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Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

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25 May 2005

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 3 JUNE 2005** at **2:30 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST (IF ANY)**

3. **MINUTES**
    Audit Committee 4 March 2005 (Pages 1 - 6)

4. **STRATHCLYDE PENSION FUND - FURTHER INFORMATION**
    Report by Head of Strategic Finance (Pages 7 - 8)

5. **MAINTAINING SCOTLAND'S ROADS**
    Report by Internal Audit Manager (Pages 9 - 20)

6. **EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004-2005**
    Report by Internal Audit Manager (Pages 21 - 42)

7. **ANNUAL INTERNAL AUDIT REPORT 2004-2005**
    Report by Internal Audit Manager (Pages 43 - 58)

8. **INTERNAL FINANCIAL CONTROL STATEMENT 2004-2005**
    Report by Internal Audit Manager (Pages 59 - 62)

9. **ADAPTING TO THE FUTURE 2003-2004**
    Report by Internal Audit Manager (Pages 63 - 68)

AUDIT COMMITTEE

Councillor Donald MacMillan
Councillor Gary Mulvaney (Chair)
Ian M Ross
Christopher Valentine

Councillor John McAlpine
Councillor Elaine Robertson
Councillor John Tacchi

Contact: Fiona McCallum   Tel. No. 01546 604401

**MINUTES of MEETING of AUDIT COMMITTEE held in the MEMBERS' ROOM, KILMORY, LOCHGILPHEAD
on FRIDAY, 4 MARCH 2005**

Present: Councillor Gary Mulvaney (Chair)

Councillor Donald MacMillan   Councillor Elaine Robertson
Councillor John Tacchi   Ian Ross

Attending: Charles Reppke, Head of Democratic Services and Governance
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Steve Keightley, KPMG
Angela Cassels, Audit Scotland
Ian Bell, Audit Scotland
David Jamieson, Audit Scotland

Apologies: Councillor John McAlpine
Christopher Valentine

The Chair welcomed everyone to the meeting and a special welcome was extended to Angela Cassels who had replaced David MacConnell as Auditor for the Council.

1. **MINUTES**

   The minutes of the Audit Committee of 3 December 2004 were approved as a correct record.

2. **ADAPTING TO THE FUTURE 2003-2004**

   The Audit Committee at their meeting on 3 December 2004 requested that the Heads of Integrated Care and Secondary Education provide the Committee with a date for production of the policy position paper.

   DECISION

   1. To note that the Heads of Integrated Care and Secondary Education would have a policy position paper prepared by 31 March 2005 and in addition an Action Plan would be completed with implementation dates signed by both Heads of Service for any remaining recommendations.

   2. To note that progress will continue to be monitored and reported on by Internal Audit.

   (Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

3. **AUDIT SCOTLAND REVIEW OF INTERNAL AUDIT (FOLLOW UP)**

   In July 2004, Audit Scotland had issued national and local reports on their review findings, which concentrated on assessing Internal Audit Compliance of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government. Details of the progress made regarding the implementation of local report recommendations are also outlined.

DECISION

1. To note that the Council's Constitution in its new format would be considered by the Council at a meeting on 8 April 2005.

2. To note that the work of Internal Audit in this respect was now complete.

(Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

4. **EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004-2005**

A report setting out the results from a review performed by Internal Audit for recommendations due to be implemented by 31 December 2004 was considered.

Concerns were expressed about the time taken to complete the Ferry Services Review, it being noted that the original timescale for completion in September 2004 had now slipped to May 2005.

DECISION

1. To note the memo issued to the Strategic Directors emphasising the importance of agreeing realistic implementation dates with auditors which will also provide the Audit Committee with a measured basis against which to monitor implementation progress.

2. To instruct the Head of Roads and Amenity Services to give a verbal report to the next meeting of the Audit Committee explaining the reasons for slippage on the Ferry Services Review.

3. To request that the Chief Executive advise the Audit Committee of the reasons for the delay in the Ferry Services Review and to confirm whether completion of the Review could be brought forward as it had implications for the Capital Budget, meeting on 17 March 2005.

(Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

5. **HMIE REPORT 2002-2003**

Internal Audit had performed a review regarding the progress made by Community Services Departmental Management in the implementation of both the key and main report recommendations contained in the report "Moving to Mainstream – The Inclusion of Pupils with Special Education Needs in Mainstream Schools".

Decision

To note the contents of the report and that Internal Audit will continue to monitor progress by the Community Service Departmental Management regarding the issues raised in both the HMIE summary and main reports.

(Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

6.   **KPMG - FINANCE TRAINING FOR ELECTED MEMBERS**

The Audit Committee, at the meeting on 3 December 2004, requested that arrangements be made by the Head of Strategic Finance for a 2 hour training session to be delivered by KPMG for elected members covering Finance for Non Finance Managers. Details of the issues that KPMG would cover were also outlined.

DECISION

1. Agreed the topics to be covered in the training session, which would take place on 22 March 2005.

2. To request that the principles of how to read Council Financial reports be covered under topics 3 and 4 detailed in the report.

3. To extend an invitation to the training day to the lay members of the Audit and Standards Committees.

(Reference: Report by Internal Audit Manager dated 3 February 2005, submitted).

7.   **MAINTAINING SCOTLAND'S ROADS**

Audit Scotland issued a National Report towards the end of November 2004 entitled "Maintaining Scotland's Roads", which contained the findings of the recent study of the steps taken by the Scottish Executive and Council to monitor the condition of Scotland's road network and to manage structural maintenance. The study was undertaken as a single exercise covering both trunk roads and Council maintained roads. A copy of the Key Findings report was considered.

Decision

1. To note the contents of the report and request this be followed up by internal audit.

2. To congratulate the Head of Roads and Amenity Services on his quick response to the report's findings.

3. To ask the Strategic Policy Committee if they are satisfied that the Council has the necessary resources to address the issues highlighted in the report and if not whether they have sought, or intend to seek additional funds, from the Scottish Executive to assist to deliver the actions outlined in the report.

(Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

8.   **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2004-2005**

Consideration was given to an interim report detailing the audit work performed by Internal Audit up to 31 December 2004 and the progress of the Annual Audit Plan.

Decision

To approve the progress made with the Annual Audit Plan for 2004-2005.

(Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

9.   **RECENT EXTERNAL AUDIT ISSUED REPORTS 2003-2004**

A report containing an executive summary and action plan for a new report issued by Audit Scotland since the last Audit committee was considered together with details of the progress made by management in implementing the report's recommendations.

Decision

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

(Reference: Report by Internal Audit Manager dated 7 February 2005, submitted).

10.   **STRATEGIC AUDIT PLAN 2005-2008**

Consideration was given to the Strategic Audit Plan for 2005-2008, prepared in consultation with KPMG, and the Annual Audit Plan for 2005-2006.

Decision

To approve the Strategic Audit Plan 2005-2008 and the Annual Audit Plan for 2005-2006.

(Reference: Report by Internal Audit Manger dated 7 February 2005, submitted).

11.   **ANNUAL ACCOUNTS PROGRESS AND TIMETABLE**

A report advising the Audit Committee on the plans in place for financial year end 31 March 2005 and the preparation of the Council's annual accounts for 2004-2005 was considered.

Decision

1.   To note that plans are in place to prepare the Council's annual accounts consistent with the Accounting Code of Practice.

2.   That the Head of Strategic Finance submit the annual accounts to Council prior to 30 June 2005 in line with the Scottish Executive's requirements.

(Reference: Report by Head of Strategic Finance dated 10 February 2005, tabled).

12.   **OVERVIEW OF LOCAL GOVERNMENT PENSIONS**

The Audit Committee, at their meeting on 3 December 2004 expressed concerns regarding the pension fund disclosures within the 2004-2005 annual accounts. Strategic Finance prepared a report to address these concerns and also the general background to the administration and management arrangements governing the Strathclyde Pension Fund.

Decision

1.   To note the contents of the very detailed report and commend Chris Dalgarno-Platt for its production.

2. To request that a staff member in Strategic Finance be responsible for monitoring the outputs from the Fund, ensuring that senior staff and Council Members are kept informed of such issues.

3. To ask the Head of Strategic Finance to seek clarification from the Head of Pensions at Glasgow City Council on how the review of the Fund's Sub Committee will be carried out and what the existing structure of the Sub Committee is.

(Reference: Report by Head of Strategic Finance, submitted).

13. **AUDIT PLANNING MEMORANDUM 2004-2005**

Angela Cassels, Audit Scotland, outlined the Audit Planning Memorandum for the 2004-2005 Audit, which set out the Audit Responsibilities and Approach and key risks and planned activity in respect of the Financial Statements Audit, Governance Audit, and Performance audit. Audit Fee and Output were also outlined.

Decision

1. To note the contents of the report and that Angela will bring back a report to the September meeting of the Audit committee prior to issue of the Audit Certificate.

2. To note that in view of the Audit of Best Value being undertaken by Audit Scotland that any further consideration of value for money issues be continued to await the receipt of the Audit report.

(Reference: Audit Planning Memorandum 2004-2005 dated 24 February 2005, submitted).

The Committee resolved in terms of Section 50(A) of the Local Government (Scotland) Act 1973, to exclude the public for the following item of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraphs 8 and 9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

Steve Keightley, Angela Cassels, Ian Bell and David Jamieson left the meeting prior to discussion of the following item of business.

14. **INTERNAL AUDIT PARTNERSHIP**

The Committee considered a report advising of the outcome of the tendering exercise for the Internal Audit Partnership.

Decision

Agreed the recommendation detailed in the report.

(Reference: Report by Head of Strategic Finance dated 4 March 2004, tabled).

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Agenda Item 4

ARGYLL AND BUTE COUNCIL   **AUDIT COMMITTEE**
STRATEGIC FINANCE   **3 JUNE 2005**

STRATHCLYDE PENSION FUND – FURTHER INFORMATION

1 INTRODUCTION

1.1 At the last Audit Committee it was remitted to the Head of Strategic Finance to nominate an officer to maintain a watching brief over Strathclyde Pension Fund and to find out from Glasgow City Council the process for the review they were proposing of the Pension Fund Sub Committee.

2 RECOMMENDATION

2.1 To note this report.

3 DETAIL

3.1 At the last Audit Committee it was remitted to the Head of Strategic Finance to nominate an officer to maintain a watching brief over Strathclyde Pension Fund. An officer has now been nominated.

3.2 The process for the review of the Pension Fund Sub Committee by Glasgow City Council is as follows:
   - The Sub Committee has already agreed to undertake the review.
   - At its next meeting on 9 June the Sub Committee will consider a report on representation strategy.
   - This report will also be submitted to the Strathclyde Pension Fund annual meeting on 24 June to which all stakeholders are invited.
   - After the meeting on 9 June the representation strategy will be issued for consultation.
   - Responses to the consultation will need to be returned to Strathclyde Pension Fund by mid August.
   - The Sub Committee will consider responses and approve the representation strategy at its September meeting.
   - The new representation arrangements will become effective from November.

Bruce West
Head of Strategic Finance
24 May 2005

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Agenda Item 5

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
3 JUNE 2005

MAINTAINING SCOTLAND'S ROADS

1. **SUMMARY**

   Audit Scotland issued a national report towards the end of November 2004 entitled, "Maintaining Scotland's Roads". The report contained the findings of a recent study of the steps taken by the Scottish Executive and councils to monitor the condition of Scotland's road network and to manage structural maintenance.

2. **RECOMMENDATIONS**

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

3. **DETAILS**

   3.1 The Audit Scotland report detailed 9 recommendations that it wished the Scottish Executive and councils to address. No implementation dates were assigned for the recommendations contained in the report. In December 2004, in response to the Audit Scotland report, the Head of Roads & Amenity Services prepared a report for the Strategic Policy Committee (SPC).

   3.2 The Head of Service report included an Action Plan which highlighted the current position, proposed action and timescale for implementation of the national report recommendations. In addition 3 further action points were added by the Head of Service to reflect dependent issues. A copy of the Head of Services report along with a copy of the Audit Scotland, Key Findings report was provided for the Audit Committee on the 4th of March 2005.

