

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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2 June 2006

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **THE MEMBERS ROOM, KILMORY, LOCHGILPHEAD** on **FRIDAY, 9 JUNE 2006** at **10:00 AM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST**
3. **MINUTES**
Audit Committee 3 March 2006 (Pages 1 - 4)
4. **ADAPTING TO THE FUTURE 2003-2004**
Report by Internal Audit Manager (Pages 5 - 22)
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6. **ANNUAL AUDIT REPORT 2005-2006**
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- 12. RECENT EXTERNAL AUDIT REPORT 2005-2006**
Report by Internal Audit Manager (Pages 117 - 128)
- 13. KPMG PROPOSALS FOR 2006-2007**
Report by KPMG (Pages 129 - 130)
- 14. APPOINTMENT OF EXTERNAL AUDITORS 2006/07 TO 2010/11**
Report by Head of Strategic Finance (Pages 131 - 132)

AUDIT COMMITTEE

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

Councillor John McAlpine
Councillor Elaine Robertson
Councillor John Tacchi

Contact: Katie McKenzie

Tel. No. 01546 604511

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 3 MARCH 2006**

Present: Councillor Gary Mulvaney (Chair)

Councillor Donald MacMillan
Christopher Valentine

Councillor Elaine Robertson
Ian Ross

Attending: Charles Reppke, Head of Democratic Services and Governance
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Moira Millar, Finance Manager – Corporate Accounting
Steve Keightley, KPMG
David Jamieson, Audit Scotland

1. APOLOGIES

Apologies were received from Councillors John Tacchi and John McAlpine.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The minutes of the Audit Committee of 9 December 2005 were approved as a correct record subject to the change of name at point 2 of item 11 where it would be Councillor MacMillan who would act as an alternative on the Strathclyde Pension Fund Representative Forum, not Councillor Robertson.

4. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2005-2006

The Committee were asked to give consideration to an interim progress report which had been prepared regarding the audit work performed by Internal Audit up to 24 February 2006.

Decision

To note the satisfactory progress made with the Annual Audit Plan for 2005-2006.

(Reference: Report by Internal Audit Manager dated 24 February 2006, submitted).

5. ADAPTING TO THE FUTURE

A report detailing an action plan and implementation dates assigned to the recommendations contained within Audit Scotland's report "Adapting to the Future" was considered.

Decision

It was agreed:

1. To note the contents of the report
2. To instruct Internal Audit to follow up the contents of the report and report back to a future meeting of the Audit Committee.

(Reference: Report by Internal Audit Manager dated 6 February 2006, submitted).

6. MAINTAINING SCOTLAND'S ROADS

Audit Scotland issued a national report at the end of November 2004 entitled "Maintaining Scotland's Roads". In response the Head of Roads and Amenity Services prepared an action plan incorporating the report's 9 recommendations and added a further 3 to reflect dependent issues. The Committee considered a report which set out the current implementation position in respect of the action plans for 2005/06 and 2006/07.

Decision

It was agreed:

1. To note the contents of the report
2. To instruct Internal Audit to follow up the contents of the report

(Reference: Report by Internal Audit Manager dated 14 February 2006, submitted).

7. ANNUAL INTERNAL AUDIT PLAN 2006-2007

The annual audit plan has been prepared in conjunction with the Council's Internal Audit partners, KPMG. The audit plan for 2006-2007 is year 2 of the 3 year Strategic Audit Plan approved by the Audit Committee on 4 March 2005 and ensure that Internal Audit resources are effectively planned and controlled. The Committee considered the plan which outlined in detail the areas which will be audited in 2006-2007.

Decision

To approve the annual audit plan for 2006-2007.

(Reference: Report by Internal Audit Manager dated 14 February 2006, submitted).

8. EXTERNAL AND INTERNAL AUDIT FOLLOW UP 2004-2005

A report setting out the results from a review undertaken by Internal Audit and recommendations due to be implemented by 31 December 2005 was considered.

Decision

It was agreed:

1. To note the contents of the report
2. To instruct Internal Audit to follow up the contents of the report

(Reference: Report by Internal Audit Manager dated 22 February 2006, submitted).

9. ASSET MANAGEMENT STRATEGY

The Audit Committee, in 2005, requested regular updates on progress with the Asset Register and implementation of the asset management strategy/planning. A report identifying the main elements of asset management planning, its development and progress was considered.

Decision

To note the contents of the report and the progress made.

(Reference: Report by Chief Asset Manager dated 23 January 2006, submitted).

10. HMIE ACTION PLAN UPDATE

The Education Service of Argyll and Bute Council was inspected during the period December 2004 to January 2005 by HM Inspectorate of Education (HMIE), as part of a 5 year national inspection programme of all local authorities in Scotland. In June 2005 HMIE issued their inspection report. This outlined key strengths plus areas requiring improvement. The HMIE review found that the service demonstrated good and improving performance and indicated areas where further improvement could be made.

Decision

1. To note the contents of the report
2. To instruct Internal Audit to follow up the contents of the report.

(Reference: Report by Internal Audit Manager dated 6 February 2006, submitted).

11. STRATHCLYDE PENSION FUND

The Committee considered a report which describes the legislative basis and the mechanisms that are in place to reconcile Local Government Pension Scheme regulations with wider pension fund law.

Decision

To note the contents of the report.

(Reference: Report by Head of Strategic Finance dated 3 March 2006, submitted).

12. ANNUAL ACCOUNTS 2005-2006

The Committee considered a report which advised of the plans put in place for financial year end 31 March 2006 and the preparation of the Council's annual accounts for 2005-06.

Decision

To note that plans are in place to prepare the Council's annual accounts, consistent with the Accounting Code of Practice and to submit them to Council prior to 30 June 2006 in line with the Scottish Executive requirement.

(Reference: Report by Head of Strategic Finance dated 24 February 2006, submitted).

13. UNIT LABOUR COSTS

The Head of Strategic Finance advised that he had, in looking at the issue raised by the Vice Chair, extended the remit to look at unit costs of services. He advised that there were also other drivers encouraging the Council to look at this from the Best Value Audit, and the general Council budget position.

It was intended to report to Strategic Management Team on a process looking at a pilot exercise on unit costs of activities.

Decision

To note that a report will be made to the Strategic Management Team in the near future setting out a way forward on this issue and that a progress report be submitted to the Audit Committee at its meeting in June.

(Reference: Verbal report by Head of Strategic Finance).

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 JUNE 2006

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 in conjunction with Community Services management prepared an Action Plan with agreed implementation dates.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 In March 2006, Age Ltd issued a 58 page draft report with 24 appendices and 73 recommendations entitled Equipment and Adaptations. The report covers Age Ltd review findings for the entire integrated service delivery by both the Council and NHS. With regard to the specific feasibility study work assigned to AGE Ltd, which has included its responses as one of the appendices within the overall report.

3.2 Management are currently reviewing the report, and will prepare and approve an Action Plan to address the 73 recommendations by the 30th of September 2006. This will include the responses to the feasibility study. The draft report appendix is attached for your review in Appendix 1. In addition, the Head of Integrated Care has prepared a note for the Audit Committee this is attached in Appendix 2.

4. CONCLUSIONS

Internal Audit will review progress as part of our follow up procedures in 2006 – 2007.

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 29 May 2006 29Mayfinalreport29May

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APPENDIX 1

AGE LTD

DRAFT REPORT APPENDIX 2

Community Services Department

ADAPTING TO THE FUTURE - FEASIBILITY STUDY RESPONSE 2005 – 2006

KEY to ABBREVIATIONS:

OOH: Out of Hours;
THUS: Support Software;
ELMS11: Support Software;
TIARA: Joint IT development between Council and NHS;
CES: Community Equipment services;
KPI: Key Performance Indicators;
MI: Management information; and
HIG's; Housing Improvement Grant.

Main Report – Action Update: Adapting to the future

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
	<p>Person-centred services Councils and NHS bodies should</p>				
1	<p>a/ Jointly publish comprehensive information on community equipment and adaptations, covering:</p> <ul style="list-style-type: none"> • 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. 	<p>Jim Robb Head of Integrated Development.</p>	<p>A joint meeting was held with Occupational Therapy staff on May 11th to re-write practice guidance and produce information leaflets</p>	<p>Complete. Information leaflets have now been produced, and also arrangements are in place for the Sensory Impairment Team to transcribe on demand into large print and on to tape.</p>	<p>No further comment.</p>
	<p>b/ The information in 1 above should be published in different formats and in other languages as needed by local communities</p>	<p>Jim Robb Head of Integrated Development.</p>	<p>Information above will be produced in large print and audio tape and other languages as required.</p>	<p>Complete. Leaflets have now been produced and also arrangements are in place for the Sensory Impairment Team to transcribe on demand into large print and on to tape.</p>	<p>No further comment.</p>

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
2	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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	All data being captured and/or extrapolated to cover areas where no data exists. Indications are that no data is in existence covering the use of any OOH service
3	Ensure that users have information on direct payments and their availability for community equipment and adaptations		A decision has been taken not to provide direct payments for this service	Not Applicable	No further comment.
4	Assess whether self-assessment and self selection could improve the efficiency of providing low cost, low risk items		A self-assessment process has been put into place .It is in its early stages and will no doubt be modified as staff and clients become familiar with it.	System in place but expected to evolve further	Criteria examples have been provided as part of project. Self assessment tools from other areas have been provided.

