784	15,165
	Income		
13,842	Rent of houses (gross)	13,714	14,013
92	Non-dwelling Rents	88	100
168	Housing Support Grant	149	149
20	Decrease in Provision for Bad or Doubtful Debts	78	-
744	Other Income	939	903
14,866	Total Income	14,968	15,165
(636)	(Deficit) / Surplus for Year	184	-
1,151	Balance on Housing Revenue Account Brought Forward	423	423
41	Interest Earned on Balance	10	-
(133)	Contribution to General Fund	(143)	-
423	Balance on Housing Revenue Account Carried Forward	474	423

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £42.65 per week in 2003/04 (2002/03 £41.10)

2. Housing Stock

2002/03		2003/04
No		No
198	Sheltered Housing	198
3,251	Other Houses	3,059
1,589	Tenement Flats	1,559
1,272	Other Flats	1,232
6,310	Total Housing Stock	6,048

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2004 were £0.324m (31/3/2003 - £0.391m) and this equated to an average rent arrears per house of £54 (2002/03 - £62).

In accordance with the latest assessment of potential recovery and in order to reflect due prudence, the provision for bad debts has been adjusted to £0.189m (2002/03 - £0.234m); this represents an increase of £0.045m. The HRA share of the sundry debtor account provision for bad debts decreased by £0.033m.

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

2002/03		2003/04
Actual		Actual
£'000		£'000
44,686	Gross Council Tax Levied and Contributions in Lieu	46,151
	Less:	
(250)	Council Tax Benefits (Net of Government Grant)	(253)
(7,146)	Other Discounts and Reductions	(7,530)
(1,730)	Provision for Bad and Doubtful Debts	(1,786)
35,560	Total for 2003/04	36,582
823	Adjustment to Previous Years' Community Charge and Council Tax	837
36,383	Transfers to General Fund	37,419

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

1. Calculation of the Council Tax

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, i.e. Band D equivalents as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2003/04 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	£ 689.33
B	£27,000 - £35,000	78%	£ 804.22
C	£35,000 - £45,000	89%	£ 919.11
D	£45,000 - £58,000	100%	£ 1,034.00
E	£58,000 - £80,000	122%	£ 1,263.78
F	£80,000 - £106,000	144%	£ 1,493.56
G	£106,000 - £212,000	167%	£ 1,723.33
H	Over £212,000	200%	£ 2,068.00

NOTES TO THE COUNCIL TAX INCOME ACCOUNT – Continued
2. Calculation of the Council Tax Base 2003/04

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	8,084	9,484	9,374	5,468	6,578	3,402	2,256	211	44,857
Less - Exemptions / Deductions	1,020	644	1,162	415	524	185	119	32	4,101
- Adjustment for Single Chargepayers	917	964	727	400	338	145	80	5	3,576
Effective Number of Properties	6,147	7,876	7,485	4,653	5,716	3,072	2,057	174	37,180
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	4,098	6,126	6,653	4,653	6,986	4,437	3,428	348	36,729
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									518
Nominal Tax Yield									37,247
Less Provision for Non-Collection - 5.4%									2,011
Council Tax Base 2003/04 - Number of Band D equivalents									35,236

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

2002/03		2003/04
Actual		Actual
£'000		£'000
32,362	Gross rates levied	27,691
	Less:	
(2,613)	Reliefs and other deductions	(2,182)
(21)	Payment of interest	(300)
118	Provision for bad and doubtful debts	(389)
29,846	Net Non-domestic Rate Income	24,820
5	Adjustments for years prior to introduction of national non-domestic rate pool	2
(20)	Contribution from / (to) national non-domestic rate pool	7,711
29,831	Guaranteed Rate Income	32,533

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

2002/03		2003/04
£		£
3,515,190	Industrial and freight transport subjects	3,392,020
37,775,337	Public utilities including Telecomms, Rail, Gas and Electricity Companies	36,355,931
	Commercial subjects:	9,519,550
9,501,080	Shops	4,517,005
4,559,750	Offices	6,596,840
6,813,520	Hotels, Boarding Houses etc.	5,462,395
5,570,495	Others	
7,967,519	Formula valued subjects	7,951,411
75,702,891	Total Rateable Value	73,795,152

2. Non-Domestic Rate Charge

2002/03		2003/04
Pence		Pence
45.8p	Rate Per Pound Properties under £10,000	47.8p
47.8p	Rate Per Pound Properties over £10,000	47.8p
0.0p	Supplementary Rate Per Pound for Properties over £25,000	0.6p