   3.3 The Audit Committee on the 4th of March 2005 requested that the SPC be asked whether they were satisfied that the Council had the necessary resources to address the issues highlighted in the national report. If not whether they had sought, or intended to seek additional funds, from the Scottish Executive to assist with the implementation of the recommendations outlined in the national report. Attached in Appendix 1 is an extract from the meeting of the SPC of the 13th April 2005 at which, the questions posed by the Audit Committee were raised.

   3.4 Attached in Appendix 2, is an update report dated 5th of May 2005, submitted by the Head of Roads & Amenity Services to the SPC. Internal Audit has added an additional column to the Action Plan to highlight the current position regarding the progress with implementation of the 12 recommendations. As at the 22nd of April 2005, Internal Audit can report that there are only 4 recommendations remaining to be implemented. Of the 4 recommendations, one is on target for implementation by the end of May 2005, 2 have an implementation date of December 2005 with the remaining one being March 2006. The 3 are reported by management as ongoing.

4.   **CONCLUSIONS**

Progress with the implementation of the reports recommendations will continue to be monitored by Internal Audit.

5.   **IMPLICATIONS**

5.1   Policy: None

5.2   Financial: None

5.3   Personnel: None

5.4   Legal: None

5.5   Equal Opportunities: None

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

Ian Nisbet
Internal Audit Manager   22 April 2005.
22Aprfinalreport22Apr

APPENDIX 1

EXTRACT
MINUTES of MEETING of STRATEGIC POLICY COMMITTEE held in the
COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD
on WEDNESDAY, 13 APRIL 2005

6.   MAINTAINING SCOTLAND'S ROADS

The Committee considered a request from the Audit Committee inquiring whether the Strategic Policy Committee were satisfied that the Council has the necessary resources to address the issues highlighted in the report and if not whether they have sought, or intend to seek additional funds, from the Scottish Executive to assist in delivering the actions outlined in the report "Maintaining Scotland's Roads".

Decision

That a report be brought to a future meeting detailing the position regarding Grant Aided Expenditure (GAE) and also containing information from COSLA as to what other Local Authorities are doing to meet these costs.

(Ref: Extract of Minute of the Audit Committee of 4 March 2005, submitted).

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ARGYLL & BUTE COUNCIL   **STRATEGIC POLICY COMMITTEE**

OPERATIONAL SERVICES   **5th May 2005**

MAINTAINING SCOTLAND'S ROADS   -   UPDATE OF ACTION PLAN

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1.   **SUMMARY**

This report provides an update of the Action Plan contained within the   "Maintaining Scotland's Roads" report to the Strategic Policy Committee on 9th December 2004.

2.   **RECOMMENDATIONS**

The Committee is asked to: -

2.1 Note that an Action Plan based on the Recommendations of the Report "Maintaining Scotland's Roads" is being implemented.

2.2 Note the content of the updated plan as set out in Appendix 1
.
2.3 Note the Road Maintenance backlog figures as calculated by SCOTS set out in Appendix 2.

2.4 Note the update to Local performance indicators as set out in Appendix 3

3.   **DETAIL**

3.1   The Action Plan formulated for the Strategic Policy Committee paper "Maintaining Scotland's Roads" has been updated. The updated plan is shown in Appendix 1. The main points of update are detailed below.

3.2   The Society of Chief Officers for Transportation in Scotland (SCOTS)have published Road Maintenance backlog calculations for the Scottish road network. These figures were calculated using information gained during Scottish Road Maintenance Condition Survey (SRMCS). The tables shown in appendix 2 give details for all 32 Councils across Scotland. The total backlog for Argyll and Bute's Roads Network is calculated at £38,116,715. To achieve a steady state within 10yrs a capital spend of £9,333,160 per year for the next 10 years would be required. This figure allows for continued deterioration as well as clearing existing backlog. The figures compares to the capital resource of £1,931,000 allocated by the Council in 2005-2006 and £2,543,000 for 2006-2007.

3.3   The figures identified by SCOTS assume a set standard of desirable road condition across Scotland, which allows the figures to be used as a benchmark

with other authorities. If the calculation was to be undertaken using the specific road conditions standards set out in the "Road Maintenance and Asset Management Plan" prepared in February 2004 then the backlog figure may be reduced. It is however difficult to determine the actual figure as problems such as edge deterioration, a major problem within Argyll & Bute, is not included within the SCOTS calculation. This year's road condition survey, being carried out at present, does to an extent look at edge deterioration and an updated calculation in future years will take this into account.

3.4   As result of being awarded additional capital monies of £5.25 million, for roads reconstruction, over the next 4 years a programme of resurfacing works has been formulated to priorities how this money will be best spent over the 4-year period. This programme of works has been presented to Area Committees.

3.5   As part of a desire to work more closely with other local authorities Argyll and Bute has jointly entered into supply tenders, for Bitumen products, and Coated and Uncoated Roadstone with neighbouring councils. As a result some saving have been made for the supply of these roads materials.

4.   IMPLICATIONS

4.1   Policy – The Roads Maintenance and Asset Management Plan continues to be used as basis for maintaining the road network.

4.2   Financial – In order to improve the condition of Argyll and Bute's roads, substantial investment beyond existing levels will be required.

4.3   Personnel – None.

4.4   Equal Opportunities – None.

4.5   Legal – None.

For further information, please contact Graham Brown (Tel: 01546 604687).

Andrew R Law
Director of Operational Services
12 April 2005

APPENDIX 1

No.	Recommendations	Current Position	Proposed Action	Timescale	Update as at 22nd April 2005
1	Report on the condition of roads and maintenance backlog.	Reported to SPC 9th Dec 2004	Continue to report on annual basis.	December 2005	**Ongoing**
2	Determine the size of the structural maintenance backlog.	SCOTS figures shown in Appendix 2	Determine the cost, in accordance with Scottish Executive approved techniques.	March 2005	**Complete**
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	May 2004 - Roads Asset Management Plan produced; requires annual update	Implement further action in association with Asset Management Unit.	December 2005	**Ongoing**
4	Meet the recommendations stated in "Delivering Best Value in Highway Maintenance – Code of Practice for Maintenance Management".	Road Asset Maintenance Plan introduced by Council in May 2004.	Continue to monitor.	-	**-**
5	Review budget setting procedures ensuring appropriate priority to structural maintenance to achieve long-term value for money.	4 year capital resurfacing programme compiled	Review Audit Scotland's recommendation.	March 2005	**Complete**
6	Conduct an option appraisal for procuring and financing road maintenance services.	No action.	Undertake recommendation.	March 2006	**Ongoing**
7	Improve inventory information on the roads assets.	Completed Feb 2005	Maintain inventory each financial year.	March 2005	**Complete**
8	Use asset management system linked to GIS and financial system.	On Going – Lighting information in place and Roads to be input 18/04/2005	Refine the Roads Maintenance Management System.	May 2005	**Complete**
9	Consider joint working with other Councils	Collaborative buying contracts with neighbouring Councils, for Bitumen Products and Coated and Uncoated Roadstone, have been undertaken.	Maintain each financial year.	March 2005.	**Complete but an ongoing practice**
10	Review unit costs of various service elements.	Re costed Feb 2005 – complete for March 2005	Maintain each financial year	March 2005	**Complete**
11	Develop a framework of performance indicators and outcome targets against which to measure the performance of the road maintenance system.	The performance indicators within the plan have been reviewed. See Appendix 3	Review Performance Indicators in light of Audit Scotland's Report.	April 2005	**Complete**
12	Complete the Best Value Road Maintenance Service Checklist.	On Going – on target	Complete recommendation.	May 2005	**On target to complete by the end of May 2005.**

APPENDIX 2

Appendix 2

SRMCS - (2003/2004) Backlog Summary
(Revised 6 Dec 2004)

Authority	Total Backlog	Expenditure Yr 1- 10	Steady State > yr 11
Aberdeenshire	31,356,753	11,158,328	9,690,879
Angus	10,746,555	3,823,783	3,348,166
Argyll & Bute	38,116,715	9,333,160	7,670,779
Borders	22,439,750	6,598,363	5,700,648
Dumfries	43,414,559	10,242,497	7,708,688
Highlands	59,848,679	16,430,330	13,253,640
Moray	13,742,761	3,618,183	2,937,423
Perth Kinross	20,685,037	5,822,214	4,947,710
E Ayrshire	22,451,086	5,159,962	4,005,973
E Lothian	14,168,907	3,989,688	3,321,366
Fife	32,172,789	10,308,966	9,022,372
Midlothian	10,652,349	2,963,524	2,393,732
N Ayrshire	20,307,262	5,493,002	4,714,850
S Ayrshire	22,477,194	5,174,680	4,092,075
S Lanarkshire	49,182,395	10,558,819	7,943,335
Stirling	34,447,478	6,233,184	3,968,121
W Lothian	6,557,081	3,938,886	3,702,174
Orkney	5,612,934	2,343,799	2,083,369
Shetland	11,808,924	3,157,819	2,543,359
Western Isles	10,610,244	3,449,286	3,007,228
Aberdeen City	24,710,263	6,767,564	5,631,965
Dundee	17,971,980	4,525,221	3,553,683

Notes

Assumed Backlog eliminated over 10 years

Backlog defined by cost to achieve
desired level of service expressed by PI

A Class	8%
B Class	8%
C Class	12%
U Class	15%

Calculation is based on current parameters, and works costs

ie. Excludes cracking and edge deterioration

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APPENDIX 2

Edinburgh	66,873,911	13,650,863	9,971,325
Glasgow	58,053,454	13,745,300	11,272,004
E Dunbartonshire	3,028,738	1,730,663	1,395,099
Clackmannanshire	3,704,201	937,976	790,508
E Renfrewshire	6,912,679	1,589,320	1,251,391
Falkirk	9,572,449	2,924,959	2,538,670
Inverclyde	5,217,898	1,163,745	897,835
N Lanarkshire	20,000,765	4,997,411	4,129,541
Renfrewshire	10,633,939	2,592,263	2,087,270
W Dunbartonshire	3,890,248	1,180,453	1,020,998
	711,369,978	**185,604,213**	**150,596,175**

APPENDIX 2

Appendix 2 Continued

1. Results for Year

	2014		2009 = 5yrs, 2014 = 10yrs, 2019 = 15yrs

2. Backlog Model

Single Deterioration Cost

3. Steady State Split

4. Backlog Factor on unit rates 20%

5. Maintenance Factor on Backlog 30%

6. Design Life Years

A Urban	30	A Rural	30
B Urban	30	B Rural	30
C Urban	45	C Rural	45
U Urban	45	U Rural	45

7. Target Defects

A Urban	8%	A Rural	8%
B Urban	8%	B Rural	8%
C Urban	12%	C Rural	12%
U Urban	15%	U Rural	15%

Group	Total Backlog	Total Steady State
Cities	167609607.9	30428976.68
Islands	28032101.64	7633956.143
Rural	240350809.5	552577932.48
Semi Urban	£212,416,541	£43,163,997
Urban	£62,960,918	£14,111,312
Total	**£711,369,978**	**£150,596,175**

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APPENDIX 2

Appendix 3

Performance Indicators and Targets

PI No	Objective	Local Performance Indicator	Local Performance Target
LPI 1	To ensure that all defects which present a hazard to roads users are identified and dealt with in order that the Council fulfils its statutory obligation with regards to road safety.	% of Category 1 defects repaired by the end of the next working day.	To respond to all reported category 1 defects by the end of the next working day.
LPI 2	To determine the effect of the Maintenance Plan on the level of reactive maintenance required.	Reactive repairs as % of revenue budget.	To see year on year reduction in % of revenue budget spent on reactive maintenance.
LPI 3	To determine the effectiveness and robustness of safety inspection regime and level of preventative maintenance carried out.	Number of public liability claims received per 100km of road network.	To see year on year reduction in number of public liability claims.
LPI 4	To determine the effectiveness of the routine maintenance programme.	Number of defects reported during safety inspections	To see reduction in the number of defects as preventative maintenance is carried out.
LPI 5	To determine the effectiveness of capital reconstruction programme.	% of schemes identified for resurfacing in a financial year that are completed within programme.	To complete 100% of capital allocation within programme.

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Agenda Item 6

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
3 JUNE 2005

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004 – 2005.

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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. A new reporting system was introduced and approved by the Audit Committee in August 2004. Set out below is the results from a review performed by Internal Audit for recommendations due to be implemented by the 31st March 2005.