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
	<p>How are services organised Councils and NHS bodies should</p>				
5	<p>Work towards joint information systems that provide good management information on the community equipment and adaptation services within their partnership area.</p>	<p>Jim Robb Head of Integrated Development.</p>	<p>Re-implementation of Carefirst should provide more robust information. IT provision will be examined within a feasibility study as to best joint systems.</p>	<p>On the 15th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd</p>	<p>Meetings have taken place with leads on IT systems. Initial findings are: Care First upgrading to 5.4 EX equipment module THUS any equipment support software will be required – ELMSII being used in H/burgh and Oban. Health partners are developing TIARA. A solution whereby clinical and logistical/PI reporting systems can talk to each other is recommended. An output based IT specification has been included within the report IT solutions should also link in with e-procurement initiatives.</p>

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
6	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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Following widespread consultation – It is recommended that a key recommendation is that ALL clinical groups are to be part of new integrated service [CES](service leads have agreed in principle) – this supported with a developing and broadening of a “who can prescribe what” template (for use across the whole area) – supported with on going area-wide training. Templates provided within report. Please refer to Report and appendices
7	Ensure all relevant staff across the respective partner organisations is 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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Linked to comment 6 above – but further supported with the provision of a common to all Service Specification – against which a Catalogue of Goods and Services will be available to all practitioner groups – suggested contents is included within the proposed new CES specification attached to the report

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
8	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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Refer to Executive Presentation and configuration options – appended to core report. Common to area [poss. inc neighbouring areas] equipment and minor adaptations service standard/specification being developed – draft for discussions and/or amendment is appended to the report Multi area/agency/service configuration(s) is (are) being considered.
9	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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Covered in comment against point 7 and 8 above Additional templates covering SAP have been provided as part of the project process A Trusted Assessor tool has also been proposed – this appended to the report Additionally, it is recommended that the CES has set performance expectations and KPIs – these covered within the proposed Service Specification appended to the report

ADAPTING TO THE FUTURE - FEASIBILITY STUDY RESPONSE 2005 – 2006

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
10	Develop joint training plans for all staff involved in assessing the need for, and demonstrating, equipment and adaptations	Jim Robb Head of Integrated Development.	The feasibility study will advise on the development of training plans	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Covered in comment against point 6 above.
	Planning and Performance Monitoring Councils and NHS bodies should				
11	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.	Current Budgets are regularly reviewed through Joint Strategy group but more work is required to establish realistic budgets.	Regular monitoring by each partner has commenced. On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Data included within the core report and appendices, however, findings suggest that budgets are significantly below the levels required to meet demand – this being confirmed by historic and comparative data sources. Budget uplift in line with demand is needed.

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
12	<p>Monitor the performance on equipment and adaptation services by collecting and using robust management information on:</p> <ul style="list-style-type: none"> • Cost • Activity, including waiting times • Quality of services, including users' views. 	<p>Jim Robb Head of Integrated Development.</p>	<p>Robust systems for collecting information will be identified from recommendations of feasibility study.</p>	<p>On the 15th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.</p>	<p>Refer to core report</p>
13	<p>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.</p>	<p>Jim Robb Head of Integrated Development.</p>	<p>The feasibility study will advise on the introduction of a charge monitoring system to address this recommendation.</p>	<p>On the 15th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.</p>	<p>Where data is available or has been captured/ascertained – this is included within the report</p>
14	<p>Develop joint performance indicators so that the service can be evaluated across a partnership area.</p>	<p>Jim Robb Head of Integrated Development.</p>	<p>Following feasibility study- joint performance indicators will be developed.</p>	<p>On the 15th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.</p>	<p>KPIs have been proposed within IT specification appendix B and within example service specification – both appended to the report. Additionally the Health Executive is likely to be also proposing indicators for equipment and adaptations in Feb/Mar 06</p>
15	<p>Once trend information is available, benchmark with other partnerships using like-for-like performance measures to drive forward continuous improvement.</p>	<p>Jim Robb Head of Integrated Development.</p>	<p>Benchmarking with other similar local authorities will take place once information available.</p>	<p>On the 15th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.</p>	<p>Covered in comment against point 12 above</p>

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
16	Work together to assess need for major adaptations in the future.	Jim Robb Head of Integrated Development.	The feasibility study will recommend how to develop close working links with Housing, RSLs, Care & Repair to monitor trends to assist in assessing for future adaptations.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Based on information received thus far – it is unlikely that major adaptations service provision will be recommended as to be within the remit of the equipment and minor adaptations provider(s) – however administration of same “might” be considered – this for further discussion locally Please refer to main report
	Managing Risk Councils and NHS bodies should				
17	Ensure stock control systems are in place to track and locate equipment.	Jim Robb Head of Integrated Development.	Robust systems for controlling stock will be identified by feasibility study.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Accounted within ultimate service configuration inc defined areas of responsibility – this where possible supported through IT systems Issues ref protection from cross infection also accounted for Proposed stock control protocol appended to report

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
18	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.	. This exercise has been commenced at the Oban Store and will eventually be rolled out to other areas	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Covered in comment against point 17
19	Consider how best to provide advice and support to people in private housing market who install major adaptations.	Jim Robb Head of Integrated Development.	This advice has always been available to the private housing market but there is room for improvement	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Still under consideration
20	Agree and implement formal policies and procedures that include: <ul style="list-style-type: none"> • 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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	All these topics, and more, have been accounted within the final proposed service(s) configuration(s). This taking account of available resource [within A&B and on its peripheries], economies of scale and cost effective and most efficient service and/or service function solutions
21	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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	MI templates have been provided as part of the final report – these to support the KPI information referred to in comment against point 14 above

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as reported on the 9 th of December 2005.	Current update from AGE Ltd.
22	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.	On the 15 th of November 2005 this was included within the feasibility study to be conducted by AGE Ltd.	Part of service configuration(s) proposal(s) – likely to be two pronged support: from service(s) provider(s) assisting therapists and clinicians as applicable/specified – no doubt assisted through IT. And from Therapists and Clinicians themselves. This to be on going, even after conclusion of the feasibility study.

General comment:

The feasibility project is now complete, however, accessing data/information to inform the process and way forward [and in this instance to address and comment upon many of the points above] has proved difficult and challenging – this no doubt no surprise to the reader(s). This said, the team and those within A&B supporting the project have worked tirelessly to either find the data/information or, if not available, capture and report on same. All information that was available and/or, more likely, compiled/captured has been included within the Final Report and Executive Presentation.

A Project Briefing – indicating Findings thus far and Options for the future – was presented to lead officers on 020206

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ADAPTING TO THE FUTURE

1. INTRODUCTION

1.1 Audit Scotland's report Adapting to the Future issued during August 2004 resulted in 22 recommendations being made subject to the following headings:

- Person Centred Services;
- How are services organised;
- Planning and performance monitoring; and
- Managing risks.

1.2 These recommendations are being progressed in partnership with the NHS, now NHS Highland, via the Joint Implementation Group (JIG) and thereafter to the Joint Strategy Group. It should be noted that a full review of service delivery by AGE Ltd was commissioned by the JIG during October 2005 in order to progress the agenda. The initial draft of the report was presented to the JIG on 27th April 2006.

2. SUMMARY OF THE AGE LTD REPORT

2.1 General

- On reviewing the current situation in Argyll & Bute it was noted that there is a lack of cohesion and integration with the NHS in purchasing, providing and maintaining equipment and adaptations
- A high proportion of professional Occupational Therapy time is taken up with the delivery and maintenance of equipment as against focussing time on assessment and clinical support to clients for which they are primarily trained.
- The review found that in certain circumstances clients could wait 12 months or more for basic equipment.
- The review established that equipment procurement, storage, maintenance, cleaning and re-cycling being generally undertaken locally is tying up professional staff time inappropriately. The exception to this being the Oban area where there has been an investment in storage, maintenance, cleaning and delivery using resource release revenue provided by the NHS following a local ward closure.