3. Calculation of Rate Charge for Each Property

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

2002/03 £'000	Note	2003/04 £'000
Fixed Assets		
	1.1	
64,696	- Council Dwellings	64,725
167,972	- Other Land and Buildings	163,092
4,208	- Vehicles, Plant and Equipment	4,184
58,310	- Infrastructure Assets	63,304
124	- Community Assets	329
	1.2	
380	- Vehicles, Plant and Equipment Under Construction	212
7,297	- Infrastructure Under Construction	9,801
2,582	- Buildings Under Construction	3,014
7,435	- Non-operational Land and Buildings	13,648
313,004	Total Fixed Assets	322,309
418	Deferred Charges	559
9,598	Long Term Debtors	11,667
323,020	Total Long Term Assets	334,535
Current Assets		
743	- Stock and Work in Progress	652
11,609	- Debtors	11,298
2,000	- Investments	-
8,097	- Cash at Bank and in Hand	850
345,469	Total Assets	347,335
Current Liabilities		
(580)	- Short Term Borrowing	(3,702)
(28,760)	- Creditors	(34,370)
(2,978)	- Bank Overdraft	(3,670)
313,151	Total Assets less Current Liabilities	305,593
(216,923)	Long Term Borrowing	(192,574)
(239)	Deferred Covenant Liability	-
(417)	Provisions	(843)
-	Liability related to defined benefit pension scheme	(23,011)
95,572	Total Assets less Liabilities	89,165
Capital Reserves:		
81,357	- Fixed Asset Restatement Reserve	84,432
(5,926)	- Capital Financing Reserve	214
400	- Useable Capital Receipts Reserve	400
11,751	- Deferred Government Grants and Contributions	13,238
905	- Earmarked Reserves	809
	- Pensions Reserve	(23,011)
Revenue Reserves:		
5,707	- General Fund	11,781
423	- Housing Revenue Account Balance	474
111	- DSO/DLO's	-
844	- Earmarked Reserves	828
95,572	Total Net Worth	89,165



Bruce West
 Head of Strategic Finance
 June 15, 2004

1.1 Movement on Operational Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total 2003/04 £'000	Total 2002/03 £'000
Certified Valuation at 31/3/03	64,696	190,766					
Accumulated Depreciation	-	(16,212)					
Accumulated Impairment	-	(6,582)					
Net Book Value at 31/03/03	64,696	167,972	4,208	58,310	124	295,310	287,799
<i>Movement in 2003/04</i>							
Expenditure in Year	3,403	3,465	1,090	2,145	143	10,246	10,682
Disposals	(2,916)	(442)	(87)			(3,445)	(2,726)
Revaluations	1,697	4,497		9		6,203	11,142
Transfers (to) / from Non Operational Assets		(5,439)	387	5,906	62	916	1,117
Depreciation	(2,155)	(6,961)	(1,414)	(3,066)		(13,596)	(12,704)
Impairment						-	-
Net Book Value at 31/03/04	64,725	163,092	4,184	63,304	329	295,634	295,310

1.2 Movement on Non-Operational Fixed Assets

	Vehicles Plant & Equipment Under Construction £'000	Infrastructure Under Construction £'000	Buildings Under Construction £'000	Non Operational Land & Buildings £'000	Total 2003/04 £'000	Total 2002/03 £'000
Certified Valuation at 31/3/03				7,435		
Accumulated Depreciation				-		
Accumulated Impairment				-		
Net Book Value at 31/03/03	380	7,297	2,582	7,435	17,694	14,384
<i>Movement in 2003/04</i>						
Expenditure in Year	219	8,495	860	6	9,580	6,648
Disposals		(85)		(575)	(660)	(85)
Revaluations				977	977	(2,136)
Transfers (to) / from Operational Assets	(387)	(5,906)	(428)	5,805	(916)	(1,117)
Depreciation					-	-
Impairment					-	-
Net Book Value at 31/03/04	212	9,801	3,014	13,648	26,675	17,694

1.3 Valuation of Operational Fixed Assets

Council dwellings were revalued at 31 March 2004 by the District Valuer for Scotland South West, Brian J Kerr, F.R.I.C.S., on the basis of Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

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

During the current year, revaluations on operational land and buildings were carried out by Nicholas S. Allan, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies on pages 7 to 9.

The following statement shows the progress of the Council's rolling programme for the revaluation of operational fixed assets:

	Council Dwellings	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Total 2003/04
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historical cost			4,184	63,304	329	67,817
Valued at current value in:						
2003/2004	64,725	16,867				81,592
2002/2003		30,233				30,233
2001/2002		52				52
2000/2001		32,490				32,490
1999/2000		83,315				83,315
Valuations inherited at 01/04/96		135				135
Total	64,725	163,092	4,184	63,304	329	295,634

1.4 Valuation of Non-Operational Fixed Assets

During the current year, revaluations on non-operational land and buildings were carried out by Nicholas S. Allan, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies on pages 7 to 9.

The following statement shows the progress of the Council's rolling programme for the revaluation of non-operational fixed assets.