2. **RECOMMENDATIONS**

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

3. **DETAILS**

   3.1   Appendix 1 is a statistical summary of the 2003/04 and 2004/05 Internal Audit reports issued prior to December 2004. It 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 the 31st March 2005. 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 follow up of Audit Scotland report recommendations.

   3.2   Appendix 1 is split into 2 documents 1a & 1b. The first document refers to all reports with recommendations due January to March 2005. The second document lists action points outstanding from the previous Audit Committee. These are points that should have been implemented by the 31st of December 2004 for the last Audit Committee. The same layout has been used for the reporting of Audit Scotland report recommendations in Appendices 3 & 4.

   3.3   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.

   3.4   All new external audit reports issued by Audit Scotland to the Council are 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.

   REQUESTED SERVICE REPORTS

   3.5   The Audit Committee on the 4th March 2005 requested that the Chief Executive provide reasons for the delay encountered with the Ferry Services Review. As a

result a report has been prepared by the Head of Roads & Amenity Services, detailing the reason for the delay. See 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 Alex Colligan, Internal Audit Manager (01546 604271)
Alex Colligan
Internal Audit Manager   13 May 2005.
13mayfinalreport13may

APPENDIX 1 A

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From January To March 2005

Audit	Report Number	Points to be actioned by 31 March 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	Reference to Appendix 2
2003/04	**28 Reports**				
General Ledger Operations - May 2004	24	11	11	0	
Contract Tendering & Vetting - May 2004	23	25	25	0	
Joint Futures - May 2004	26	1	0	1	B10
2004/05	**12 Reports To Date**				
Year-end Stock Procedures - June 2004	2	3	3	0	
Significant Trading Operation - December 2004	9	2	2	0	
Best Value Review - December 2004	8	12	10	2	D6&9
Sundry Debtors - December 2004	12	3	3	0	
Review of the Ferry Service - May 2004	1	3	1	2	A12,16
Total		60	55	5	

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APPENDIX 1 B

Points Outstanding From Previous Audit Committee

Audit	Report Number	Points Still Outstanding From Previous Audit Committee	Points to be actioned by 31 March 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	Reference to Appendix 2
2003/04	**28 Reports**					
Council Tax & NDR - September 2003	4	1	1	1	0	
Payments to Voluntary Association -February 2004	14	1	1	1	0	
Property Asset Management - March 2004	20	6	6	0	6	E1,5,6,13,14,15
Transport VFM - July 2004	28	3	3	3	0	
Purchase of Equipment & Materials - June 2004	27	4	4	3	1	F4
2004/05	**9 Reports To Date**					
Review of the Ferry Service - May 2004	1	7	7	1	6	A2,6,8,11,14,15
Cash and Income Banking - August 2004	4	1	1	1	0	
Car Allowances - September 2004	6	1	1	0	1	C2
Total		24	24	10	14	

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APPENDIX 2

Action Points Behind Schedule – Internal Audit

A – Review of the Ferry Service

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Fares are quite high in relation to other providers but are not related to a target level of income or a set level of affordability.	Head of Roads and Amenity Services	Best Value review ongoing – at consultation stage.	Material	September 2004	The report was submitted to SPC on 5th May 2005. Consultation period to end September 2005.
6	The objectives of the ferry service are not supported by clear targets and that data is not collected that would enable assessment against the objectives.	Head of Roads and Amenity Services	As above.	Fundamental	October 2004	As above.
8	Only the Lismore ferry has a comments / complaints procedure for passengers to provide their views on the service.	Head of Roads and Amenity Services	As above.	Fundamental	Immediate	As above.
11	There are no monitoring arrangements in place for ensuring that the operators of the Jura and Lismore services are adhering to the terms of their contracts.	Head of Roads and Amenity Services	As above.	Fundamental	Immediate	As above.

APPENDIX 2

12	Audit review has identified that there are considerable potential advantages for contracting out either the operation or the operation and ownership of the Council's ferries or bringing the entire operation in house.	Head of Roads and Amenity Services	Best Value review ongoing – at consultation stage.	Fundamental	February 2005	The report was submitted to SPC on 5th May 2005. Consultation period to end September 2005.
14	There is a perceived lack of consensus as to the strategic objectives that the ferry service should have in the future.	Head of Roads and Amenity Services	As above.	Fundamental	December 2004	As above.
15	See point 14 above.	Head of Roads and Amenity Services	As above.	Material	October 2004	As above.
16	Internal Audit has allocated the potential risks of operating the ferry service to the Council and a third party in various options for the future of the service.	Head of Roads and Amenity Services	As above.	Material	February 2005	As above.

APPENDIX 2

C – Joint Futures

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
10	There are a number of key steps required in the implementation of single shared assessment.	Head of Integrated Care	Arrangements for implementation of Single Shared Assessment are well advanced and ongoing including appropriate training. Single Shared Assessment has been implemented for all Community Care client groups across Health and Social Work staff. However, • Haven't properly engaged with Housing staff. • System continues to be paper system. Timescale for e-care solution is unclear since Scottish Executive "pulled" e-care from MGF3 funding. We await further announcement from Scottish Executive re future funding.	Material	March 2005	Note Single Shared Assessment is presently being reviewed with updated briefing for NHS, Social Work and Housing Staff prior to 30th September 2005

APPENDIX 2

D – Car Allowances

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Some staff may not be aware of the basic guidelines with regard to the completion and submission of travel claims.	Appropriate Heads of Service - Community Services	A draft protocol has been produced for the former Housing & Social Work department and Community Services is looking to implement it across the department.	Material	December 2004	July 2005

E – Best Value Review

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	Departmental personnel procedures are not currently monitored by Personnel Services to ensure consistency of approach throughout the Council.	Head of Personnel Services	Work not yet undertaken due to resource constraints and other priorities.	Material	Commence a.s.a.p. report March 2005	Revised target date September 2005.
9	The agreed actions from this review have not been fully implemented or reported on.	Lead officer of Legal Services Scrutiny Review Team	A report went the SMT on 16th December 2003. The principal recommendation from that report was to look at entering into a strategic partnership with an external legal firm. That recommendation was taken forward and there were a series of subsequent reports to the Strategic management team (SMT) on the matter culminating in an advert appearing in	Material	January 2005	After May 2005

APPENDIX 2

F – Property Asset Management

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
			both the Scotsman and the Herald within the last few weeks seeking expressions of interest from legal firms. The closing date for expressions of interest is 26th May following which an evaluation process will take place.			
1	The Council should decide whether a single asset management and asset register system should be adopted.	Head of Transportation & Infrastructure	The Chief Asset Manager submitted a report 'Asset Management Update' to the August Audit Committee. Now that the Council has approved a council wide Asset Management Strategy, a report is being submitted to SMT on 24th May 2005 outlining the way forward and requesting resources to progress this issue.	High	30 September 2004	This will be established after SMT meeting on 24th May 2005.
5	A unique Gazetteer reference should be included in Registers to assist cross-referencing.	Head of Transportation & Infrastructure	As above.	High	30 September 2004	This will be established after SMT meeting on 24th May 2005.

APPENDIX 2

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	A complete review of title deeds should be undertaken to confirm the completeness of the Asset Register.	Head of Legal and Protective Services	A lack of resources has meant that this task has progressed less quickly than had been originally anticipated.	High	30 September 2004	June 2005
13	Appropriate property data should be obtained in accordance with the timetable for the introduction of the asset management plan.	Head of Transportation & Infrastructure	The Chief Asset Manager submitted a report 'Asset Management Update' to the August Audit Committee. Now that the Council has approved a council wide Asset Management Strategy, a report is being submitted to SMT on 24th May 2005 outlining the way forward and requesting resources to progress this issue.	Medium	Date to be agreed once Chief Asset manager in post.	This will be established after SMT meeting on 24th May 2005.
14	Transport & Infrastructure should formulate a working group made up of the internal contributors of property data to develop Asset Management.	Head of Transportation & Infrastructure	As above.	Medium	Date to be agreed once Chief Asset manager in post.	This will be established after SMT meeting on 24th May 2005.
15	An exercise should be conducted to determine how compatible the current property IT systems are for supplying data for the corporate asset management system when this is developed.	Head of Transportation & Infrastructure	As above.	Low	Date to be agreed once Chief Asset manager in post.	This will be established after SMT meeting on 24th May 2005.

APPENDIX 2

G – Purchase of Equipment & Materials

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
4	There does not appear to be an agreed procedure for adding new suppliers to or deleting obsolete suppliers from the approved list.	Head of ICT & Financial Services	There are procedures for creating a supplier which basically involve checking for existence within the system and placing the correct information in each field. A major flaw is that by the time Creditors section are involved the transaction with the supplier has already been completed. There doesn't appear to be any controls in placing orders with new suppliers. This will only be solved by the global adoption of eProcurement and a working procurement strategy. Creditors will have a report on new suppliers created from the Oracle to Comino interface on supplier data updates from mid May 2005.	Fundamental	As soon as possible after June 2004	Ongoing

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APPENDIX 3 A

External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From January To March 2005

Audit	Points to be actioned by 31 March 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	Reference to Appendix 4
Total	0	0	0	0

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APPENDIX 3 B

Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committee	Points to be actioned by 31 March 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	Reference to Appendix 4
Regularity & Governance (3) 2003/04 - September 2004	3	3	1	2	A17 &18
Total	3	3	1	2	

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APPENDIX 4

Action Points Behind Schedule - Audit Scotland Reports

A – Regularity & Governance (3) 2003/04

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
17	The Council's policy on fraud and corruption should be incorporated in the Standing Orders.	Head of Democratic Services & Governance	This will be done when new Standing Orders are prepared later this year.	Low	31 December 2004	Now going to Council on 26 May 2005.
18	The Council's policy on Fraud and corruption should be updated to define the actual arrangements for receiving and investigating complaints of suspected cases. The policy should also outline appropriate disciplinary action to be taken in this respect.	Head of Democratic Services & Governance	This will be done when new Standing Orders are prepared later this year.	Medium	31 December 2004	Now going to Council on 26 May 2005.

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APPENDIX 5

ARGYLL & BUTE COUNCIL   **AUDIT COMMITTEE**

OPERATIONAL SERVICES   **3 JUNE 2005**

FERRY SERVICES REVIEW

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1. **SUMMARY**

    At the Audit Committee Meeting on 4 March it was noted that the original timescale for the completion of Ferry Services Review of September 2004, had now slipped to May 2005. The Audit Committee requested that the Chief Executive advise on the reasons for the delay in the Ferry Services review. To this end a report was prepared by the Head of Roads & Amenity Services. The main reason for delay is that the Value for Money Ferry Review was subsequently included in the strategic review of piers and harbours. Full detail is enclosed explaining the reason for slippage.

2. **RECOMMENDATIONS**

    The committee is asked to note the contents of the report.

3. **DETAIL**

    3.1 In April 2004, a paper was submitted to the Strategic Policy Committee outlining the need to review the operation of the Council owned ferry services. At that stage it was considered appropriate that Internal Audit carried out a Value for Money Report on this service

    3.2 This review was undertaken in April and May 2004. An action plan was prepared. The vast majority of the action dates were either immediate (value vessels, ferry reliability, comment procedures, Disclosure checks, insurance issues) or to be completed by September 2004 (fare recovery levels, repair/maintenance regime). The issue of considering the potential advantages for contracting out elements of the service had an implementation date of February 2005.

    3.3 In general terms, the vast majority of the actions have been addressed.

    3.4 Around the same time the Value for Money Review on Ferries was carried out, it was confirmed that a Strategic Review should also be carried out on Piers and Harbours. It was considered appropriate that as there were elements of the ferries review that were strategic in nature then this should be incorporated into the strategic review.

3.5 Work has been ongoing on the Piers, Harbours and Ferries Review and due to the workload involved it was not possible to adhere to the timescales stated in the Ferries review. The draft review was completed in November and submitted to the SMT and SMOG for approval to issue the report for consultation. The report was approved at SPC on 5 May, and the document was issued for consultation on 16 May with a return date for responses of 30 June. The responses will be collated and a report shall be taken to the SPC in late summer/early autumn.