APPENDIX 2

- The AGE Ltd report notes that a revenue purchase figure of approximately £400k would be appropriate as against the £91,363 available during 2005/06.
- The financial position noted is further compounded by the lack of a coordinated approach to procurement, cleaning, maintenance and re-cycling.

2.2 AGE LTD OUTLINE OPTIONS FOR THE FUTURE

- 2.2.1 The Argyll & Bute partnership of the Council and NHS are encouraged to develop and commission services and enhance the economies of scale by planning strategically across the area as against the local practice which presently exists.
- 2.2.2 They propose that a “Hub & Spoke” model be adopted for equipment and adaptations across the whole area. Core elements such as procurement, central I.T support, main storage, distribution and supply, cleaning and maintenance are provided at the hub. This would serve the local spokes, which will provide local storage only to serve the immediate requirements of clients and staff.
- 2.2.3 The development of a Hub & Spoke model would require a major investment both centrally and locally in storage space, cleaning equipment, maintenance and re-cycling, transport and non-qualified staff to support the professional Occupational Therapists in managing the service.

3. MANAGEMENT REVIEW, ACTION / RECOMMENDATION

- 3.1 The JIG has created a sub group to consider the recommendations detailed in the report. However this process has been overtaken by the scrutiny review of all Social Work services that will progress during the next 3-4 months. The scrutiny review will consider all aspects of Social Work from what the priorities of the service are, how services should be provided, how services should be funded and how the service is managed and organised.
- 3.2 While the scrutiny review progresses it is not practical to attempt to make any specific recommendations for the future of equipment and adaptation services within Argyll & Bute. The review will provide a medium to long-term framework for the development of all social work service within the council and in partnership with the NHS.

Sub groups have been created of which Physical Disability has the remit for making specific recommendations within the context of the factors noted in 3.1. The work that has progressed via the Adapting to the Future agenda and the recommendations noted in the AGE Ltd report will provide the core information and direction for the scrutiny review but until such times that the review has reported on its outcomes, I do not consider it possible to progress this specific agenda in isolation.

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APPENDIX 2

- 3.3 The scrutiny review is planned to come to a conclusion during September 2006. It would be my intention to report to the Audit Committee at the earliest opportunity thereafter.

James D M Robb
Head of Service Integrated Care.

30th May 2006

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 JUNE 2006

MAINTAINING SCOTLAND'S ROADS

1. SUMMARY

Audit Scotland issued a national report towards the end of November 2004 entitled, "Maintaining Scotland's Roads". The national report did not have any implementation dates assigned to its 9 recommendations. The Head of Roads & Amenity Services prepared an action plan incorporating the report's recommendations and added a further 3 to reflect dependent issues. The Head of Service commenced reporting to the Audit Committee and Strategic Policy Committee (SPC) in December 2004. Set out below is the current implementation position in respect of the Action Plans for 2005/06 & 2006/07.

2. RECOMMENDATION

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

3. DETAILS

3.1 As at the 28th of April 2006, there are 2 recommendations remaining to be implemented from the 2005- 2006 Action Plan as set out in Appendix 1. Management have reported ongoing progress towards the new implementation dates of June and September 2006.

3.2 As at the 28th of April 2006, of the 12 recommendations set out in the 2006 – 2007 Action Plan attached in Appendix 2, management have reported 4 of the 12 recommendations complete. For the remaining 8 recommendations management have assigned new implementation dates for 4, citing resource, IT systems and external issues for the extended implementation dates. Of the remaining 4 recommendations management have reported to Internal Audit that 3 are progressing and one has not yet commenced, having an implementation date of March 2007.

4. CONCLUSION

Progress with the implementation of recommendations will continue to be reported 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 28th April 2006. 28aprfinalreport28apr

Maintaining Scotland's Roads 2005 – 2006

Action Plan

APPENDIX 1

No.	Recommendations	Current Position	Proposed Action	Timescale	Progress update as at 28th April 2006
6	Conduct an option appraisal for procuring and financing road maintenance services.	No action.	Undertake recommendation.	March 2006	Not yet started. New proposed implementation date June 2006.
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	No action to date.	Implement action in association with Asset Management Unit.	December 2005	Delayed start due to lack of resources. New proposed implementation date September 2006.

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Maintaining Scotland's Roads 2006 – 2007 Action Plan

No.	Recommendations	Current Position	Proposed Action	Timescale	Progress update as at 28 th of April 2006
1	Report on the condition of roads and maintenance backlog.	Awaiting 2004/05 information	Continue to report on annual basis.	Reported to SPC May 2005 next report May 2006	Still awaiting annual data from the National Road Condition Survey. The information report will be delayed till late September 2006 COMPLETE
2	Determine the size of the structural maintenance backlog.	An accurate assessment is not yet available.	Determine the cost, in accordance with Scottish Executive approved techniques.	March 2006	COMPLETE
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	No action to date.	Implement action in association with Asset Management Unit.	December 2005	Initially delayed due to a lack of resources. Progress is now being made toward the implementation date September 2006.
4	Meet the recommendations stated in "Delivering Best Value in Highway Maintenance – Code of Practice for Maintenance Management".	Road Maintenance Plan introduced by Council in May 2004.	Continue to monitor.	-	On going.
5	Review budget setting procedures ensuring appropriate priority to structural maintenance to achieve long-term value for money.	Capital programme allows an element of structural maintenance.	Review Audit Scotland's recommendation.	Complete Review March 2006	COMPLETE
6	Conduct an option appraisal for procuring and financing road maintenance services.	No action.	Undertake recommendation.	March 2007	Not yet started.
7	Improve inventory information on the roads assets.	Work ongoing.	Complete inventory.	March 2006	This is progressing slower than had been anticipated

APPENDIX 2

						and should be implemented by September 2006.
8	Use asset management system linked to GIS and financial system.	No action.	Introduce a Roads Maintenance Management System.	Initial introduction complete full implementation 1 st April 2006	The introduction of a Roads Maintenance Management System has been delayed due to IT problems but these should be rectified shortly with the purchase of new hardware. Progress is now being made towards implementation by September 2006.	
9	Consider joint working with other Councils	No significant opportunities found.	Review this recommendation.	To be reviewed March 2006	COMPLETE but will be an ongoing task.	
10	Review unit costs of various service elements.	Complete for 2005/06	Review recommendation.	March 2006	COMPLETE	
11	Develop a framework of performance indicators and outcome targets against which to measure the performance of the road maintenance system.	There are several performance indicators in the Roads Maintenance Strategy.	Review Performance Indicators in light of Audit Scotland's Report.	March 2006	Behind schedule due to resource issues and awaiting external data. New proposed implementation date July 2006.	
12	Complete the Best Value Road Maintenance Service Checklist.	Complete	Review recommendation.	March 2006	Behind schedule due to resource issues and awaiting external data. New proposed implementation date July 2006.	

INTERNAL AUDIT ANNUAL REPORT 2005 - 2006

1. SUMMARY

Internal Audit has the responsibility to provide to the Audit Committee an Annual report that comments on the duties and audits carried out by the section throughout the financial year. The Annual Report for 2005 – 2006 is attached in Appendix 1.

2. RECOMMENDATION

2.1 That the Internal Annual Audit Report for 2005 - 2006 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 2005 - 2006.

3.2 Further comment on Internal Audit performance is given within the report for:-

- Core Financial Audits;
- Non Core Financial Audits;
- Contingency; and
- Other Areas.

The Assessment of Audit days for 2005 – 2006 Strategic Plan is provided in Appendix 2 and is a progress statement on the audits planned for 2005 – 2006.

3.3 There is only one Core Financial Audit where the fieldwork and draft report have not been completed. This audit was entitled Following the Public Pound (FtPP) and has been suspended to allow financial review work to be undertaken. Internal Audit has therefore decided in agreement with Audit Scotland that this audit be carried forward into the 2006 – 2007.

4. CONCLUSION

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 |

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 JUNE 2006

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2005 – 2006.

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 2006.

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, 2004/05 and 2005/06 Internal Audit reports issued prior to March 2006. It details the 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 2006. 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 2006. The second document lists action points outstanding from the previous Audit Committee. These are points that should have been implemented by the 31st December 2005 for the last Audit Committee. The same layout has been used for the reporting of Audit Scotland report recommendations in Appendices 3 & 4.

3.2 Appendices 2 and 4, detail 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.

3.3 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.