	Vehicles Plant & Equipment Under Construction	Infrastructure Under Construction	Buildings Under Construction	Non Operational Land & Buildings	Total 2003/04
	£'000	£'000	£'000	£'000	£'000
Valued at historical cost	212	9,801	3,014		13,027
Valued at current value in:					
2003/2004				3,137	3,137
2002/2003				3,092	3,092
2001/2002				5,175	5,175
2000/2001				1,187	1,187
1999/2000				1,057	1,057
Valuations inherited at 01/04/96				-	-
Total	212	9,801	3,014	13,648	26,675

1.5 Fixed Assets Information on Assets Held at 31/3/04

	2003/04 No.		2003/04 No.
OPERATIONAL BUILDINGS		OPERATIONAL EQUIPMENT	
Administrative Buildings	50	Vehicles and Heavy Plant	296
Depots	32		
Social Work Homes for the Elderly	7	INFRASTRUCTURE ASSETS	
Social Work Children's Homes	5	Highways (miles)	1,406
Social Work Hostels	3	Bridges	954
Primary Schools	80	Car Parks	138
Secondary Schools	10	Vessels	5
Special Schools	3		
Nursery Schools	3	COMMUNITY ASSETS	
Halls	8	Play Areas	58
Sports Centres	1	Parks	25
Swimming Pools	4	Civic Regalia (Provosts' Chains)	4
Museums and Libraries	10	Civic Regalia (Baillies' Chains)	1
Community Centres	9	Cemeteries	125
Crematoria	1	War Memorials	54
Public Conveniences	75		
Travelling Persons Sites	3	COUNCIL DWELLINGS	5,943
Airports	1		

2. Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rate and council taxpayers. It is financed from borrowing and therefore the cost of the assets is effectively borne over a period of years. In 2003/04 gross capital expenditure totalled £23.922m, offset by capital income of £4.177m, as follows:

	31 March 2004 £'000	31 March 2003 £'000
Capital Investment:		
Operational Assets	10,246	10,682
Non-operational Assets	9,580	6,648
Deferred Charges	898	4,082
Other Capital Payments	3,112	545
Other Adjustments for Cash Accounting	86	(115)
Total Expenditure	23,922	21,842
Sources of Finance:		
Borrowing (S94 consent)	19,745	17,071
Capital Receipts	2,196	2,158
Government Grants and Other Contributions	1,638	1,309
Revenue Contributions	343	1,304
Total Financing	23,922	21,842

3. Assets Held Under Finance Leases

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

4. Movement in Deferred Charges

	Balance at 1 April 2003 £'000	Expenditure in year £'000	Written off to revenue in year £'000	Balance at 31 March 2004 £'000
Improvement Grants	-			-
Other	418	898	(757)	559
Total Deferred Charges	418	898	(757)	559

5. Long Term Debtors

	31 March 2004 £'000	31 March 2003 £'000
Loans Early Repayment Premium	10,203	7,944
House Loans	679	851
Waste PPP Historic Contamination Fund	785	803
Total Long Term Debtors	11,667	9,598

The "Loans Early Repayment Premium" represents the premium paid to the Public Works Loans Board and other external bodies upon the early redemption of debt. As part of a loans restructuring exercise, debt at a relatively high interest rate was replaced by new debt at a more attractive rate of interest. These costs associated with the early redemption of debt are charged to the Council's loans fund over the period of the new debt borrowed.

At the start of the PPP contract during the 2001/02 financial year, a joint bank account was set up with Shanks Group PLC. Only Shanks Group PLC can draw on this fund during the 25 year contract period, Argyll and Bute Council are required to keep the bank account balance "topped" up at £0.750m. At the end of the 25 year contract period the £0.750m will be available to Argyll and Bute Council.

The movement in the bank account balance during the year can be analysed as follows:

	£'000
Balance at 1 April 2003	803
Contribution from General Fund	(44)
"Top-up" payments during the year	-
Withdrawals by Shanks Group PLC	-
Interest earned on bank account	26
Balance at 31 March 2004	785

6. Debtors

		2003/04	£'000	2002/03	£'000
Arrears of Local Taxation	Council Tax	11,683		11,660	
	less: provision for bad debts	(11,091)		(10,773)	
			592		887
	Community Charge	7,697		7,812	
	less: provision for bad debts	(7,697)		(7,812)	
			-		-
	Non-domestic Rates	1,513		1,774	
	less: provision for bad debts	(1,327)		(1,518)	
			186		256
House Rents		253		264	
	less: provision for bad debts	(189)		(234)	
			64		30
Debtor Accounts		2,760		3,789	
	less: provision for bad debts	(411)		(621)	
			2,349		3,168
Government Grants			1,420		424
VAT Recoverable			2,349		1,989
Other Debtors			4,338		4,855
Total Debtors			11,298		11,609