3.6 It was considered appropriate that the Ferry Services Review should be included in the Strategic Review of Piers and Harbours. Accordingly due to the timescales for the strategic review it was not possible to complete the Ferry Review prior to the Capital Budget Meeting on 17 March 2005.

4. IMPLICATIONS

5.1	Policy –	The effect on policy cannot be determined until the conclusion of the Piers, Harbours and Ferries Strategic Review.
5.2	Financial –	None at present.
5.3	Personnel –	None at present.
5.4	Equal Opportunities –	None.
5.5	Legal –	None at present.

For further information, please contact Stewart Turner (Tel: 01546 604611).

Stewart Turner
Head of Roads & Amenity Services

ARGYLL & BUTE COUNCIL   **AUDIT COMMITTEE**
STRATEGIC FINANCE   **3 JUNE 2005**

INTERNAL AUDIT ANNUAL REPORT 2004 - 2005

1.   **SUMMARY**

As indicated to the Audit Committee on the 27th of May 2004 an Annual Report will be presented that comments on the duties and audits carried out by Internal Audit throughout the financial year. The Annual Report for 2004 – 2005 is appended in Appendix 1.

2.   **RECOMMENDATIONS**

2.1   The Internal Annual Audit Report for 2004 - 2005 is approved.

3.   **DETAILS**

3.1   The objective of the report attached in Appendix 1, is to advise members of internal audit standards, current practices and comment on the performance of Internal Audit throughout the financial year 2004 - 2005.

3.2   Appendix 2 provides a progress statement on the audits scheduled for 2004 – 2005. Further comment on audit performance is given within the main report for:
- Core Financial Audits;
- Non Core financial Audits;
- Contingency; and
- Other Areas.

3.3   There is only one Core Financial Audit where the fieldwork and draft report are still to be completed. It is anticipated that by the end of May 2005 this audit will be complete with an audit report and agreed action plan issued.

4.   **CONCLUSIONS**

Internal Audit will compile an Annual Report on audit responsibilities and activities.

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 27 April 2005.
27Aprilreport27April

Argyll & Bute COUNCIL

Internal Audit Annual Report

2004 - 2005

April 2005

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Appendix 1: Assessment of Audit days 2004 – 2005 Strategic Plan

APPENDIX 1

1. FOREWORD

The annual audit plan has been delivered in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ('the Code'). This requires the Internal Audit section to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control system. This annual audit plan also takes into account the Internal Audit Mission Statement and Terms of Reference both of which have previously been approved by the Audit Committee.

2. MISSION STATEMENT

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

3. TERMS OF REFERENCE

Objectives

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

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

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

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

- Internal Audit areas of focus include:

  - Internal control effectiveness

  - Statutory, procedures and control compliance

  - Implementation of recommendations

  - Corporate governance

  - Systems development

  - Process improvement

  - Value for money and Best Value

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

Scope

The scope of internal audit includes the examination and evaluation the adequacy and reliability of the Council's system of internal control. Internal Audit's work provides assurance across all of the Council's activities regarding the extent to which management controls ensure that:

- significant risks are identified, assessed and appropriately managed;

- objectives are established and achievement against them is monitored;

- the Council's assets are safeguarded from significant losses, including those caused by fraud, waste, inefficiency and commercially unsound practices;

- relevant laws, rules and regulations are complied with;

- operations are conducted effectively, efficiently and economically;

- operations are conducted in accordance with Council policies and procedures;

- management information systems are reliable and secure;

- systems under development are monitored, that appropriate internal controls are built in and are consistent with the organisations' needs;

- major Council projects achieve their objectives; and

- throughout the Council's activities it can demonstrate good governance.

In addition, Internal Audit may perform special reviews requested by the senior management or the Audit Committee. When plans are changed for such reviews, this is reported to the Audit Committee so that it clearly understands the implications on resources and for the assurance it requires about internal controls, and any impact on the delivery of agreed plans.

4. MAIN SERVICES AND REPORTING

To fulfil our responsibility the main services provided are:

CORE FINANCIAL AUDITS

Internal Audit has a responsibility to evaluate and test financial and management information systems in order to provide an opinion as to the adequacy of control within the Council. As a result of this work departmental management receive audit reports with recommendations offering suggestions and advice to enable rectification of system weaknesses and to assist them with compliance and risk control.

NON FINANCIAL AUDITS

The Code requires that internal audit not only look at financial systems but also other systems of management control used to ensure the Council's objectives are being

properly managed, and that control arrangements have been established and operated within the Council to achieve Best Value, VFM and Performance Improvement in service delivery. Internal Audit in complying with the Code, has prepared this section of the annual plan incorporating high risk areas identified by Heads of Service in a recent operational risk exercise carried out between the Corporate Services Department - Governance & Risk section, Internal Audit and its partner.

CONTINGENCY DAYS

This is audit time for unforeseen events which, by their nature, cannot be planned for, e.g.:

- notification of frauds, significant weaknesses or loss;

- consideration of controls for new or amended systems; and

- reviews of significant breakdown of internal control that cannot be accommodated within planned audits.

Clearly, the extent to which any contingency requirement will arise depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity.

REPORTING

Audit Committee

At each Audit Committee throughout the year issues pertaining to the progress of the audit programme in terms of planned to actual are passed to the Audit Committee for their advice. Recommendations made by external audit are followed up and progress regarding implementation reported to the Audit Committee. At the culmination of the years audit work an annual report is prepared and presented to the Audit Committee. Our annual report provides an overall audit opinion as to the adequacy of the control environment within the Council. This has been derived from the Internal Financial Control Statement (IFCS) passed to the Head of Strategic Finance as Section 95 Officer to enable a statement to be placed in the Annual Accounts.

Internal Audit also reviews and documents the progress made by departmental management in implementing report recommendations made by Audit Scotland and Internal Audit. Internal Audit was concerned that the process of collecting evidence and subsequent reporting was inefficient for departments, internal audit and the Audit Committee. A new reporting system was therefore devised and was first reported to the Audit Committee in August 2004. The new system provides the Audit Committee with objective reporting on management progress with their implementation of agreed recommendations.

Auditees

With regard to internal audit reporting on audits carried out, we provide management with an independent and objective opinion on the control environment by taking into consideration the review of internal controls and risk, and recommend changes

where appropriate in agreement with management. The internal audit work undertaken is reported to clients, either in the form of a report or a memo whichever is the most relevant. Our reports are in a standard format that give a pictorial view of the findings of each audit and ranks their importance in severity of control weakness. All report findings are discussed with management for their collective buy-in to our findings. Follow-up reviews are planned within the audit plan.

Set out below are the classifications used by Internal Audit when reporting our findings.

Fundamental	Major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error
Material	Observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced it if were rectified
Minor	Minor recommendations to improve the efficiency and effectiveness of controls and one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way

5. EXTERNAL AUDIT

The relationship operated by Internal Audit with the Council's External Auditors is one of joint working where we try to either avoid areas of duplication and in other areas work jointly on large system control issues. Consultations are held on a regular and informal basis to co-ordinate work and we use Audit Scotland audit programmes to carry out our audit work. In 2004 – 2005 external and internal audit worked jointly on the Housing Benefit Grant Claim and the Council Performance Indicators.

On an annual basis Audit Scotland carry out an evaluation of Internal Audit work the outcome of which is published in their Annual Accounts report. For 2003 – 2004 Internal Audit received a favourable report and we would hope that this would continue for 2004 - 2005.

Audit Scotland conducted a review of all local authority internal audit provision across Scotland in the autumn of 2000 this culminated in the issue of a report in August 2001 entitled, "A job worth doing". Its assessment of internal audit compliance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government placed Argyll & Bute in the bottom quartile of local authorities in Scotland, Band 4. As a result the Council appointed KPMG to act as a partner to internal audit to assist and provide advice on best practice in relation to the code.

With the support of KPMG internal audit systems subsequently improved and in January 2004 Audit Scotland carried out a follow up review exercise to see whether

any improvement had taken place in respect of compliance with the Code. The results of the exercise showed that there had been a substantial improvement in Internal Audit compliance with the Code. Argyll & Bute Council was placed in Band 1.

6. INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. For the Council's annual accounts for the financial year 2004 - 05 it is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the internal financial control system and to provide an IFCS for the Head of Strategic Finance as Section 95 Officer.

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

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

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

- The work undertaken by internal audit during the year to 31 March 2005;
- The assessment of needs completed during the preparation of the strategic audit plan;
- Reports issued by the Council's external auditors, Audit Scotland.
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

The IFCS has 2 sections in which Internal Audit is required to give an opinion on the Council control environment. The first is on matters brought forward from last year. The second is for any new matters arising in 2004 - 2005. Internal financial control statements for Strategic Departmental Directors have also been prepared and are in the process of being signed. This will support the overall statement of control prepared by the Head of Strategic Finance for inclusion in the Council's Annual Accounts.

7. PROGRESS ON ANNUAL AUDIT PLAN 2004 – 2005

Appendix 1, lists of audits that were covered in the financial year 2004 – 05. The objective of the report is to advise members of the final status of each audit.

APPENDIX 1

A total of 31 audits were planned for the financial year these were allocated into the following categories:

- 20 Core Financial Systems Audits and
- 11 Non Financial Systems Audits.

Additional to the above Internal Audit was involved in advice & assistance to management and follow up work.

Of 20 Core Financial Systems audits, in the last quarter the decision was taken amalgamate the Purchase Ordering & Certification audit with Purchasing of Equipment & Materials. Both audits are closely aligned and therefore one audit was scoped to cover the audit objectives of both. Of the remaining 19 audits 18 have been completed with final reports and agreed action plans issued. The remaining audit, Budgetary Preparation & Control is currently being progressed towards completion by KPMG. In final analysis of the financial year out of 471 planned audit days 457 have been expended as at April 2005.

With regard to Non Core Financial Systems audits eleven were planned and 10 are complete with reports and agreed actions plans issued. The remaining audit, DSO Catering & Cleaning (NPDO) initially started well and KPMG were able to provide support in the initial bid process. However the further involvement that management requested of Internal Audit has consistently throughout the year been delayed due to issues regarding the progression of the NPDO. Consequently the end of the financial year was reached with neither KPMG nor Internal Audit being able to carry out any further audit work. In final analysis of the financial year out of 327 planned audit days 303 days have been expended up to April 2005.

As a result of the demand on Internal Audit resources to provide Advice & Assistance to management in 2003 – 2004, the number of Contingency days allocated in 2004 – 2005 was set at 160 days. At the end of the second quarter it became apparent that in 2004 – 2005 there had been less days required than had been experienced in 2003 – 2004. A decision was therefore taken to reduce the number of days and transfer a portion to follow up review work. This was reported to the Audit Committee on the 3rd December 2004. In the final analysis out of the 110 planned audit days 93 have been expended.

In August 2004, Internal Audit in discussion with Audit Scotland and Strategic Departmental Directors proposed to the Audit Committee that a change was required in the reporting of both external and internal audit report recommendation implementation by management .The change was accepted by the Audit Committee and now the Audit Committee is provided with more objective responses from departmental management regarding recommendations that are not implemented within agreed deadlines. There were 101 audit days set aside for Other Areas at the commencement of the financial year. At the outset of the new reporting process departments required support and 50 audit days were transferred from Contingency to cover this and to assist with risk assessment element of the Strategic Audit Plan for 2005 - 2008. This was reported to the Audit Committee on the 3rd December 2004.In the final analysis out of 151 planned audit days 159 days were expended.

Throughout 2004 – 2005, Internal Audit resources have been tight with 2 members of staff seconded over the latter 2 quarters of the financial year. An additional resource was brought in on a contract basis to assist with audit plan delivery. This allowed the Internal Audit plan to be progressed with disruption kept to a minimum.

Audit Opinion

Based on audit work carried out to date, we are of the opinion that the Council's systems provide a reasonable assurance regarding the effective and efficient achievement of the Council's objectives. We have indicated in our audit reports certain matters, which we understand are being addressed by local management; our opinion on the Council's systems is based on recommendations being satisfactorily implemented. Additional assurance has been given in an Internal Financial Control Statement (IFCS) prepared by internal audit and is the subject of a separate report to the Audit Committee.