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 or Alex Colligan of Internal Audit on (01546 604216 or 604271)

18 May 2006
18Mayreport18May

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From January to March 2006

Audit	Report Number	Points to be actioned by 31 March 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2005/06					
Review of Capital Accounting	13 (February 2006)	2	1	1	A2
Review of Contract Tendering & Vetting	12 (March 2006)	1	1	0	
Review of Operating Leases	6 (December 2005)	4	3	1	B2
Review of Treasury Management	8 (April 2006)	2	2	0	
Review of Business Continuity Planning	5 (December 2005)	3	0	3	D1,2&3
Review of Capital Contracts	11 (February 2006)	3	1	2	E2&3
Review of Debtors - Estates Rents	17 (March 2006)	5	3	2	F5&8
Review of Cash & Income Banking, Hermitage Academy	9 (February 2006)	3	0	3	G4,6&9
Review of Creditors	4 (December 2005)	2	2	0	
Total		25	13	12	

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Points Outstanding From Previous Audit Committee

Audit	Report Number	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 31 March 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2003/04	28 Reports					
Review of the Progress of the Joint Future Agenda	26 (May 2004)	1	1	0	1	I10
2004/05	20 Reports					
Prudential Code	17 (May 2005)	1	1	0	1	C3
Review of Cash Income & Banking		1	1	0	1	J6
Review of Purchase Equipment & Materials		2	2	2	0	
Best Value Review 2004/05		1	1	1	0	
Review of Housing Rents		1	1	1	0	
2005/06						
Review of Year-end Stock Count Procedures	1 (August 2005)	3	3	3	0	
Review of Performance Indicators 2004/05	2 (August 2005)	3	3	0	3	H2,3&4
Total		13	13	7	6	

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Action Points Behind Schedule – Internal Audit

A – Review of Capital Accounting

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Lack of written documentation, policies and procedures	Finance Manager Development Services	Being carried out as part of the closure of the Annual Accounts.	Material	31 March 2006	30 June 2006

B– Review of Operating Leases

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Not all leases are accounted for in the Council's Annual Accounts.	Finance Manager, Development Services/ Senior Estates Surveyor	Being carried out as part of the closure of the Annual Accounts.	Fundamental	31 March 2006	30 June 2006

C – Review of the Prudential Code

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Prioritisation of capital schemes be developed; on going revenue effect be available to Council when a scheme is proposed; eventual final outturn be compared with budget estimate.	Head of Strategic Finance	This will be addressed as part of the Best Value Action Plan.	Material	31 March 2006	30 September 2006

D –Review of Business Continuity Planning

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Current business continuity plans do not cover many of the main risks facing the council. Without proper business continuity plans in place the council will find it difficult to deliver the level of services that its citizens expect.	Governance and Risk Manager	Timescale revised due to departure of Governance and Risk Manager. New appointment not likely to be in post before June 2006. The BCP plan is behind schedule as departmental representatives have been working on the Strategic Risk Register. The revised date will allow time for the work to be completed by the new appointee with departments.	High	31 January 2006	31 August 2006
2	Without sufficient resources, the objectives of the business continuity group are unlikely to be met.	Governance and Risk Manager	As above	High	31 January 2006	31 August 2006
3	Ineffective planning and failing to address wider issues facing the council can lead to duplication of effort and wasted resources.	Governance and Risk Manager	Noted. The same staff are supporting the work on the Review of Strategic Risk Register and the BCP process.	High	31 January 2006	31 August 2006

E- Review of Capital Contracts

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Argyll and Bute Council have agreed to the signing of a Contract with the Campbeltown Community Project Contractor, despite the existence of a standard 'offer and acceptance' contract already in place.	Project Manager - Campbeltown Community Project	The many documents which comprise the contract have been assembled, collated and agreed and are currently with the contractor for signature. Discussions are currently ongoing with the Head of Legal Services as to the merits or otherwise of the Council signing a contract at this late stage.	Material	28 February 2006	30 August 2006
3	Contractor claims in the Campbeltown Community Project are potentially under estimated and the capital plan exposed.	Project Manager - Campbeltown Community Project	The contractual claims situation is being closely monitored on an ongoing basis by the Council's Project Manager in consultation with the Head of Legal Services and the Council's specialist legal advisers, Brodies.	Material	28 February 2006	30 December 2006

APPENDIX 2

F – Review of Debtors – Estates Rents

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	Accounts can be withdrawn by Rent Roll staff notifying Senior Clerical Assistant in Sundry Debtors by e-mail or telephone.	Head of Legal and Protective Services	There is a control in place at the moment which will be reflected in the written procedures once the rent roll system is finalised.	Fundamental	28 February 2006	30 June 2006
8	Inveraray Jail Significant rental income has been lost to the Council	Head of Legal and Protective Services	Through a lease agreement the Council receives rental income related to the number of visitors to the Jail. This has been in place since 1989. There is a legal difficulty in relation to rental of the shop area and a meeting is to be held shortly with the tenant to resolve this specific issue.	Fundamental	28 February 2006	30 June 2006

G – Review of Cash & Income Banking, Hermitage Academy Education Service

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
4	Offices in the school do not display a notice to say receipts are to be given for all cash remittances.	Acting Head Teacher (Hermitage Academy) & Heads of Service for Primary and Secondary Education	The signage within the offices indicating the need for receipts to be given for all cash remittances are in place. Education services management are taking action to address this matter in the current round of meetings with head teachers of all schools.	Minor	10 February 2006	30 August 2006
6	There may be risks which need to be looked at regarding the arrangements for the transit of cash to the bank.	Acting Head Teacher (Hermitage Academy) & Heads of Service for Primary and Secondary Education	The risks involved in the arrangements for the transit of cash to the bank have been reviewed by the acting head teacher, the AFA and the school treasurer. The decision taken was that the current arrangements are as effective as is practical with the senior janitor transporting cash to the bank each afternoon. Education services management are taking action to address this matter in the current round of meetings with head teachers of all schools.	Material	10 February 2006	30 August 2006
9	Several school fund bank accounts identified which had not been in use for some time.	Acting Head Teacher (Hermitage Academy) & Heads of Service for Primary and Secondary Education	Those bank accounts identified as not in use for some time have now been closed and the monies transferred to the school account. Education services management are taking action to address this matter in the current round of meetings with head teachers of all schools.	Minor	10 February 2006	30 August 2006

H – Review of Performance Indicators 2004/05

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Children's Services PI 13 - Supervision Requirements - All Areas need to provide full details of relevant dates for each case together with an assurance that back-up evidence is available from personal case files.	Head of Children & Families via Area Service Manager	There were 7 supervision orders for 2004/05 for Helensburgh and Lomond. All were visited within the 15 days, case notes on care first (database) and paper based file confirm this. This will be checked when PIs are checked this year.	Material	31 March 2006	June 2006
3	Roads and Lighting PI 4 - Street Lighting Columns - The Service should complete the inventory of street lighting columns as soon as possible	Head of Roads & Amenity Services via Operations Manager	Do not have records to show age of columns. Inventory in progress, plan to complete physical count over the summer months. Introduced annual visual inspections. Columns to be replaced based on condition not age. This will be checked when PIs are checked this year.	Material	31 March 2006	31 August 2006
4	Corporate Management - PI 4 - Sickness Absence: Personnel Education need to review of the data collection and analysis process for this PI to ensure that it complies with the PI requirements of Audit Scotland, Adequate working papers must be available in order to back up the final PI figures provided for audit and publication	Head of Planning & Performance via Education Personnel administration	System now in place and being implemented in order to assist in accurate reporting for this performance indicator. All figures are on the Seemis system and hard copies are also available. This will be confirmed when PIs are checked this year.	Material	31 March 2006	June 2006

I- Review of the Progress of the Joint Future Agenda

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	SSA is used extensively across all of the partnership. Version 6 of the CarenapE (Risk Assessment) has been piloted in Oban and is being slowly rolled-out across the partnership alongside training for staff on risk assessment. In relation to data collection and analysis a database has been designed that is now gathering SSA data for JPIAF6 via all services centres on a monthly basis. This information is being processed by the planning team and redistributed to the team leaders on a monthly basis. Using the SSA as the core document, training is now progressing in relation to the Indicator of Relative Need (IoRN). This is being reported via the SSA database on a monthly basis.	Material	31 March 2005	30 August 2006

J – Review of Cash & Income Banking

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	Income from the public conveniences in Oban and Fionnphort do not reconcile to the expected income per the turnstile reading. On several occasions negative variances between expected and actual cash have been recorded.	Roads and Amenity Services Manager for Oban, Lorn & the Isles	The Director has agreed replacement or repair of turnstiles, which have been found to be of a less robust standard than expected.	Fundamental	06 August 2004	01 August 2006