7. Analysis of Borrowing

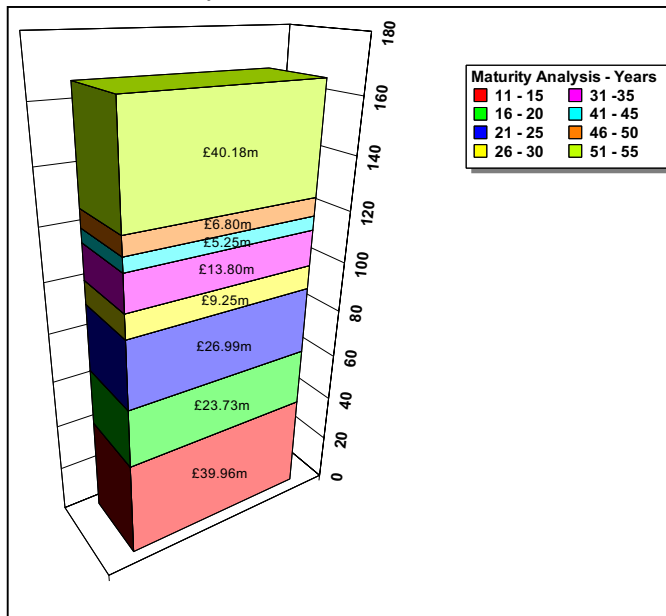
7.1 Source of Loan

	31 March 2004 £'000	31 March 2003 £'000
Public Works Loan Board	169,178	195,538
Money Market	25,755	20,580
EIB	830	963
Other Loans	513	422
Total Outstanding Loans	196,276	217,503

7.2 Maturity of Loans

	31 March 2004 £'000	31 March 2003 £'000
Borrowings repayable on demand or within 12 months	3,702	580
Borrowings repayable on demand or within 12 months	3,702	580
1 - 2 years	4,054	3,270
2 - 5 years	8,272	430
6 - 10 years	14,294	11,020
Over 10 years (see graph below)	165,954	202,203
Total Long and Medium Term Loans	192,574	216,923
Total Outstanding Loans	196,276	217,503

The following graph shows an additional analysis of how the £165.954m of loans, shown in the table above, is repayable.



8. Provisions

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.009m. Full provision for this amount has been made.

Liabilities have also arisen in respect of employees who will be made redundant as a result of restructuring. According to the SORP's (Statement of Recommended Practice) guidance on Provisions for Restructuring Costs: -

"The authority must also have raised valid expectations in those affected by announcing the features of the plan or actually starting to implement it. Allowable costs are restricted to costs that would not have been incurred if the restructuring had not taken place, less any costs associated with on-going activities."

8. Provisions Continued

Both these provisions comply with the requirements of Financial Reporting Standard 12 - "Provisions, Contingent Liabilities and Contingent Assets" (FRS 12) and meet the following criteria:

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

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
SRC Insurance Claims	(143)	43	(100)
Reorganisation Redundancy Costs	(274)	(49)	(323)
Teachers' Premature Retirement Scheme	-	(420)	(420)
Total Provisions	(417)	(426)	(843)

9. Analysis of Net Assets Employed

	As at 31 March 2004		
	General Fund £'000	HRA £'000	Total £'000
Assets			
Fixed Assets	257,584	64,725	322,309
Deferred Charges	559	-	559
Long Term Debtors	11,667	-	11,667
Stock and Work in Progress	652		652
Debtors	11,298		11,298
Investments	-	-	-
Cash at Bank and in Hand	850	-	850
Liabilities			
Short Term Borrowing	(3,702)		(3,702)
Creditors	(34,370)		(34,370)
Bank Overdraft	(3,670)	-	(3,670)
Long Term Borrowing	(192,574)		(192,574)
Deferred Covenant Liability	-	-	-
Provisions	(843)	-	(843)
Liability Related to Defined Benefit Pension Scheme	(23,011)	-	(23,011)
Total Net Assets Employed	24,440	64,725	89,165

10. Contingent Gains and Liabilities

The Council has inherited a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of these applications is unknown at this time, although there is the possibility that the Council may lose at least some of these cases. No financial provision has been made in the 2003/2004 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

The Council has entered into a Public Private Partnership with Shanks Group PLC for the waste management of landfill sites. Under this agreement, the Council retains an element of residual responsibility in respect of specific environmental rectification which may be necessary in certain circumstances. The Council is of the view that any future liabilities arising from these circumstances should be covered by grants funding.

11. Commitments Under Capital Contracts

At 31 March 2004, the Council had commitments on capital contracts of £9.845m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

	£'000
Administration Buildings and Equipment	14
Information Technology	-
Development and Environment Services	873
Education	191
Social Work	15
Roads	7,955
Housing	-
Miscellaneous	797
	9,845

12. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 75 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet. The funds have not been subject to an independent audit.

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

	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Campbeltown Common Good Fund	25	37	763	763
Oban Common Good Fund	45	25	807	807
Inveraray Common Good Fund	-	-	1	1
Lochgilphead Common Good Fund	-	-	5	5
Dunoon Common Good Fund	-	-	7	7
Rothesay Common Good Fund	16	4	130	130
Argyll Education Trust	12	9	225	225
GM Duncan Trust	3	2	76	76
McDougall Trust	16	-	476	476
Various Other Trust Funds	15	2	406	406
Total Trust Funds	132	79	2,896	2,896

Purpose of Common Good Funds:

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

Purpose of Trust Funds:

GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull. Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from the Corporate Accounting Section of the Finance Department.