In conclusion, the audit plan for 2004 – 2005 will be effectively completed by the end of May 2005. The Audit Committee is asked to accept the assurances provided by Internal Audit, based on the 2004 – 2005 audit work completed.

8. AUDIT ANALYSIS of 2004 - 2005

Whilst there has been some slippage against the actions identified and their target dates, the bulk of the planned activity has been achieved, particularly:

- Quarterly reports are prepared for the Audit Committee advising of progress with the Annual Audit plan;
- Joint audit work was completed between Internal Audit and Audit Scotland;
- A higher percentage of audits continued to be carried out by qualified staff in 2004 – 2005;
- Analysis of returned client questionnaires indicated that an average score of 3.5 has been achieved for all completed audits the highest achievable mark being 4;
- Regarding the implementation of internal audit report recommendations by the client, it was reported that 100% of all fundamental recommendations were agreed as was a 100% for major and minor recommendations.

9.   CONTINGENCY DAYS

Council Standard Orders require management to report all suspected irregularities or issues requiring investigation to Internal Audit. In practice, many of these are resolved best by departmental management investigation and action, with support and advice from Internal Audit. All advice, investigation and irregularity issues are recorded and it is possible to ascertain what control issues have occurred.

This information can then be used as part of the assessment of relative risk in the process of preparing the annual audit plan and also in advising managers across the Council of potential risks and opportunities to strengthen controls. This is done through our quarterly report that we issue to Directors and Heads of Service entitled Audit Focus.

During 2004 – 2005, 8 instances were reported to and followed up by Internal Audit. These required advice & assistance. Internal Audit can call on external professional resources to assist with particular technical aspects on any investigation as and when required. Summarised below by directorate are the number of days expended against departments.

2004 – 2005 Directorate	Number of Days Expended
Community Services	27
Development Services	47
Operational Services	19
Total	**93**

The table below is the further breakdown of the above table indicating the type of issues that were covered.

TYPE OF ISSUE REPORTED	C S	D S	O S
Advice & Assistance	✔	✔	✔

10. INTERNAL AUDIT PERFORMANCE MEASUREMENT

At the outset of the financial year 2004 – 2005 Internal Audit was tasked to measure the performance of its service delivery. This was to allow comparison to be made year-on-year and to set targets for improvement and by meeting such targets, the Audit Committee could have confidence that Internal Audit were delivering a quality service.

In total there were 11 performance indicators agreed by the Audit Committee in 2002 for Internal Audit to adhere to and were set out under two headings Input and Output:

- 6 Input indicators and
- 5 Output measures.

The tables below set out the input and output performance measures for 2004 - 2005. A comment has been made for each performance indicator. Internal Audit will strive to maintain the quality standards achieved and will endeavour to make improvements.

INPUT PERFORMANCE MEASURES 2004 - 2005

Ref	Performance Indicator	Target	Achieved 2004-2005	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%	**80%**	The level of qualified staff involvement has been maintained in 2004 - 2005.
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%	**100%**	Achieved.
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	**100%**	Achieved.
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion, contain and action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.	**100%**	All quality issues met.
5.	Management's feed back on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (i.e.: a mean score of '3' or more for each question	**3.5**	The level of achievement has remained consistent with 2003 – 2004.
6.	Percentage of direct audit time	Target 81%	**81%**	The level of achievement has remained consistent with 2003 – 2004 at 81%.

OUTPUT PERFORMANCE MEASURES 2004 - 2005

Ref	Performance indicator	Target	Achieved 2004- 2005	Comment
1.	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)	Achieved	2005 - 2008 Strategic Audit Plan including the 2005 – 2006 annual plan was presented to the Audit Committee of the 4th of March 2005.
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year	-	There is now a new reporting structure in place and therefore follow-ups are carried out as a routine task for the quarterly meetings of the Audit Committee.
3.	Completion of the annual plan subject to variations agreed by Audit Committee, and if appropriate, Audit Managers.	100%	100%	Individual audit assignments as in 2003 – 2004 varied in actual audit days to budget. A number of audits were either completed on time or ahead of budget whilst others took more days than had been budgeted. However in overall terms, audits have been completed within the total number of budgeted audit days set out in the annual audit plan.
4.	Recommendations accepted compared to recommendations made.	Fundamental – 100%	100%	Achieved.
		Material and minor - 100%	100%	Achieved.
5.	Internal audit costs are within budget (including in-year budget variations)	100% (Total costs within budget)	100%	Achieved.

APPENDIX 2

Assessment of audit days: 2004-2005 strategic plan

	Last audited	Risk ranking	Planned Audit Days 2004-05	Actual Audit Days 2004-05	Balance
Core financial systems					
COMPLETE					
Government Grants - Education	2003-04	1	21	31	-10
Stock taking	2003-04	1	16	20	-4
Cash & Income Banking - Oban	2003-04	1	21	26	-5
Car Allowances	2003-04	3	21	20	1
Debtor Accounts	2003-04	1	21	30	-9
Direct Transport Costs	2003-04	4	21	25	-4
Unified Benefits System	2003-04	2	51	48	3
Capital Accounting	2003-04	1	21	21	0
Housing Rents	2003-04	1	21	21	0
General Ledger Operations	2003-04	2	21	20	1
Treasury Management	2003-04	2	21	20	1
Tendering Procedures	2003-04	3	21	21	0
Capital Contracts	2003-04	3	21	20	1
Following Public Pound Voluntary Organisations	2003-04	4	21	20	1
HR Payroll	2003-04	3	43	33	10
E-Procurement Creditors	2003-04	2	31	25	6
Council Tax & NDR	2003-04	2	31	26	5
Purchases of Equipment and Materials	2003-04	2	31	26	5
STARTED					
Budgetary preparation & control KPMG	2003-04	1	16	4	12
Section Total			**471**	**457**	**14**

Non-financial systems / Best Value / VFM					
COMPLETE					
Council Wide PIs	2003-04	1	43	42	1
Operational Services Ferry Review	2003-04	2, 8	21	25	-4
Chief Exec BV Interim	2003-04	3	32	31	1
Chief Exec PMP	2003-04	3	35	33	2
DLOs Significant Trading Operations	2003-04	4, 7, 9	21	21	0
Council Wide Corporate Gov.	2003-04	1	32	29	3
Community Services - Transport	2003-04	3, 4, 11	21	29	-8
Corporate Services IT KPMG & IA	2003-04	1	32	31	1
Community Services - Education HMIe	2003-04	9, 10	21	21	0
Corporate Services - BS7799 Information Security	2003-04	3, 6	21	20	1
DSOs Catering and Cleaning (NPDO) KPMG & IA	2003-04	1	48	21	27
Section Total			**327**	**303**	**24**

Actual Direct Audit Time			**798**	**760**	**38**

Special investigations/contingency	-	-	110		17
Dangerous Buildings				25	
Housing Grants				4	
HITRANS				4	
Cycle Path Grant				18	
Warm Deal Grant				12	
Joint Future				11	
ABLE Grant Funding				9	
Strategic Waste Fund Grant				10	
Section Total			**110**	**93**	**17**

Other Areas					
Risk assessment, strategic plan, annual plans	-	-	30	38	-8
Follow-up external audit management letter			51	52	-1
Internal audit follow up			70	69	1
Section Total			**151**	**159**	**-8**

TOTAL			**1059**	**1012**	**47**

APPENDIX 1

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Agenda Item 8

ARGYLL & BUTE COUNCIL   **AUDIT COMMITTEE**
FINANCE   **3 JUNE 2005**

REPORT ON 2004 - 2005 INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

---

1. **SUMMARY**

    It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. For the Council's annual accounts for the financial year 2004 -2005 it is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the Internal Financial Control System (IFCS) for the Head of Strategic Finance. (See Appendix 1).

2. **RECOMMENDATION**

    2.1   The contents of this report are noted.

3. **DETAILS**

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

    3.2   Evaluation of the control environment is informed by a number of sources:
    - The work undertaken by internal audit during the year to 31st March 2005;
    - The assessment of needs completed during the preparation of the strategic audit plan;
    - Reports issued by the Council's external auditors, Audit Scotland.
    - Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

    3.3   The statement has 2 sections in which Internal Audit is required to give an opinion on the Council control environment. The first is on matters brought forward from last year. The second is new matters arising in 2004 - 2005. Directors internal financial control statements are being prepared to support the overall statement of control prepared by the Head of Strategic Finance for the Council.

    3.4   The attached statement is in Draft format and maybe updated further until Audit Scotland completes their review of the Council's Annual Accounts for 2004 – 2005.

4.   **CONCLUSIONS**

Except for the items listed in the IFCS in Appendix 1, it is the opinion of Internal Audit, based on the audit work carried out to date, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems in the year to the 31st March 2005.

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   18th May 2005.
18Mayfinalreport18May

INTERNAL FINANCIAL CONTROL STATEMENT
2004-2005

DRAFT
To the Head of Strategic Finance

As Internal Audit Manager of Argyll & Bute Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Council for the year ended 31 March 2005.

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

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

Sound internal controls

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

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;

- To safeguard assets;

- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and

- To ensure compliance with statutory requirements.

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

The work of internal audit

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

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

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

Basis of Opinion

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

- The audit work undertaken by internal audit during the year to 31 March 2005;

- The assessment of needs completed during the preparation of the 3 year strategic audit plan;
- Reports issued by the Council's external auditors, Audit Scotland; and
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

Opinion

Except for the following listed matters it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31 March 2005:-

Matters brought forward from previous year(s):-

- Revisions to the Contract Standing Orders to overcome the inadequacy of capital control guidelines were originally to be completed by 31 July 2004. Management is currently addressing this issue and revised Standing Orders are expected now to be completed and approved by the full Council in May 2005.

- Capital project management disciplines were to be improved. Management has taken some steps to address this issue, but has not yet fully completed and approved a guidance handbook of procedures. The latest estimate is that it is expected to be completed by July 2005.

- A Risk Management Strategy has been now approved by the Strategic Management Team (SMT) and a Risk Register compiled. They are to be further developed and implemented during 2005 - 2006.

- An Information Management and Technology Strategy is now in place and has been approved by the SMT, this is to be further developed and implemented during 2005 - 2006.

- The Council has now approved an Asset Management Strategy. This is to be further developed and implemented during 2005/2006.

- A number of weaknesses were identified in the accounting for property assets in 2003 – 2004. These have been progressed in 2004 – 2005 with those remaining weaknesses planned to be addressed throughout 2005 - 2006.

New Matters

- Although significant resource is allocated towards budgetary control improvements, the continued development of linkages between budget and service planning processes with a corresponding review of procedures and training, will lead to better overall budget management.

Ian Nisbet, MBA MSc ACMA
Internal Audit Manager
HQ Kilmory
18 May 2005
misc/audit/internalcontrolstatementfinaldraft

ARGYLL & BUTE COUNCIL   **AUDIT COMMITTEE**
STRATEGIC FINANCE   **3 JUNE 2005**

ADAPTING TO THE FUTURE 2003 – 2004.

1. **SUMMARY**

    The Accounts Commission - Audit Scotland issued a national report towards the end of August 2004 entitled, "Adapting to the future". As there were no implementation dates assigned to the report recommendations, Internal Audit drew up an action plan covering the report recommendations and asked the Community Services Department management to prepare a position paper so that, it could be determined where the Council was in terms of compliance with the recommendations outlined in the national report.

2. **RECOMMENDATIONS**

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

3. **DETAILS**

    3.1   Internal Audit stated to the Audit Committee on the 3rd of December 2004 that it would report back to the Audit Committee regarding the review of the national reports recommendations by Community Services management. Community Services management on the 22nd of April 2005, confirmed to Internal Audit that a study had been carried out which identified that further feasibility studies would be required in order to address the national report recommendations.

    3.2   The Action Plan attached in Appendix 1, lists the 21 report recommendations and the responses of management with proposed implementation dates. As at the 18th of May 2005, 2 recommendations are complete with a further 3 having been progressed through a meeting held on the 11th of May 2005. This has resulted in one of the 3 due to be complete by the end of May, with the other 2 to be complete by October 2005. There are a further 16 recommendations with implementation dates stretching from June to November 2005, for which management have reported ongoing progress.