External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From January to March 2006

Audit	Points to be actioned by 31 March 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received
<u>2004/05</u>			
2004/05 Audit - Final Report to Members	2	0	2 B24&26
<u>2005/06</u>			
Web Overview	1	1	0
Financial Strategy	1	0	1 C1
Business Continuity Planning Review	1	0	1 D1
Total	5	1	4

Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committee	Points to be actioned by 31 March 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received
Prudential Code	1	1	0	1
Report on the 2002/03 Audit	1	1	0	1
Total	2	2	0	2

A5

E5

Action Points Behind Schedule - Audit Scotland Reports**A –Prudential Code**

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	Officers are to devise and implement a suitable project option appraisal process.	Head of Strategic Finance	This will be addressed as part of the Best Value Action Plan.	Medium	31 March 2005	30 September 2006

B – 2004/05 Audit – Final Report to Members

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
24	Asset management and valuation: No review of non-operational assets took place in 2004/05 and the Council has been unable to demonstrate that assets have been systematically reviewed for impairment. Risk: The categorisation and valuation of fixed assets in the balance sheet may be mis-stated.	Head of Strategic Finance	Being carried out as part of the closure of the Annual Accounts.	Medium	31 March 2006	30 June 2006
26	Trading Accounts: one of the tests of whether trading accounts are required is whether the service is charged on a basis other than a straightforward recharge of cost. However, S	Head of Strategic Finance	Service Level Agreements (SLAs) are in place that detail the basis of recharges. Recharges have been processed based on the SLAs. There are no significant year end adjustments. SLAs are currently being reviewed with Audit Scotland.	Medium	31 March 2006	

APPENDIX 4

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	<p>recharge of cost. However, a number of significant year-end income adjustments were made to the Waste Management Trading Account and the Catering and Cleaning Trading Account which represent recharges based on actual cost of service provision.</p> <p>Risk: Internal recharges at the end of the year are inconsistent with the concept of trading and do not represent proper accounting practice.</p>					

C – Financial Strategy

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	<p>There are no clear links between the objectives set out in the overall corporate plan and the key themes established in individual service plans.</p>	<p>Policy and Strategy Manager</p>	<p>This will be addressed in the Best Value Improvement and Development Plan.</p>		<p>31 March 2006</p>	<p>September 2006</p>

D – Business Continuity Planning Review

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	<p>The Council set-up a Strategic Risk Management and Governance Group, which is responsible for managing risk. This group produced a risk register, oversaw the formation of the Loss Control Groups and supervised the development of business continuity plans for a pandemic influenza epidemic.</p> <p>Current business continuity plans do not cover many of the main risks facing the Council. Without proper business continuity plans in place the Council will find it difficult to deliver the level of services that its citizens expect.</p>	Governance and Risk Manager	Timescale revised due to departure of Governance and Risk Manager. New appointment not likely to be in post before June 2006.	High	31 January 2006	31 August 2006

E – Report on the 2002/03 Audit

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	The practical steps for demonstrating annually that assets have been systematically reviewed for impairment should be documented and implemented.	Head of Transportation and Infrastructure	Being carried out as part of the closure of the Annual Accounts.	Medium	31 March 2005	30 June 2006

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
9 JUNE 2006

UPDATE ON ASSET MANAGEMENT

1. SUMMARY

The Audit Committee, in September 2005, requested that they be provided with a regular update on progress with the asset register and implementation of asset management strategy/planning. The attached appendices provide an update on the progress in implementing the Asset Management Strategy and sets out recommendations for bringing it to a successful conclusion. It also supersedes the reports prepared to date by the Chief Asset Manager.

2. RECOMMENDATION

2.1 The contents of this report are noted.

3. DETAILS

3.1 On the 2nd of May 2006, a report was submitted to the SMT by the Director of Development Services and the Head of Strategic Finance updating the management team on the process of implementing an Asset Management Strategy and setting out recommendations to continue progress. See Appendix 1.

3.3 The SMT agreed to establish a project board and 4 project groups. The project groups have been asked to report back to the project board by the 26th of May 2006. The remit for the groups is that they meet in May and report back to the project board with a position statement of where the Council is in respect of the tasks, and a project plan with timescales for how the gap will be bridged from the current position and where the Council wants to be. This will enable a report on current position and progress to be presented to the Audit Committee on the 9th of June 2006. An extract from the SMT is provided in Appendix 2.

4. CONCLUSION

A progress report will be provided to the Audit Committee.

5. IMPLICATIONS

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

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

Ian Nisbet

Internal Audit Manager 5th May 2006. 5Mayfinalreport5May

**ARGYLL AND BUTE COUNCIL
JOINT REPORT BY DIRECTOR OF
DEVELOPMENT SERVICES AND
HEAD OF STRATEGIC FINANCE**

**STRATEGIC MANAGEMENT TEAM
2 MAY 2006**

UPDATE ON ASSET MANAGEMENT

1. INTRODUCTION

- 1.1 This report gives an update on the progress in implementing the Asset Management Strategy and recommendations for bringing the implementation to a successful conclusion.

2. RECOMMENDATION

- 2.1 The Strategic Management Team notes the progress made to date as outlined in paragraphs 3.5 to 3.8.
- 2.2 It agrees to establish a project board and five project teams.
- 2.3 It agrees to require the project teams to report back within a month.
- 2.4 It considers how to develop the linkages between asset management and the planning and business processes of the Council.

3. DETAIL

- 3.1 The Council approved the Asset Management Strategy on 6 April 2005 which defined Asset Management as:

“Asset Management is a structured and systematic approach to managing fixed assets on an ongoing basis. This approach addresses all phases of an asset’s life cycle, from pre-acquisition through to retirement.

Effective Asset Management means knowing what you own, where it’s located, where you bought it, for how much and who has it. A primary objective of asset management is reducing the total cost of ownership whilst maximizing the benefits from investment in assets.”

- 3.2 Asset Management is described in practical terms in Appendix 1. The diagram in the appendix shows in the upper part where the Asset Management Strategy sits within the overall planning framework of the Council.

- 3.3 The lower part of the diagram splits asset management into three parts, firstly, the routine tasks, secondly, the information requirements and finally the outputs/outcomes.
- 3.4 Looking in detail at the lower part of the diagram and moving from left to right the Council is already carrying out the routine asset management tasks such as maintaining its assets etc.
- 3.5 In respect of the information required for asset management the departments already have a great deal of this but it may not be complete or in an electronic or user friendly format. In terms of the gaps in the information plans are in place to gather this, for example condition and suitability information for properties used by the Council. The information held on the assets owned by the Council is currently being verified.
- 3.6 The right hand side of the diagram shows the use that will be made of the information held on assets.
- 3.7 The Council at present has no system in place to process the information held and being generated on assets to help in the production of the asset management plan or help facilitate the appraisal of options.
- 3.8 The lack of a system has not stopped progress being made on a number of strategic asset management projects, in particular, the office rationalisation projects in Campbeltown, Helensburgh and Oban. These projects have provided a useful insight into how asset management information can be used in the evaluation of options which can be applied in respect of all types of assets.

Community Services have produced an Asset Management Plan for the School's Estate and signed the NPDO contract for nine schools.

3.9 In order to meet the External Auditors expectations on Asset Management the Council will require to be able to demonstrate that it has implemented its Asset Management Strategy and that it is using it to manage its assets. The audit check list has the following headings (these refer to property assets but similar actions will be required for each of the categories of assets):

- Statement of Context
- Planning and Consultation
- Review of existing portfolio – Estates and Buildings property by property and site by site
- Review of Current Functional Need and Investment or Sale Opportunities
- Review of Future Requirements
- Gap Analysis
- Option Analysis
- Evaluate Options against criteria and identify preferred strategy options
- Develop forward plans and programmes – Business Case, Procurement, Acquisition or Disposal Strategies
- Implement Strategy and Manage Projects, Programmes and/or Transactions
- Evaluate and Feedback

3.10 John MacNicol before he left the Council's employment submitted a report to the Audit Committee on the progress being made on Asset Management. A copy of this report was submitted to the Strategic Management Team on 21 March 2006. The progress report followed a report to the Audit Committee in December 2005 which contained actions on the following points:

- Assets used in service delivery
- Condition of the assets
- Are they fit for purpose
- Cost of making them fit for purpose
- Lifecycle costs
- Operating costs
- What use is made of the assets
- Future asset requirements