13. European Monetary Union

As at 31 March 2004, the Council had incurred no expenditure and had made no commitments in respect of the costs associated with the introduction of the Euro. Prior to entry into full Euro trading, a significant review of all systems will require to be undertaken. Consequently an estimate of costs is not available at this stage.

14. Pension Assets and Liabilities - FRS 17 Disclosure

In accordance with Financial Reporting Standard No 17 - "Retirement Benefits" (FRS 17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in note 3 of the Accounting Policies, the Council participates in two formal schemes, the Local Government Superannuation Scheme, which is administered by Strathclyde Pension Fund and the Teachers' Scheme. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Executive. In addition, the Council has liabilities for discretionary payments outside the main schemes.

14. Pension Assets and Liabilities – FRS 17 Disclosure Continued

The net pension asset of Argyll and Bute Council as at 31 March 2004 can be calculated as follows:

	31 March 2004	31 March 2003
	£'000	£'000
Estimated Employer Assets (A)	138,298	103,938
Present Value of Scheme Liabilities	147,706	132,875
Present Value of Unfunded Liabilities	13,603	11,966
Total Value of Liabilities (B)	161,309	144,841
Net Pension Asset (A-B)	(23,011)	(40,903)

Assets of the employer's share of the fund are valued at fair value, principally market value for investments, and consist of:

	Long Term Return % per annum	Fund Value at 31 March 2004 £'000	Fund Value at 31 March 2004 %	Expected Return per annum £'000
Assets (Employer Share)				
Equities	7.7%	101,059	73.07	7,782
Bonds	5.1%	19,686	14.23	1,004
Properties	6.5%	11,793	8.53	767
Cash	4.0%	5,761	4.17	230
Total	7.1%	138,299	100.00	9,783

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2002, with the next formal valuation due at 31 March 2005. Hymans Robertson has assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2005 remains substantially stable with new entrants replacing any leavers. The assumptions used by Hymans Robertson (Independent Actuaries) at 31 March 2004 are as follows:

	31 March 2004	31 March 2003
	% per annum	annum
Price Increases	2.9%	2.5%
Salary Increases	4.4%	4.0%
Pension Increases	2.9%	2.5%
Discount Rate	6.5%	6.1%

Movement in Surplus Deficit in the Year

	Year to 31 March 2004 £'000
Surplus / (deficit) at beginning of the year	(40,903)
Current service cost	(6,054)
Employer contributions	5,975
Contributions in respect of Unfunded Benefits	982
Other Income	-
Other outgoings (e.g. expenses, etc)	-
Past service costs	(23)
Impact of settlements and curtailments	(773)
Net return on assets	(1,266)
Actuarial gains / (losses)	19,051
Surplus / (deficit) at end of the year	(23,011)

Capital Reserves	Note 1	Note 2	Useable Capital Receipts Reserve £'000	Note 3	Note 4	Total £'000			
	Fixed Asset Restatement Reserve £'000	Capital Financing Reserve £'000		Deferred Gov't Grants £'000	Earmarked Reserves £'000				
	Balance at 1 April 2003	81,357		(5,926)	400		11,751	905	88,487
	Net Surplus/(Deficit) for year			109			1,487	(96)	1,500
Prior year adjustments						-			
Unrealised gains/(loss) from revaluation of fixed assets	7,180					7,180			
Impairment gains/(losses) arising from revaluations						-			
Other Adjustments	-	247				247			
Effects of disposals of fixed assets:									
Cost or value of assets disposed of	(4,105)					(4,105)			
Proceeds of disposals		5,784				5,784			
Net Surplus/(Deficit)	(4,105)	5,784	-			1,679			
Balance at 31 March 2004	84,432	214	400	13,238	809	99,093			

Revenue Reserves (Note 5)					Note 4	Total £'000	
	General Fund £'000	HRA Balance £'000	DLO/ DSO £'000	Earmarked Reserves £'000			
	Balance at 1 April 2003	5,707	423	111	844		7,085
	Net Surplus/(Deficit) for year	6,074	184		(16)		6,242
Revenue Interest	-	10		-	10		
Other Adjustments / Reserve Transfers		(143)	(111)	-	(254)		
Balance at 31 March 2004	11,781	474	-	828	13,083		

NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON RESERVES

1. Fixed Asset Restatement Reserve

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

	General Fund £'000	HRA Balance £'000	Total £'000
Balance at 1 April 2003			81,357
Surplus on revaluations, etc	5,483	1,697	7,180
Disposal of Fixed Assets	(1,189)	(2,916)	(4,105)
Balance at 31 March 2004			84,432

NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON RESERVES CONTINUED

2. Capital Financing Reserve

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

	General Fund £'000	HRA Balance £'000	Sub Total £'000	Total £'000
Balance at 1 April 2003			(5,926)	(5,926)
Appropriations:				
Capital Financed from Current Revenue	16	327	343	
Repayment of External Loans	11,885	1,614	13,499	
Depreciation Write-off	(11,442)	(2,155)	(13,597)	
Deferred Government Grants Write-off	621	-	621	
Deferred Charges Write-off	(757)	-	(757)	109
Proceeds of Disposals				5,784
Other Adjustments				247
Balance at 31 March 2004				214

3. Deferred Government Grants

The Deferred Government Grants Account represents the balance of grants applied to the financing of fixed assets, awaiting amortisation to the asset management revenue account to match depreciation on the relevant assets. As with the Fixed Asset Restatement Reserve it does not represent resources available to the authority.