    3.3   Community Services management wanted the Audit Committee to know that in response to the Scottish Executive seeking transparent validation of genuine progress in joint working, the Joint Strategy Group has authorised a staged implementation of Joint Single Management. The first phase will be in the Bute and Cowal area and a Project Plan is currently being developed and supported by Bishops Consulting. The Joint Improvement Team of the Scottish Executive is also providing practical support to the Project. The Physical Disability Service re-design proposals (including Adapting to the Future) will be fully tested as part of the Bute and Cowal Project.

4. **CONCLUSIONS**
       Progress with the implementation of the national reports 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   18th May 2005
18Mayfinalreport18May

Main Report - Action Plan: Adapting to the future

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Date
	Person-centred services **Councils and NHS bodies should**			
1	Jointly publish comprehensive information on community equipment and adaptations, covering: • What help is available • Who to contact • Eligibility criteria • Who needs to pay and how much • What service people can expect, using information such as local targets for response times.	Jim Robb Head of Integrated Development.	A joint meeting was held with Occupational Therapy staff on May 11th to re-write practice guidance and produce information leaflets. This exercise will be concluded by the end of May 2005.	May 2005
2	The information in 1 above should be published in different formats and in other languages as needed by local communities	Jim Robb Head of Integrated Development.	Information above will be produced in large print and audio tape and other languages as required.	June 2005
3	There should be a review regarding the level of demand for out-of-hours services.	Jim Robb Head of Integrated Development.	Overall service requires to be reviewed. Feasibility study proposed and being presented at next Joint Strategy meeting. Out of hours services would be examined within the study.	November 2005
	How are services organised **Councils and NHS bodies should**			
4	Work towards joint information systems that provide good management information on the community equipment and adaptation services within their partnership area.	Jim Robb Head of Integrated Development.	Re-implementation of Carefirst should provide more robust information. IT provision will be examined within a feasibility study as to best joint systems.	This will be progressed through co-operation with ICT in their long term strategy.
5	Clarify partnership arrangements for the assessment and provision of community equipment and adaptations ensuring that all relevant partners are involved; and formalise these arrangements in agreed policies and procedures.	Jim Robb Head of Integrated Development.	Feasibility study will identify required policies and procedures.	November 2005
6	Ensure all relevant staff across the respective partner organisations are aware of the agreed policies and procedures.	Jim Robb Head of Integrated Development.	Training for staff would be carried out when policies and procedures are in place.	November 2005

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Date
7	Ensure that community equipment and adaptation services are developed as part of their overall community care strategy.	Jim Robb Head of Integrated Development.	Community care strategies will be reviewed to ensure community equipment and adaptations services are included as part of the feasibility study.	September 2005
8	Develop protocols, which maximise the ability of staff from different partnership organisations to access equipment and adaptations and reduce the waiting time for users.	Jim Robb Head of Integrated Development.	Protocols would be developed following the feasibility study.	November 2005
	How are services organised **Councils and NHS bodies should**			
9	Jointly review budgets for community equipment and adaptations and HIG's to ensure that they are set at a realistic level to meet need.	Jim Robb Head of Integrated Development.	Budgets will be regularly reviewed through Joint Strategy group.	June 2005 ongoing. Then bi-monthly with budget monitoring reports presented at all meetings.
10	Monitor the performance on equipment and adaptation services by collecting and using robust management information on: • Cost • Activity, including waiting times • Quality of services, including users' views.	Jim Robb Head of Integrated Development.	Robust systems for collecting information will be identified from recommendations of feasibility study.	November 2005
11	Record and monitor activity and expenditure associated with third parties, such as Care and Repair, RSLs and voluntary organisations, as charges in these areas are likely to impact significantly on future service delivery and resourcing.	Jim Robb Head of Integrated Development.	A charge monitoring system will be set up to address this recommendation.	November 2005
12	Develop joint performance indicators so that the service can be evaluated across a partnership area.	Jim Robb Head of Integrated Development.	Following feasibility study- joint performance indicators will be developed.	November 2005
13	Councils and schools should ensure that there is training on the inclusion of pupils with SEN and for class and subject teachers and SNAs, in particular, that there is effective development and training to support the needs of pupils with SEBD.	Ronald Gould Head of Secondary Education	Wilma Lawn QIO ASN. An annual needs analysis informs the provision of our in-service training for teachers and SEN assistants relating to pupils with SEN or SEBD. The annual strategy is included in the education policy file Supporting Children: Supporting Effective Learning.	Complete
14	Once trend information is available, benchmark with other partnerships using like-for-like performance measures to drive forward continuous improvement.	Jim Robb Head of Integrated Development.	Benchmarking with other similar local authorities will take place once information available.	Complete

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Date
15	Work together to assess need for major adaptations in the future.	Jim Robb Head of Integrated Development.	Develop close working links with Housing, RSLs, Care & Repair to monitor trends to assist in assessing for future adaptations.	November 2005
	Managing Risk **Councils and NHS bodies should**			
16	Ensure stock control systems are in place to track and locate equipment.	Jim Robb Head of Integrated Development.	Robust systems for managing equipment will be identified by feasibility study.	November 2005
17	Ensure that written instructions on using equipment and adaptations are always provided for users and carers, and trained staff always demonstrate their use.	Jim Robb Head of Integrated Development.	A joint meeting was held with Occupational Therapy staff to re-write practise guidance and produce information leaflets on May 11th. The whole exercise should be concluded by October 2005.	October 2005
18	Consider how best to provide advice and support to people in private housing market who install major adaptations.	Jim Robb Head of Integrated Development.	A joint meeting was held with Occupational Therapy staff to re-write practise guidance and produce information leaflets on May 11th. The whole exercise should be concluded by October 2005.	October 2005
19	Agree and implement formal policies and procedures that include: • Recall of faulty equipment • Maintenance and repair arrangements • Recycling, including infection control procedures • Emergency arrangements.	Jim Robb Head of Integrated Development.	Robust systems for managing equipment will be identified by feasibility study.	November 2005
20	Ensure management information systems contribute to the effective management of risk.	Jim Robb Head of Integrated Development.	Robust systems for managing equipment will be identified by feasibility study.	November 2005
21	Review user needs once equipment and adaptations have been supplied.	Jim Robb Head of Integrated Development.	Methods of monitoring and evaluation of service require to be identified following feasibility study.	November 2005

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
3 JUNE 2005

AUDIT SCOTLAND REVIEW OF INTERNAL AUDIT (FOLLOW-UP)

1. **SUMMARY**

In July 2004, Audit Scotland issued 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. Detailed below is the progress that has been made regarding the implementation of the local report recommendations.

2. **RECOMMENDATIONS**

2.1 The contents of this report are noted.

3. **DETAILS**

3.1 Internal Audit can report that as at the 18th of May 2005, all of the 15 recommendations contained in the Audit Scotland local report have now been addressed.

4. **CONCLUSIONS**

The recommendations outlined in the Audit Scotland local report have been addressed.

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   18 May 2005.
18Mayprogressreport18May

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ARGYLL & BUTE COUNCIL   **AUDIT COMMITTEE**
STRATEGIC FINANCE   **3 JUNE 2005**

RECENT EXTERNAL AUDIT ISSUED REPORTS 2004 – 2005.

1. **SUMMARY**

   This report contains the executive summary and action plan for a new report issued by Audit Scotland since the last Audit Committee. Internal Audit has performed a review of the progress made by management in implementing the reports recommendations. (See Appendix 1). This report 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 February 2005 issued a report entitled, "Information Management Review". The report covers the arrangements in place to provide a reliable planning, operational and monitoring environment regarding Information Management, Data Protection and preparedness for the introduction of Freedom of Information legislation. . The report contains an action plan detailing 7 recommendations. As at the 22nd of April 2005, there are 4 recommendations, which remain to be implemented.

   3.2 Of the remaining recommendations, 2 have an implementation date of May and one August 2005. Management have advised Internal Audit that these recommendations remain ongoing. With regard to the remaining recommendation with an implementation date of June 2005, management have advised Internal Audit that this date will move as new regulations are being issued by the Government in July which should be incorporated with the Council's Data Protection Policy. Therefore a more prudent date for implementation would be August 2005. The Executive Summary and Action Plan are appended in Appendix 1 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   22 April 2005
22Aprfinalreport22apr

1. Executive Summary

Introduction

This report summarises the findings from our 2004/05 review of aspects of Argyll & Bute Council's controls relating to the arrangements for Information Management that will facilitate effective Data Protection and preparedness for the introduction of Freedom of Information legislation. The report covers the arrangements in place to provide a reliable planning, operational and monitoring environment in this context. Where appropriate, the report suggests actions to strengthen existing controls or otherwise address identified weaknesses. Only those findings that require management action are included in the report.

The Data Protection Act 1998 is the fundamental legislation that the Government has provided as a framework for the secure, fair and lawful processing of personal data. The Act describes the Council's responsibilities to all data subjects, e.g. the general public, taxpayers and employees.

The Freedom of Information Act 2000 and the Freedom of Information (Scotland) Act 2002 are part of the Government's drive to promote a culture of openness and accountability amongst public sector bodies by providing people with legal rights of access to the information held by them. Within the Freedom of Information legislation there are timetables set for gaining agreement with the respective Information Commissioners for information to be published, and for making this information available to the public. The Acts came into force from 1st January 2005. By this time all public authorities are required to carry out the work necessary to meet the deadlines set by the Acts. The Freedom of Information Acts and Data Protection Act 1998 serve as the principal mechanisms for providing access to information held by public authorities.

Summary of Main Findings

Argyll and Bute Council has demonstrated a clear commitment to achieving the Government's timetable for freedom of information. A working group was established and is progressing actions preparing the Council to be able to comply with freedom of information legislation. A clear statement of the Council's policy that will facilitate a consistent approach to freedom of information has not yet been adopted. Actions underway include creating awareness of the new legislation.

Our review identified that the Council has a number of policies and procedures in place relating to information security, including Data Protection. However, the existing data protection policy requires updating to reflect recent changes and guidelines. Extensive documentation is available on Data Protection and training is provided by the Data Protection Officer on departmental request. Knowledge and awareness of the Council's Data Protection policies and procedures facilitate compliance, however Council officers who should receive detailed training or awareness training needs to be identified and training or awareness sessions should be presented accordingly.

The recent legislation is increasingly demanding on public organisations in terms of records management. The Council has various records management practices in place, although these could come under pressure to meet the additional demands placed on it. An Information Strategy can provide the Council with a sound basis for effective information management and establish a framework within which resources are effectively applied for the purposes of the Council's ongoing modernising government agenda as well as Data

Protection and Freedom of Information legislation. Such a strategy should provide for the consistent management of data, records and information throughout the Council's Services.

Conclusions

Argyll and Bute Council has a number of policies and procedures in place governing information security and data protection. In addition, policies and procedures to enable the Council to comply with the requirements of the recent Freedom of Information legislation were being prepared. Opportunities to strengthen the council's governance and internal control structures were noted and recommendations to that effect are included in the action plan in section 2. Positive action has already been taken on many of the matters arising from this review by the time of our report.

The main issues identified from this report are set out for Argyll and Bute Council to investigate or resolve and form part of an agreed action plan incorporated in the next section of this report. We would like to thank management and staff for their kind co-operation and assistance with this audit.