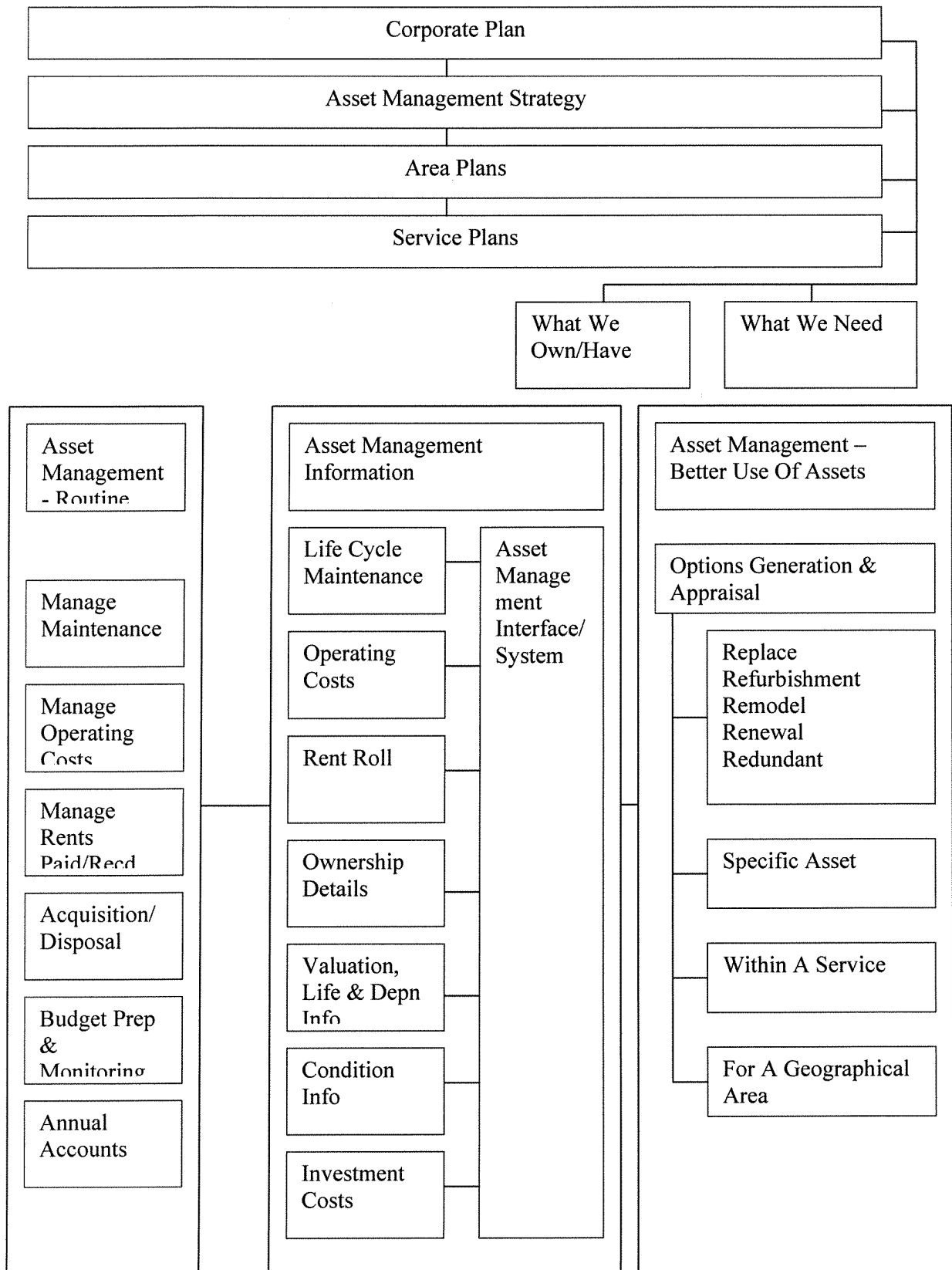
- 3.11 The Council's Draft Best Value Improvement Plan has six actions linked to asset management, as follows:
- B13 Develop the asset management strategy (including condition, maintenance costs and performance indicators for property portfolio)
 - B14 Develop the land and building use register
 - B15 Link asset management to corporate and service planning
 - B16 Develop the school estate asset management strategy
 - E10 Link asset management to corporate planning
 - B5 Link capital plan to asset management to options appraisal
- 3.12 These particular actions need to be integrated/co-ordinated with the implementation of the Council's Asset Management Strategy and its overall implementation plan.
- 3.13 The integration of asset management into the planning/business processes of the Council will require the setting up of a project board to ensure that the overall implementation is treated as a project. The size and complexity of the project may require that more than one project team will be required to deal with individual parts of the implementation, but it is essential that the output of each of the projects is co-ordinated in order that the Council achieves the benefits of asset management.
- 3.14 Moving back to the diagram in Appendix 1 and again looking at the lower part, which details the mechanistic aspects of asset management, it is necessary to document the routine tasks and to ensure that all the information required is available or that procedures are in place to generate it. To this end it is recommended that five project teams be set up to progress the tasks.
- 3.15 The first group will look at documenting the management and gathering of information for the maintenance, operating costs, lifecycle maintenance, condition and investment costs for all categories of assets (property, infrastructure, fleet and IT). This work stream relates to B13 in the Best Value Improvement Plan. The group should be led by Sandy Mactaggart and include representatives from each of the services.
- 3.16 The second group will look at documenting the management and gathering information for rent roll. This group should be led by Susan Mair and include representatives from Legal and Protective Services and ICT and Financial Services.
- 3.17 The third group will look at documenting the management of the acquisition or disposal, ownership details and valuation, life and depreciation information for all categories of assets. This work stream relates to B14 in the Best Value Improvement Plan. The group should be led by Sandy Mactaggart and have representatives from Strategic Finance, Legal and Protective Services and each service.

- 3.18 The fourth group will look at developing option generation and options appraisal for all aspects of service delivery not just asset management. This relates to B5 of the Best Value Improvement Plan. The group should be led by Bruce West with representatives from each of the services.
- 3.19 The final group will look at the system that the Council should implement to draw all the information together to allow asset management to be fully implemented. This group should be led by Dave Duthie and representatives from Strategic Finance, ICT and Financial Services and each service.
- 3.20 Each of the groups should also be tasked with identifying the performance information which will be required and look at the information required to allow budget preparation and monitoring to be undertaken and allow preparation of the annual accounts.
- 3.21 In order that the work of the various groups is co-ordinated an overall project board should be established led by George Harper with representatives from each of the services at director or head of service level.
- 3.22 The groups should meet within the next month and report back to the project board with a position statement of where the Council is in respect of the tasks and a project plan with timescales for how the gap will be bridged from the current position and where the Council wants to be.
- 3.23 In terms of the upper part of the diagram the Strategic Management Team need to consider how it will develop the linkages between asset management and the planning and business processes of the Council.

George Harper
Director of Development Services

Bruce West
Head of Strategic Finance

27 April 2006



Asset Management - Notes

What Do We Need To Be Able To Do In Terms Of Routine Management Of Assets

Manage the maintenance of these assets
Manage and reduce the operating costs of these assets
Manage rents payable and receivable
Manage acquisition and disposal of assets
Prepare and monitor budgets
Prepare annual accounts

To Get Best Value From Our Overall Investment In Assets We Need To

Identify what assets we own
Identify what assets we need
Generate and appraise options for matching what we have and what we need on an asset, service and geographical basis
We need to do this review of investment on a regular basis
This is what will drive the capital plan

This Requires Us To Have Information On

Lifecycle maintenance
Operating costs
Rents payable and receivable
Ownership details
Valuation, life and depreciation details
Asset conditions
Investment and upgrade costs

We can hold all of the information in a single comprehensive system or we can hold the information in separate systems and develop a means for consolidating it when we carry out options appraisal exercises.