	£'000
Balance at 1 April 2003	11,751
Grants received during the year to finance capital projects	2,108
Credit to revenue account during the year	(621)
Balance at 31 March 2004	13,238

4. Earmarked Reserves

	Balance at 31 March 2003 £'000	Contribution from CRA £'000	Interest Earned £'000	Appropriation to CRA £'000	Balance at 31 March 2004 £'000
Capital Reserves:					
Repairs and Renewals - Education	808	523	23	(545)	809
DLO Capital Fund	97	-	-	(97)	-
	905	523	23	(642)	809
Revenue Reserves:					
Repairs and Renewals - Vehicles	41	-	2	-	43
Repairs and Renewals - Land Contamination	803	26	-	(44)	785
	844	26	2	(44)	828

5. Revenue Reserves

Revenue reserves are made up of the annual movements in the Consolidated Revenue Account and Housing Revenue Account. Revenue reserves can be used to meet both capital and revenue expenditure.

NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON RESERVES CONTINUED

6. Public Private Partnership Surplus

The General Fund balance of £11.781m includes a surplus of £0.060m. This relates to the Waste Management PPP where there was a surplus of funding over expenditure in the 2003/2004 financial year. The following analysis provides more detail on how the surplus for the year was arrived at:

Expenditure	£'000
Payment under the contract	4,496
Historic Contamination	-
Total Expenditure	4,496
<hr/>	
Funding	
Argyll and Bute Council Revenue Budget	1,012
Level Playing Field Support	1,290
Strategic Waste Fund	1,654
Capital Virement	600
Total Funding	4,556
<hr/>	
2003/04	60
<hr/>	

2002/03		Note	2003/04
Actual	REVENUE ACTIVITIES		Actual
£'000	<i>Cash outflows</i>		£'000
98,854	Cash Paid for and on Behalf of Employees		106,820
87,722	Other Operating Cash Payments		107,607
8,943	Housing Benefit Paid Out		7,243
2,582	National Non-domestic Rate Payments to National Pool		995
198,101	Total Cash Outflows		222,665
	<i>Cash inflows</i>		
6,641	Rents (after rebates)		6,623
32,023	Council Tax Income		36,059
30,110	Non-domestic Rate Receipts		30,078
22	Community Charge		
101,529	Revenue Support Grant		126,569
22,270	DSS Grants for Benefits		21,278
9,850	Other Government Grants	1	7,759
18,013	Cash Received for Goods and Services		23,935
9,134	Other Operating Cash Receipts		3,784
229,592	Total Cash Inflows		256,085
31,491	Net Cash Inflow / (Outflow) From Revenue Activities	2	33,420
	SERVICING OF FINANCE		
	<i>Cash outflows</i>		
14,833	Interest paid		14,782
14,833	Total Cash Outflows		14,782
	<i>Cash inflows</i>		
208	Interest received		372
208	Total Cash Inflows		372
(14,625)	Net Cash Inflow / (Outflow) From Servicing of Finance		(14,410)
	CAPITAL ACTIVITIES		
	<i>Cash outflows</i>		
10,994	Purchase of Fixed Assets		11,342
6,679	Other Capital Cash Payments		4,606
17,673	Total Cash Outflows		15,948
	<i>Cash inflows</i>		
5,268	Sale of Fixed Assets		5,783
733	Capital Grants Received		2,099
364	Other Capital Cash Receipts		344
6,365	Total Cash Inflows		8,226
(11,308)	Cash Inflow (Outflow) From Capital		(7,722)
5,558	Net Cash Inflow / (Outflow) Before Financing		11,288
	FINANCING		
	<i>Cash outflows</i>		
11,432	Repayments of Amounts Borrowed		43,073
11,432	Total Cash Outflows		43,073
	<i>Cash inflows</i>		
14,918	New Loans Raised		21,846
14,918	Total Cash Inflows		21,846
3,486	Net Cash Inflow / (Outflow) From Financing		(21,227)
9,044	Net Increase / (Decrease) in Cash	3	(9,939)