Argyll & Bute Council
2004/05 audit
Draft Information Management Review

APPENDIX 1

2. Action Plan

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 April 2005
1	The Council's Data Protection Policy should be reviewed and updated with the requirements of the Data protection Act, 1998 and subsequent guidance issued by the Information Commissioner. **Priority: High**	Data Protection and Information Security Officer	In progress.	June 2005	New regulations are being issued by the government in July and these are to be integrated with our Data Protection Policy therefore a new date of August 2005 is more prudent.
2	The Council should clarify its policy relating to Freedom of Information. **Priority: High**	Head of Democratic Services and Governance	The policy will be referenced under the Regulation Report (i.e. the new Council Constitution).	May 2005	May 2005 ongoing
3	Job descriptions and remits should be reviewed and updated to incorporate responsibilities for activities to comply with the requirements of Freedom of Information legislation. **Priority: Medium**	Personnel	Implemented.	Implemented	Implemented
4	The representation on the Freedom of Information Working Group should be reconsidered with the view of including representatives from all the Council's Services. **Priority: High**	Data Protection and Information Security Officer; and Governance and Risk Manager	Sandra Black represents Operational Services on the Freedom of Information Working Group. In addition to having representatives from all departments David Logan and Stephen Doogan have been visiting departmental management to raise awareness.	Implemented	Implemented

No	Recommendation	Responsible Officer	Action	Date	Update as at 22 April 2005
5	Training and awareness of the Council's Data Protection policies and procedures should be provided continuously. Officers who should receive detailed training should be identified and general awareness sessions should be provided to staff where appropriate. **Priority: High**	Data Protection and Information Security Officer	Training will be included in the Performance and Development Review (PDR) process of relevant staff members. A poster campaign is planned for January 2005 to promote awareness. Further training for a wider group of staff is planned for early Spring 2005.	February 2005 May 2005	Complete Complete
6	Formalised procedures for the regular updating of the Council's publication scheme and data protection registration should be established. **Priority: Medium**	Head of Democratic Services and Governance	The regulation report will touch on a clear statement on review processes for freedom of information and data protection.	May 2005	May 2005 ongoing
7	The Council should consider extending their existing records management and information security practices into an all inclusive information management strategy that provides for the consistent management of data, records and information throughout all the Council's Services. **Priority: Medium**	Policy & Strategy Manager	Work is progressing on information management. The Corporate Policy Manager plans to develop work already done by the Head of Application Support and a report will be presented to the Strategic Management Team.	August 2005	August 2005 Ongoing

ARGYLL & BUTE COUNCIL   **AUDIT COMMITTEE**
FINANCE   **3 JUNE 2005**

ANNUAL AUDIT PLAN 2005 - 2006

1. **SUMMARY**

   The Audit Committee was provided with the Strategic Audit Plan for 2005 – 2008, which was approved on the 4th March 2005. The report attached in Appendix 1, is an extract from the 3 year plan and outlines in detail the areas that will be audited in 2005 – 2006. This complies with the Audit Scotland request to provide additional information to auditees.

2. **RECOMMENDATIONS**

   2.1   The Annual Audit Plan for 2005 - 2006 is approved.

3. **DETAILS**

   3.1   Attached is our proposed Annual Internal Audit Plan, which has been presented the Strategic Management Team (SMT). It provides detail as to the proposed time and areas we intend to audit in 2005 – 2006. The areas were agreed as part of the overall 3-year audit plan for the years 2005 – 2008.

   3.2   This document increases the awareness amongst departments regarding audit objectives and it is hoped will aid planning and preparation.

   3.3   Within the attached document is a chart showing when in 2005 – 2006 audits are planned to take place. The timing of the audits was discussed with line managers and then with Heads of Service. However, the audits could be subject to change and timing should only be viewed as an indication. With regard to the section headed Scope and Objectives, this outlines what each audit will cover.

4. **CONCLUSIONS**

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

5. **IMPLICATIONS**

   5.1   Policy: None

   5.2   Financial: None

   5.3   Personnel: None

   5.4   Legal: None

   5.5   Equal Opportunities: None

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

Ian Nisbet
Internal Audit Manager   22 April 2005.
22Aprreport22April

Argyll and Bute Council

Annual Audit Plan 2005 - 2006
April 2005

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- Annual Audit Plan 2005- 2006 Chart.

- Scope & Objectives for areas outlined in the Audit Annual Plan 2005 – 2006.

ANNUAL AUDIT PLAN 2005 – 2006

Core Financial Systems	Risk Ranking	Last Audited	Audit Days 2005-06	April	May	June	July	August	September	October	November	December	January	February	March
Budgetary preparation and control	1	2005	20										X		
Capital Accounting	1	2005	20											X	
Capital Contracts	1	2005	20											X	
Cash Income and Banking	2	2004	30				X								
Contract Hire and Operating Leases	2	2003	20						X						
Council Tax and Non-Domestic Rates	2	2003	30					X			X				
Creditor Payments	2	2004	25							X					
Debtor Accounts	2	2004	20				X								
Purchasing - e-procurement	2	2004	25								X				
Unified Benefits System	2	2004	30										X		
Housing Rents	2	2005	20											X	
General Ledger Operations	2	2005	25												X
Government & European Grants	1	2003	30						X						
Payroll	2	2004	30							X					
Treasury Management	2	2005	20												X
Tendering Procedures	1	2004	30												X
Payments to Voluntary Bodies (Public Pound)	2	2005	20											X	X
Stocktaking	2	2005	25	X											X
Subtotal Core Financial Systems			**440**												

Non-Financial Audits	Risk Ranking	Last Audited	Audit Days 2005-06	April	May	June	July	August	September	October	November	December	January	February	March
Chief Executives Unit – Best Value	1	2004	30					X	X	X					
Corporate Services – ICT – Security	2	-	25						X						
Community Services – Care Services	2	-	30						X						
Community Services -NPDO Contract Monitoring	1	2003	30							X	X				
Development Services – T & I Grant Funding	1	-	30								X				
All Depts – Partnership Working	1	2004	30								X				
All Depts – Strategic Asset Management	1	2004	30									X			
All Depts – Property Asset Management	1	-	30										X		
All Depts – Recruitment & Retention of Staff	2	-	25		X										
All Depts – Business Continuity Planning	1	-	30								X				
All Depts – New Legislation	1	-	30			X									
Corporate Governance	1	2004	30												X
Performance Indicators	1	2004	60	X											
Sub Total Non-Financial			**410**												

Contingency Days	Risk Ranking	Last Audited	Audit Days 2005-06
Special investigations contingency	n/a	n/a	80
Follow-up External & Internal Audit Management Letter Points	n/a	n/a	60
Risk Assessment, Strategic Plan, Annual Plans	n/a	n/a	20
Sub Total SI/Risk/Follow-up			**160**
Total			**1010**

1 Scope and Objectives 2005 – 2006

1.1 2005 - 2006 Planned Objectives

1.1.1 The following sections outline the broad scope and objectives for the reviews identified for 2005-2006.

1.2 Budgetary Control

1.2.1 The specific objectives of this review will assess whether:

- The responsibilities of Officers and Members for the setting and control of budgets are properly defined;
- Budgets are set in accordance with pre-determined approved policy objectives;
- Revenue expenditure and income is properly controlled by the effective periodic monitoring of financial out-turns against detailed budgets;
- Virements are managed and controlled effectively;
- Significant variances are promptly identified, reported and acted upon; and
- The system contributes to the Council's ability to demonstrate that resources are being used in an economical, effective and efficient way.

1.3 Capital Accounting

1.3.1 The specific objectives of this review will assess whether:

- Fixed assets are identified and classified in accordance with the Accounting Code of Practice (ACOP) and compliant with the Prudential Code;
- Fixed assets are correctly recorded in an asset register;
- Fixed assets are valued in accordance with CIPFA guidance and the Prudential Code;
- Appropriate Prudential Code indicators have been calculated and approved and regularly reviewed;
- Capital charges are made to service accounts in accordance with ACOP and the Prudential Code;
- Fixed assets and capital charges are correctly recorded in the financial ledger; and compliant with the Prudential Code; and
- The system contributes to the economic, effective and efficient management of the Council's assets.

1.4 Capital Contracts

1.4.1 The specific objectives of this review will assess whether:

■ For major capital projects over £1m a proper business case and project appraisal procedure enables effective selection of appropriate projects;

■ The design satisfies the original project criteria;

■ The tendering process awards the contract to the most suitable contractor at the most advantageous price and is compliant with the Prudential Code with regard to affordability and financing;

■ Work is properly project managed, supervised and executed to contract specifications;

■ The system ensures the preparation of accurate interim valuations, final accounts and meets the Prudential Code sustainability criteria; and

■ All relevant information on the project is collected, evaluated and used to improve future performance.

1.5 Cash and Income Banking

1.5.1 The specific objectives of this review will assess whether:

■ Officers receiving cash are able to misappropriate funds without detection;

■ Cash is promptly and fully banked;

■ Payments received are promptly processed and correctly recorded in the financial ledger;

■ Security for non-banked cash is adequate; and

■ Income arrears procedures are properly controlled.

1.6 Contract Hire and Operating Leases

1.6.1 The specific objectives of this review will assess whether:

■ Proper control procedures are being operated;

■ E-Procurement is delivering the expected benefits;

■ It is compliant with the Prudential Code;

■ Arrangements are in place to assess that contracts and operating leases are compliant with contractual undertakings; and

■ Department budgets are set with consideration of commitments.

1.7   Council Tax & Non Domestic Rates

1.7.1   The specific objectives of this review will assess whether:

Council Tax

■ All relevant data from the valuation list is promptly and correctly transferred to the billing system;

■ Bills are correctly calculated (including discounts, reliefs etc) for all relevant properties;

■ Only valid amendments can be made to the billing system;

■ Payments received are promptly processed and correctly posted to taxpayers' accounts;

■ Write offs, cancellations and refunds are properly controlled;

■ Arrears follow up procedures are properly controlled;

■ Relevant properties are identified and included in the valuation list;

■ Properties included on the valuation list are allocated to the correct valuation band;

■ Only valid amendments can be made to the valuation list; and

Non-Domestic Rates

■ All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll;

■ Properties included on the valuation roll are given the correct rateable value;

■ Only valid amendments can be made to the valuation roll; and

1.8   Creditor Payments

1.8.1   The specific objectives of this review will assess whether:

■ Payments are made only for goods and services which were the subject of authorised orders;

■ Procedures for adding to, and removing contractors from, the standing list, and for selecting tenderers, are properly controlled;

■ All invoices are properly authorised and paid at the appropriate time;

■ Payments are made only to valid creditors; and

■ Payments are correctly recorded in the financial ledger.

1.9 **Debtor Accounts**

1.9.1 The specific objectives of this review will assess whether:

- Accounts are properly raised and posted for all chargeable services;
- Accounts are issued promptly;
- Payments received are promptly processed and correctly posted to debtors' accounts;
- Write-offs, cancellations and credit notes are properly controlled; and
- Arrears follow-up procedures are properly controlled.

1.10 **Purchasing**

1.10.1 The specific objectives of this review will assess whether:

- Only goods and services which are required for the audited body's business are ordered;
- Orders are placed only after costs have been ascertained;
- Orders are placed only with authorised suppliers;
- Invoices are passed for payment to the correct supplier and only for goods/services received;
- Invoices are correctly coded for posting to the financial ledger; and
- The roll out of e-Procurement throughout the Council is properly controlled.

1.11 **Unified Benefits System**

1.11.1 The specific objectives of this review will assess whether:

Council Tax

- Benefit can be awarded only to valid applicants;
- Claims are accurately assessed and benefit calculated in accordance with Regulations;
- Claims are processed and determinations made within the timescales required by Regulations;
- Benefit awards are correctly recorded in the benefits system, the council tax debtors system and the financial ledger;
- Adequate steps are taken to prevent and detect fraud;
- Overpayments are recovered, where appropriate; and
- The annual subsidy claim is accurate and complete.

Housing Benefits

- Benefit (rent rebate and rent allowances) can be awarded only to valid applicants;

- Claims are accurately assessed and benefit calculated in accordance with Regulations;

- Claims are processed and determinations made within the timescales required by Regulations;

- Benefit awards are correctly recorded in the benefits system, the rent accounting system and the financial ledger;

- Adequate steps are taken to prevent and detect fraud;

- Overpayments are recovered, where appropriate; and

- The annual subsidy claim is accurate and complete.

1.12 Housing Rents

1.12.1 In 2005 – 2006 a Housing Stock Transfer is scheduled to take place and therefore within the annual plan 20 days have been allocated to cover the following issues:

- Ensure that the Council has approved a business plan for delivery of the Scottish Housing Quality Standard and has procedures in place to adhere to the plan;

- Ensure that a process has been put in place to ensure that all relevant properties have been identified and their transfer agreed; and

- Any associated debts and prepayments are recognised and dealt with in accordance with Scottish Executive and Communities Scotland guidelines in co-operation with the new Housing Association.

1.13 General Ledger Operations

1.13.1 The specific objectives of this review will assess whether:

- Prior year balances are correctly brought forward;

- All data input to the system is properly authorised;

- Data from feeder systems is correctly and timeously transferred to the financial ledger;

- Output properly reflects the financial data within the system;

- Output is produced in accordance with a prescribed timetable and in a format which contributes to the financial management of the body; and

- The system contributes to the economic, effective and efficient management of the Council's assets.