All Of The Above To Be Informed By

Corporate Plan
Asset Management Strategy
Area Plans
Service Plans

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ARGYLL AND BUTE COUNCIL
STRATEGIC MANAGEMENT TEAM

Extract note of the meeting held on Tuesday 2nd May 2006

4	<p>Asset Management Strategy</p> <p>There was submitted a draft report by Director of Development Services and Head of Strategic Finance updating the management team on the process of implementing an Asset Management Strategy and bringing forward recommendations to take this forward.</p> <p>After detailed discussions the Strategic Management Team:</p> <ul style="list-style-type: none">a) noted the progress made to date;b) agreed to establish a project board and four project teams with the teams in paragraph 3.18 and paragraph 3.19 being combined and chaired by Bruce West;c) agreed that the project teams report back to the Project Board by 26th May 2006 with a report coming to SMT on 13th June. (It was also noted that a report will be going to the Audit Committee at their next meeting).d) Directors to advise Grace Leitch by Friday 5th May of their nominees to the board and the respective groups so that at the next meeting the Strategic Management Team has a picture of the overall representation.	<p>George Harper/Bruce West 13/6/06</p> <p>All Directors 5/5/06</p>
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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 JUNE 2006

HMIE REPORT 2004 – 05

1. SUMMARY

The Education Service of Argyll & Bute Council was inspected during the period December 2004 to January 2005 by HM Inspectorate of Education (HMIE), as part of a 5 year national inspection programme of all local authorities in Scotland. In June 2005 HMIE issued their inspection report. This outlined service key strengths plus areas requiring improvement. The HMIE review found that the service demonstrated good and improving performance and indicated areas where further improvement could be made.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 HMIE & Education Service management at the beginning of September 2005 agreed an Action Plan, which has 4 main action points, with sub sections detailing areas of concern, management comment, the responsible officer and a time frame for implementation. This was presented to and approved by the Strategic Policy Committee (SPC) on the 8th of September 2005, and an update on progress with implementation was provided to the Audit Committee at the last meeting.

3.2 As at the 19th of May 2006, Education Service management have reported to Internal Audit that all of the action points are being progressed with some sub section items complete. HMIE will return to carry out an implementation review in the academic year 2006 – 2007. Management comment is provided in Appendix 1.

4. CONCLUSIONS

Internal Audit will monitor progress by Education Service management as they address the issues contained in the agreed Action Plan.

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. 29th May 2006. 29Mayfinalreport29May.

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 JUNE 2006

AUDIT SCOTLAND - FINANCIAL STATEMENTS STRATEGY 2005 – 2006

1. SUMMARY

This report introduces 2 Audit Scotland documents:

- Financial Statements Strategy 2005 - 2006; and
- Audit Risk Analysis and Plan 2005 – 2006.

Both documents are attached in Appendix 1 & 2.

2. RECOMMENDATION

2.1 The contents of this report are noted.

3. DETAILS

3.1 The first report contained in Appendix 1 provides Argyll & Bute Council with a clear understanding of the approach to be followed by Audit Scotland for the audit of the Council financial statements for the year ending 31st March 2006.

3.2 The second report attached in Appendix 2 summarises the key risks facing the Council and details the audit work that Audit Scotland will undertake for their review of the 2005 – 2006 accounts.

4. CONCLUSION

Internal Audit will note the contents of both reports.

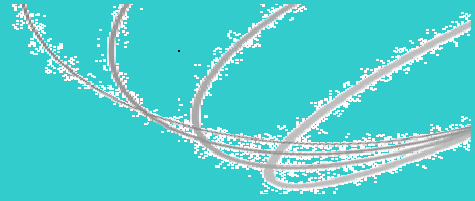
5. IMPLICATIONS

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 5 May 2006
5Mayfinalreport5May

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Argyll and Bute Council

Financial Statements Strategy 2005/06

March 2006



Audit Scotland, on behalf of the Auditor General for Scotland, is responsible for:

- providing independent reports to the Auditor General and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements

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Introduction

1.1 The purpose of this plan is to provide Argyll and Bute Council with a clear understanding of our approach to the audit of the financial statements for the year ending 31st March 2006.

Format of the accounts

2.1 The financial statements should be prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (ACOP), which is issued by the CIPFA/LASAAC Joint Committee.

2.2 ACOP is reviewed and updated annually and the 2005 ACOP, with application to 2005/06, was issued in June 2005.

Responsibility for the preparation of accounts

3.1 It is the responsibility of Argyll and Bute Council and the Head of Strategic Finance, as proper officer, to prepare the financial statements in accordance with ACOP. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records and observing proper accounting practices;
- preparing financial statements timeously which present fairly the financial position of the council at 31 March 2006 and its income and expenditure for the year then ended; and
- preparing an explanatory foreword.

3.2 The main contact for audit staff in the course of the financial statements audit was identified as the Corporate Finance Manager, within Strategic Finance, who has overall responsibility in the detailed preparations and co-ordination of the financial statements.

Scope of the audit

4.1 Our responsibilities, as independent auditors, derive from the Local Government (Scotland) Act 1973 and are summarised in Audit Scotland's *Code of Audit Practice* approved by the Accounts Commission for Scotland, and guided by the auditing profession's ethical guidance. We are required to audit the financial statements in accordance with International Standards on Auditing and to give an opinion:

- whether the financial statements present fairly the financial position of the council as at 31 March 2006 and its income and expenditure for the year then ended;
- as to whether the council has kept proper accounting records, or if we have not received all the information and explanations we require for our audit; and
- whether the statement on the system of internal financial control complies with ACOP and report if the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit.

4.2 We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the council's corporate governance procedures or its risk and control procedures.

4.3 In addition we must consider the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Audit approach

5.1 Our audit approach is based on an annual integrated assessment of risk across our *Code of Audit Practice* responsibilities in relation to governance, performance and opinion (on financial statements). This approach includes:

- understanding the business of the council and the risk exposure which could impact on the financial statements;
- assessing the key systems of internal control, and considering how risk exposure in these systems could effect the financial statements;

- identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing audit objectives for these;
- assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk and control environment risk as part of our integrated risk assessment approach; and
- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement (see 5.4-5.5 below).

5.2 Through this approach we have also considered and documented the sources of assurance which will allow us to make best use of our resources and focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action, internal audit coverage and reliance on systems of internal control. Management action being relied on for 2005/06 includes:

- comprehensive closedown procedures and timetable being issued to relevant staff;
- clear responsibilities for provision of accounts and working papers being agreed;
- the impact of the extended ACOP requirement for group accounts being considered;
- delivery of unaudited accounts to agreed timescales with appropriate working papers package;
- completion of the internal audit programme for 2005/06; and
- timely receipt of the letter of representation (ISA 580).

5.3 We have reviewed the internal audit structure and function in accordance with International Standards on Auditing 610 (Considering the work of Internal Audit) and identified areas of their work on which we intend to rely for a number of aspects of our programme of work during 2005/06. Specific to the audit of the financial statements and our Code responsibilities in this regard we hope to place formal reliance on the following internal audit work:

- Payroll
- Council tax and NDR
- Capital accounting
- Capital contracts
- Cash income and banking
- Payments to voluntary bodies
- Unified benefits
- Contract hire and operating leases
- Creditor payments and purchasing
- Debtor accounts
- Housing rents
- General ledger operations
- Government and European grants
- Treasury management
- Tendering procedures

5.4 The audit of the financial statements is completed over three stages; the first stage was carried out between January and February 2006 as part our '*Understanding the Business*' review which fed into the integrated risk assessment approach. Between March and May 2006 we will complete a programme of interim visits, which includes testing the higher level controls we are relying on (in conjunction with our wider governance review); and carrying out early analytical and substantive procedures on account information which is available before the submission of the unaudited financial statement.

- 5.5 We will evaluate the results of any early work conducted prior to the submission of the unaudited financial statements and consider the impact on the final audit programme. The early work on the financial statements allows us to focus the final stages of the audit, during June – August 2006, on the key risks and audit objectives for disclosure and significant areas of judgement.
- 5.6 At the completion of the financial statements (opinion) audit we will provide the Head of Strategic Finance with a management letter containing observations and recommendations on significant matters which have arisen in the course of the audit.

Materiality

- 6.1 We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements we assess the materiality of uncorrected misstatements, both individually and collectively.
- 6.2 Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the independent auditor's report (the opinion); likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects.
- 6.3 When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
- 6.4 An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

2005/06 audit issues

7.1 We have listed below a number of national and local issues which may impact on the financial statements this year. During the period until the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

National Issues

- modified arrangements for the preparation of group accounts;
- operation of the prudential code in funding capital investment; and in the changes regarding the classification of certain revenue works previously charged as capital under the old section 94 arrangements;
- risks associated with the financial costs of equal pay and single status; and
- the classification of leases established under Section 94 as finance leases, now reclassified as operating leases under SSAP21.

Local Issues

- achievement of statutory and other financial targets, including the requirements for trading accounts;
- the continuing review of council services to ensure that trading activities are appropriately disclosed;
- consideration of disclosures for the Schools PPP and accounting treatment;
- consideration of disclosures with respect to Community Health Partnerships;
- disclosures required in the preparation of group accounts;
- disclosures in relation to FRS17 (Retirement Benefits);
- approval and application of policy in respect of reserves and balances, and
- the appropriate accounting treatment of lender option borrowing option arrangements (LOBOs).