1. Other Government Grants

2002/03 £'000		2003/04 £'000
168	Housing Support Grant	149
318	Public Transport Grant	342
270	Pre-school Education Grants	112
4,299	National Priorities Action Fund	1,974
76	Special Education	136
236	Gaelic Education Grants	255
1,134	Other Educational Grants	1,261
273	Children's Change Fund	390
211	DWP Other Grants	470
533	Social Inclusion Partnership	475
1,676	Strategic Waste Fund	1,792
656	Other Grants (e.g. Civil Defence)	403
9,850	Total "Other Government Grants"	7,759

2. Net Cash Flow Reconciliation

2002/03 £'000		2003/04 £'000
5,220	Surplus/(Deficit) for Year	6,074
(636)	Add back: Transfer to HRA Balance	184
4,584		6,258
(1,992)	Movements in Reserves	(205)
24,624	Adjustments Not Involving Movement in Funds	20,786
1,085	(Increase)/Decrease in Stocks	91
1,323	(Increase)/Decrease in Debtors	385
1,867	Increase/(Decrease) in Creditors	6,105
31,491	Revenue Activities Net Cash Flow	33,420

3. Analysis of Net Debt

	As at 31 March 2004 £'000	As at 1 April 2003 £'000	Cash Flow £'000
Investments	-	2,000	(2,000)
Cash at Bank and in Hand	850	8,097	(7,247)
Bank Overdraft	(3,670)	(2,978)	(692)
Net Increase / (Decrease) in Cash	(2,820)	7,119	(9,939)
Debt due within one year	(3,702)	(580)	(3,122)
Debt due after one year	(192,574)	(216,923)	24,349
Increase / (Decrease) in Debt Financing	(196,276)	(217,503)	21,227
Movement in Debt in Period	(199,096)	(210,384)	11,288

4. Reconciliation of Movement in Cash to Net Debt

2002/03 £'000		2003/04 £'000
9,044	Increase / (Decrease) in Cash in Period	(9,939)
(3,487)	Increase / (Decrease) in Debt Financing	21,227
<u>5,557</u>	Movement in Debt in Period	<u>11,288</u>
(215,941)	Net Debt as at 1 April 2003	(210,384)
<u>(210,384)</u>	Net Debt as at 1 April 2004	<u>(199,096)</u>

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the authority as at 31 March 2004 and its income and expenditure for the year ended on that date.

In preparing this statement of accounts, the Head of Strategic Finance has:

- ◆ selected suitable accounting policies and applied them consistently;
- ◆ made judgements and estimates that were reasonable and prudent;
- ◆ complied with the Code of Practice.

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2004.



Bruce West
Head of Strategic Finance
June 15, 2004

This statement is given in respect of the statement of accounts for Argyll and Bute Council. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular the system includes:

- ◆ comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Council;
- ◆ regular reviews by the Council of periodic and annual financial reports which indicate financial performance against the forecasts;
- ◆ setting targets to measure financial and other performance; and
- ◆ the preparation of regular financial reports which indicate actual expenditure against the forecasts.

Argyll and Bute Council has an internal audit function, which operates to standards defined in the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work of internal audit is informed by an analysis of the risk to which the Council is exposed, and annual internal audit plans are based on the analysis. The Council's Audit Committee endorses the analysis of risk and the internal audit plans. At least annually, the Internal Audit Manager provides the Audit Committee with a report on internal audit activity in the Council. The report includes the Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Council's systems of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by:

- ◆ the work of Directors and managers within the Council;
- ◆ the work of internal auditors as described above; and
- ◆ the external auditors in their annual audit letter and other reports.

During 2003/2004 Internal Audit has identified a number of areas of potential weakness in the systems of financial control. They are:-

- Following internal reorganisation, revisions to Contract Standing Orders and Financial Regulations have to be formalised. This includes the required changes previously identified in respect of capital control guidelines. These areas are being addressed.
- Formalisation of and improvement to capital project management disciplines were identified last year as areas where action was required to address potential weaknesses. These are currently being addressed by management.
- A risk register has been prepared. However the review of this register and development of a risk management strategy has been delayed. This will be taken forward by the Risk and Governance Manager once appointed.
- A number of fundamental weaknesses were identified in the management of operating leases.
- A number of fundamental weaknesses were identified in the accounting for property assets.

Management have agreed action plans with Internal Audit, which once implemented, will address the potential weaknesses identified.

In addition attention is drawn to the following matters:

- The Council has still to fully develop its approach to asset management strategy and planning. This is a key requirement to underpin borrowing in terms of the prudential code. Arrangements are in place to address this.
- During 2003-04 the Council carried out an internal restructuring. Major business and organisation change of this nature always represents a potential risk to the control environment. However the year end outturn has resulted in a generally satisfactory position and Internal Audit's annual report allows me to take comfort, that other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.



Bruce West
Head of Strategic Finance
June 15, 2004

Disaster Recovery Project**Audit Committee**

Head of ICT and Financial Services

Project Update

Following the tender process outlined in my report to members of 29th January, the Disaster Recovery contract was awarded to Synstar Business Continuity on 29th March 2004. Synstar are a specialist Disaster Recovery and Business Continuity provider based in Livingston. They have a worldwide network of over 50 centres in 11 countries and have been providing this type of service for 22 years and successfully supported over 500 client disasters.