1.14 Government & European Grants

1.14.1 Various grants are received by the Council from the Scottish Executive and cover Housing, Social Work, Education and Benefit Subsidies.

1.14.2 The specific objectives of this review will assess whether:

- All Government Grants are identified and applications made in accordance with grant requirements;

- Grants are only applied to the purposes provided;

- Amounts receivable / received are complete;

- The use of Government Grants is planned and controlled; and

- Adequate monitoring and reporting mechanisms are in place for management information.

1.15 Payroll

1.15.1 The focus for the payroll review for year one of the strategic plans will be to assess the continued roll out of HR Payroll and to ensure that progress is being made against target across all departments. In years 2 & 3 we will look at specific issues regarding operation of the Payroll. The specific objectives of these reviews will be to assess whether:

- Payments are made only to valid employees;

- Payroll budgets are set in accordance with pre-determined approved policy objectives;

- Data (particularly standing data) is accurate and complete;

- Payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc; and

- The system contributes to the Council's ability to demonstrate that resources are being used in an economical, effective and efficient way.

1.16 Treasury Management

1.16.1 The specific objectives of this review will assess whether:

- Borrowing and lending transactions are in accordance with statutory powers, approved policy and strategy;

- Appropriate Prudential Code indicators have been calculated and approved and regularly reviewed;

- The following meet the requirements of the CIPFA Code of Treasury Management in Local Authorities;
  1. Annual borrowing requirements and daily balances are properly estimated;
  2. Borrowing and lending transactions are properly controlled;
  3. Loan repayments and interest are paid on the due dates and in respect of valid loans;
  4. Deposits and interest are recalled/repaid on the due dates; and
  5. Borrowing and lending transactions are correctly recorded in bank accounts, the financial ledger, and other subsidiary records (e.g. registers).

1.17 **Tendering**

1.17.1 The specific objectives of this review will assess whether:

- The new Council Standing Orders reflect the required changes for effective control;

- Procedures for adding to and removing contractors from the Council's standing lists are properly controlled and make effective use of Constructionline services;

- Procedures for selecting tenderers are in accordance with the Council's Financial Regulations;

- Valid submitted tenders are recorded and held securely prior to formal opening;

- Tender opening procedures are properly controlled;

- Tenders comply with European Journal regulations where necessary;

- Only authorised alterations are made to tenders after opening process; and

- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

1.18 **Payments to Voluntary Bodies**

1.18.1 The specific objectives of this review will assess whether:

- Grants are classified according to materiality and any monitoring arrangements determined and carried out according to the Council's assessment of risk;

- All grant payments are identified in a register of funding;

- There is a record of the names of members or officers who sit on the boards and committees of external bodies;

- Applications are made in accordance with grant requirements;

- Funding to external organisations is specific and clearly stated;

- Amounts receivable/received are complete, planned and controlled; and

- A monitoring procedure is in place to ensure that available performance measures are collected and reported.

1.19 **Stock Taking**

1.19.1 The specific objectives of this review will assess whether:

- Systems are in place for maintaining accurate stock records;

- Stock is held in a secure environment;

- Adequate procedures are in place for management to count stock at year-end; and

- External Audit requirements have changed in respect of stock testing.

Assessment of Audit Days: 2005-2008

	Risk ranking	Last audited	2005-06
Core financial systems			
Budgetary preparation and control	1	2003	20
Capital accounting	1	2005	20
Capital contracts	1	2005	20
Cash income and banking	2	2004	30
Contract hire and operating leases	2	2003	20
Council tax and non-domestic rates	2	2003	30
Creditor payments	2	2004	25
Debtor accounts	2	2004	20
Purchasing	2	2004	25
Unified benefits system	2	2004	30
Housing rents	2	2005	20
General ledger operations	2	2005	25
Government & European Grants	1	2003	30
Payroll	2	2004	30
Treasury management	2	2004	20
Tendering procedures	1	2004	30
Payments to voluntary bodies (following the public pound)	2	2004	20
Stock taking	2	2004	25
Subtotal core financial systems			440

1.20 Non-Financial Audits

1.20.1 The non-financial section of the strategic audit plan recognises activities that require to be reviewed on an annual basis. These include corporate governance and statutory performance indicators. The significance of Information Technology (IT) for controlling Council activities and the provision of management information, means that Internal Audit is required to review general IT controls and the Council's IT security strategy. This area of audit will be co-ordinated with our internal audit partner.

1.20.2 Internal Audit in complying with the CIPFA Code of Practice for Internal Audit, has prepared this section of the report incorporating high risk areas identified by Heads of Service in a recent operational risk exercise carried out between the Corporate Services Department - Governance & Risk section, Internal Audit and its partner.

1.21 Best Value Audit

1.21.1 Audit Scotland is to undertake a Best Value review of the Council's activities commencing in the summer of 2005. They will prepare a report of their findings and after discussion with the Council agree an action plan for the Council to implement. This action plan is expected to be agreed in the autumn of 2005.

- Internal Audit will monitor the implementation of its 2004 - 2005 Best Value report action plans agreed by management in December 2004 and thereby monitor progress in preparation for the Audit Scotland Best Value Audit visit.

- Internal Audit will also allocate resources to discuss and monitor the implementation plan by management of the agreed Best Value action plan probably towards the end of 2005. This will most probably include challenging service reviews which were reported on by Internal Audit in 2004 – 2005.

1.22 Corporate Services – ICT Security

1.22.1 This non financial audit area was identified within the strategic audit plan and was derived from a Heads of Service risk evaluation exercise carried out at the end of January 2005. The exercise highlighted a number of key operational risks that could potentially lead to a problem for the Council, in particular unauthorised access to IT systems resulting in a breach of confidentiality, disruption and lack of system integrity. Discussions will take place with the Head of ICT & Financial Services and responsible manager to determine how best to approach the audit.

1.23 Community Services – Care Services

1.23.1 The Accounts Commission - Audit Scotland issued a national report towards the end of August 2004 entitled, "Adapting to the future". This is a national report and contains the findings of a recent study of Local Authorities and NHS bodies in Scotland.

1.23.2 The national report is for guidance to Council management across Scotland and listed 21 recommendations. As there were no implementation dates assigned to the recommendations contained in the report, Community Services Department management have prepared a position paper so that, it can be determined where this

Council is in terms of compliance with the recommendations outlined in the national report.

1.23.3 Internal Audit in 2005 - 2006 will follow up the audit report findings of 2003/2004 to establish what progress has been made by a joint future working group to examine issues raised in the report.

1.24 Community Services – Education NPDO

1.23.1 Internal Audit resources will be allocated to contract monitoring of the Council Education NPDO. Consideration will be given to the policy and objectives set, the processes and procedures in place for contract management.

1.25 Development Services – Transport & Infrastructure Grant Funding

1.25.1 As a result of a Heads of Service risk evaluation exercise carried out at the end of January 2005 the above area was identified as a high risk area. In particular it related to the following risk; the potential consequences if there were a failure to obtain transportation improvements through grant funding to Regional Transportation Partnership 2006 – 2009. It identified that there were few controls, if any in this area of activity. Discussions will take place with the Head of Service to determine how best to approach the audit of this area.

1.26 All Services – Common Areas

1.26.1 Set out below are a number of non financial audits identified from a recent Heads of Service risk evaluation exercise carried out at the end of January 2005. The exercise highlighted a number of key operational risks that needed to be included within the plan. In particular it was noted that Heads of Service identified a number of risks common to them all. Internal Audit intends to address each of these risk areas across all departments. Resources have been allocated within the annual audit plan and discussions will take place with the Heads of Service as to the best way to address their particular issues. The risk areas are:

- Partnership Working;
- Strategic Asset Management;
- Property Asset Management;
- Recruitment & Retention of Staff;
- Business Continuity Planning and
- New Legislation.

1.27 Corporate Governance Compliance / Risk Management

1.27.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) together published '*Corporate Governance in Local Government – A Keystone for Community Governance'.* This is a guidance note to assist Councils in achieving good practice corporate governance. As per last year an IFCS statement will be produced by internal audit identifying areas of significance along with Directors IFCS recognising that action has to be taken to resolve these issues.

1.27.2 The broad objective of this review will be to assess the arrangements put in place by the Council to implement the good practice guidance.

1.28 Council wide - Performance Indicators, Council PI's

1.28.1 The Council is required to collect record and publish performance indicators to allow benchmarking with other local authorities and against the Council's own past performance. It needs to ensure its systems and processes are robust and operating efficiently and effectively to capture and report such information.

1.28.2 The broad objectives of this review will be to review the processes for reporting key performance indicators. Internal audit will select PI's for review in three ways, the first on variance from previous year's figures of more than 2 %, secondly where PI's are in a Transitional, Change or New status and thirdly those PI's that failed last year will be reviewed again to assess compliance. The remainder will be the subject of a desktop review. Departments and PI co-ordinators have been advised of the requirement to maintain notes on variances so that back up is available for the auditor to check.

Assessment of Audit Days: 2005-2008

	Risk ranking	Last audited	2005-06
Non-financial audits			
Chief Executives			
Policy & Strategy – Best Value	1	2004	30
Corporate Services			
ICT – Security	2	-	25
Community Services			
Care Services	2	-	30
NPDO – Contract Monitoring	1	2003	30
Development Services			
Transport & Infrastructure Grant Funding	1	-	30
All Departments			
Partnership Working	1	2004	30
Strategic Asset Management	1	2004	30
Property Asset Management	1	-	30
Recruitment & Retention of Staff	2	-	25
Business Continuity Planning	1	-	30
New Legislation	1	-	30
Corporate Governance	1	2004	30
Performance Indicators	1	2004	60
Subtotal non-financial			**410**

1.29 Contingency Days 2005 – 2008

1.29.1 Audit days have been included within the strategic audit plan for contingency. This is audit time for unforeseen events which, by their nature, cannot be planned for, e.g.:

- notification of frauds, significant weaknesses or loss;

- consideration of controls for new or amended systems; and

- reviews of significant breakdown of internal control that cannot be accommodated within planned audits.

1.30 Special Investigation

1.30.1 The management of the Council may from time to time request that Internal Audit carry out special investigations on particular issues identified by Council management.

1.31 Risk Assessment / Strategic Plan / Annual Plans

1.31.1 Internal Audit will devote time to assessment of risk matters that could affect the audit plan. To develop the audit plan as issues identified by Council Management require input from Internal Audit. In addition Internal Audit will:

- Closely work with Corporate Services – Risk Management Group ; and

- Ensuring that the strategic audit plan and annual plans reflect all necessary changes.

1.32 Follow-up of Internal & External Audit Recommendations

1.32.1 The specific objectives of this review will be to assess and report to the Audit Committee on:

- Progress made by management to address the recommendations made by both internal and external audit and agreed by management.

Assessment of Audit Days: 2005-2008

	2005-06
Contingency days	
Special investigations contingency	80
Follow-up external & internal audit management letter points	60
Risk assessment, strategic plan, annual plans	20
Sub Total	**160**

1.33 Internal Audit Resource Days 2005 - 2006

		Audit Manager	Audit Manager	Accountant	Accountant	Senior Audit Assistant	Audit Assistant	Partner	Contract Auditor	Total
Number of Days in full year		260	260	176	208	260	197	53	90	**1,504**
Less:	Public Holidays	12	12	12	12	12	12	-	-	72
	Annual Leave	25	28	20	20	28	20	-	-	141
	Sickness Allowance	5	5	5	5	5	5	-	-	30
Working Days Available		218	215	139	171	215	160	53	90	**1,261**
Non-Direct Audit Work										
	IA Management	30	15	5	5	-	-	28	-	83
	Planning and Reporting	25	15	-	-	-	-	-	-	40
	Training, Development & Seminars	10	10	10	10	10	10	-	-	60
	Audit Internal Meetings	10	10	6	6	6	6	-	-	44
	Advisory	10	10	2	2	-	-	-	-	24
Total for Non-Direct Audit Support Work		85	60	23	23	16	16	28	-	**251**
Time Available for Direct Audit Work		133	155	116	148	199	144	25	90	**1,010**