The contract applies to those servers originally identified by the SMT as key servers. It provides replacement equipment of similar specification to either the affected server site or the Disaster Recovery facility in Ardrishaig.

After the award of contract, a 90 day validation period commenced. During this time equipment and procedures of both Synstar and ICT were examined and tested.

The validation period culminated in a simulated dual server failure test on 21st – 22nd June 2004, which was carried out in the Disaster Recovery facility in Ardrishaig. The servers involved were the primary Kilmory e-mail server and the Campbeltown payroll/personnel server. Both servers were successfully restored well within the parameters set out in the Disaster Recovery plan and tested by users of these systems. The validation period and the subsequent testing were completed satisfactorily and a copy of the certificate is appended.

Building work on the Disaster Recovery facility, requested by Zurich Insurance, to enhance the security of the building is progressing. The alarm has been upgraded and Property have completed the design phase of the building work. It is stressed that the outstanding building security work does not directly affect the functionality of the facility nor has any impact on the operation of the live Disaster Recovery service from Synstar.

The contract is now considered fully operative. Exercises will be carried out at six monthly intervals to hone the response of the Disaster Recovery team and the Council's Internal Audit partners, KPMG, have agreed to audit the service in November and December of this year. Further details and all project documentation are available in Exchange, public folders under IT Dept and Disaster Recovery.

Judy Orr

Head of ICT and Financial Services

6th August 2004

For further information please contact: Gerry Wilson x8936

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Synstar Business Continuity *Certificate*

COMPANY NAME *Argyll & Bute Council*

EQUIPMENT LOCATION *Helensburgh*

EQUIPMENT *1 x Sun E450 Dual Ultrasparc II
248Mhz CPU's, (Sun Unix 5.7)
1 x Single Xeon PIII 2Ghz PC
Fileserver.*

DATE *21st – 22nd June 2004*

TEST SITE *Onsite @ Ardrishaig*

This document certifies that the above named company carried out a successful Recovery Test of the operating system and applications on the equipment supplied by Synstar Business Continuity Limited.



Dennis Thomas
*Director of Centre of Excellence
Synstar Business Continuity*



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**ARGYLL AND BUTE COUNCIL
FINANCE****AUDIT COMMITTEE
27 AUGUST 2004**

INTERNAL AUDIT PARTNERSHIP

1 INTRODUCTION

- 1.1 The Council entered a 3 year partnership for internal audit with KPMG in February 2002. The Council requires to consider options available on expiry of the current partnership. This report outlines the approach proposed for giving consideration to this.

2 RECOMMENDATION

- 2.1 The Audit Committee agree the approach outlined in this paper.

3 DETAIL

- 3.1 Following the initial review of internal audit by Audit Scotland and the establishment of an audit committee it was agreed to enter into a 3 year partners for internal audit. In February 2002 KPMG were appointed as our internal audit partners for a 3 year period. The main objective of the partnership was to move the Council into band 1 in terms of compliance with the Code of Practice on Internal Audit within a 3 year period.

- 3.2 Band 1 status has been achieved. This is confirmed by the follow-up review on internal audit by Audit Scotland. The current partnership ends in February 2005. There are still areas where further development is required and an action plan to address these is being progressed. However, with the relatively small size of the Council's internal audit team there is a lack of specialist skills, in particular areas e.g. IT audit. This together with the resources available within a major accountancy firm for ongoing development and support suggest it is worthwhile to consider some form of further partnership. Audit Scotland in their follow-up review have advocated partnership arrangements and recommend Councils carry out an options appraisal exercise on the use of a partnership.

- 3.3 Approval of the Strategic Policy Committee (SPC) to appoint consultants (this is in the nature of consultancy contract) is required where the cost exceeds £5,000. Approval will be sought from the SPC on 7 October 2004. Acceptance of contracts over £100,000 requires approval of the SPC. Based on the timetable in paragraph 3.4 below the Audit Committee of 4 March 2005 can make a recommendation to the SPC on 17 March 2005.

3.3 In order to take this issue forward the following action is proposed.

<u>Timescale</u>	<u>Action</u>
September/October	- Carry out an evaluation of partnership with KPMG
September/October	- Assess scope of further support/development regime for internal audit and options for delivery
September/October	- Prepare specification, tender documentation and evaluation criteria for a further partnership
7 October	- Obtain approval of SPC for consultancy contract exceeding £5,000.
3 December	- Report outcome of evaluation, proposed scope of a new partnership and tendering proposals to Audit Committee
December/January	- Invite tenders (4 weeks return period)
January/February	- Evaluate tenders received (4 week period)
4 March	- Report outcome of tendering exercise to Audit Committee with recommendation
17 March	- Recommendation to SPC on preferred partner.
March	- New partnership commences.

Bruce West
 Head of Strategic Finance
 12 August 2004
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