Timetable

- 8.1 Under the Local Government (Scotland) 1973 Act, there is a requirement for the financial statements to be made ready for audit and submitted to the council and the Controller of Audit within three months of the year-end, i.e. 30th June.
- 8.2 There is a non-statutory target for audit completion of 30 September and both auditors and the council have a responsibility to ensure that this is met. A timetable for the final audit phase of our work programme is included at appendix 1 of this plan, which takes account of submission requirements, planned Audit Committee dates and audit resource availability. In respect of the detailed list of working papers required for the financial statements audit, the council provides a standard list of working papers which covers our requirements.

Staffing

- 9.1 The main officers with responsibility for the production and completion of the financial statements within Argyll and Bute Council are:

Head of Strategic Finance	Bruce West
Corporate Finance Manager	Moira Miller
Corporate Financial Control Officer	Kirsty McLean

- 9.2 The core audit team to be deployed are as follows:

Assistant Director of Audit	Angela Cassels CPFA
Client Manager	David Jamieson CPFA
Senior Auditor	Ian Bell CPFA
Auditor	Laurence Slavin

Appendix 1:

Financial statements audit timetable

Key Stage	Date
Close-down procedures	March 2006
Committee approval of unaudited financial statements	June 2006
Submission of unaudited financial statements with working papers package including ACOP checklist	30 June 2006
Progress meetings with lead officers on emerging issues	July / August 2006*
Objection period	July / August 2006*
Receipt of management representation letter	September 2006 *
Final clearance meeting with Head of Strategic Finance	September 2006 *
Report to Audit Committee on the audit of financial statements (ISA 260), signing of opinion	September 2006 *
Draft members letter issued	September 2006 *
Final clearance meeting (members letter) with the Chief Executive and Head of Strategic Finance	Mid October *
Council meeting to consider financial statements and report to members	November/ December 2006

* Actual dates to be confirmed

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Argyll and Bute Council

Audit Risk Analysis and Plan 2005/06

March 2006



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Summary of planned audit activity

Based on our analysis of the risks facing Argyll and Bute Council, our planned work in 2005/06 includes:

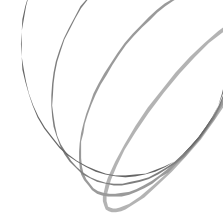
- review of the council's arrangements to manage a number of key risks including improving performance, financial strategy and sustainability, workforce planning, joint working and progress with the efficient government agenda;
- review of the council's arrangements for transferring its housing stock and an assessment of the relevant financial assumptions;
- issuing local reports arising from identified risk areas as required;
- initial follow-up work following the publication of the best value report on the council in February 2006;
- audit of the financial statements and provision of an opinion on whether they present fairly the financial position of the council and its income and expenditure for the year. Audit of whole of government accounts; and
- audit of a number of specific grant claims.

Introduction

1. Our audit is focused on the identification and assessment of the key risks to Argyll and Bute Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Argyll and Bute Council's financial statements. This report summarises the key risks facing the council and sets out the audit work that we propose to undertake in 2005/06.

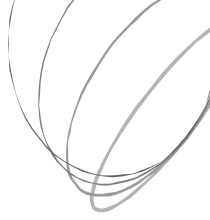
Our plan reflects:

- your local risks and priorities;
- current national risks relevant to your local circumstances;
- the impact of changing International Auditing Standards;
- our responsibilities under the Code of Audit Practice as approved by the Accounts Commission; and
- issues brought forward from last year's audit.



Our responsibilities

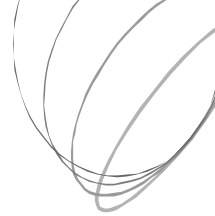
2. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
3. In carrying out our audit, we seek to gain assurance that:
 - the council has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability;
 - the council has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties;
 - the council proactively manages and reviews its performance in line with its strategic and operational objectives;
 - the council's system of recording and processing transactions provides a sound basis for the preparation of financial statements and the effective management of the council's assets and interests;
 - the systems of internal control provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption;
 - the council's financial statements present fairly the financial position at the 31 March 2006 and its income and expenditure for the year then ended; and
 - the council complies with established policies, procedures, laws and regulations.
4. The Local Government in Scotland Act 2003 created new arrangements for the audit of best value. Best value audits are based on a cyclical approach and involve a detailed review of the council by a specialist team every three years, with checks on ongoing progress in intervening years. The principles of best value are central to our new audit approach, and the evidence and assurances obtained through the annual audit of the council provide valuable input to the best value review. A best value audit of the council has recently been completed and was published in February 2006. The council now requires time to consider the report and prepare its agreed improvement plan. Many of the key risks identified in this planning document will also be addressed through this process. In particular, the best value improvement plan is likely to include actions relating to performance management, developing the corporate plan and linking this to community planning priorities and further developing the council's financial strategy. We will monitor the actions of the council during the audit, and report on progress as part of our annual reporting to the council.



Our approach

5. The key features of our risk-based audit approach include:
- integration of audit work on financial statements, performance and corporate governance;
 - an increased focus on key business, operational and financial risks;
 - a more streamlined financial statements audit which maximises assurance from existing control processes, and
 - development of tailored reviews of the council's priorities and risks.
6. Our preliminary audit work has involved us in assessing the significant risks facing your Argyll and Bute Council. This assessment is based on the likelihood of the risks occurring and the impact they could have on the delivery of services and the council's financial position. We have also assessed the adequacy of the arrangements in place to address the identified risk and the extent to which these reduce the risk to an acceptable level. We have used a number of audit tools to assess the issues and risks facing Argyll and Bute Council, including the *Priorities and Risks Framework* (PRF). The PRF is a planning tool which helps ensure that audit work is properly focused, and takes account of both national and organisational priorities and risks, when combined with knowledge of the key priorities and risks for Argyll and Bute Council. The priority areas identified in the 2005/06 local government PRF are:





Strategic risk analysis

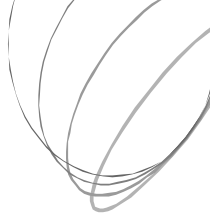
7. Based on our discussions with staff and a review of supporting information, we have identified and assessed the following strategic risk areas for Argyll and Bute Council. Risks exist in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Conversely, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Performance management and improvement

8. The council aims to achieve significant improvements in performance across its activities to support its ambition to be recognised as the “leading rural area”. Opportunities for improvement in existing processes and increasing expectations of stakeholders present significant challenges. Ultimately, a failure to demonstrably improve may lead to loss of credibility.
9. The council is currently in the process of implementing a new performance management framework. Although the basic framework has been developed, much remains to be done to incorporate the process into the planning and reporting cycles. The council is still some way off from being able to demonstrate that the framework is effective in driving the continuous improvement in council services.

Financial strategy and sustainability

10. There is a risk that the council is unable to afford the changes needed to improve its performance while meeting new demands for its services. Significant efficiencies are required to release funding for the scale of improvement projects planned and to meet the challenges of funding settlements and the efficient government agenda. Increased freedoms are available to the council but these require to be used in a way that is affordable, prudent and sustainable.
11. The council is faced with a challenging time ahead, in terms of ensuring the services it provides are affordable and sustainable. Cumulative savings of some £23m require to be identified over the two year period from the draft 2006/07 budget (pre-savings) through to meeting the 2007/08 budget requirement. The impending equal pay settlement will also impact heavily on the council’s reserves.
12. It is expected that a full transfer of the council’s housing stock will take place towards autumn 2006. The council will require to adopt a clear corporate approach to manage the transfer process and to address the risk of the transfer failing or not being achieved on satisfactory terms.



Workforce planning

13. People play the key role in delivery of high performing services and the council may not have the right skills, in the right place, at the right time – both through a period of significant change and on a continuing basis. One of the main challenges faced by the council, due to its geographical remoteness and disparity, is in recruiting and retaining high calibre professional staff in certain key occupations.
14. In a period of transition and particularly with the implementation of the single status agreement, there are significant risks in relation to the morale of affected staff and the potential for industrial relations difficulties.

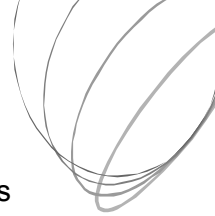
Joint working and community planning

15. There is a risk that the council does not identify and respond effectively to the needs of its local communities and individuals. Services have to be configured in a manner that allows them to respond to identified needs and local priorities.
16. Increasingly the council is dependent on partnership working to deliver service improvements. Inevitably much of the development to date has focused on structures and processes. There is a key risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of public resources as a result.
17. Formal duties to initiate, facilitate and maintain community planning have been placed on the council relatively recently. Partners may be unable to demonstrate sufficient progress in improving outcomes within challenging timescales. A similar situation exists with the community healthcare partnership, which has had a delayed start due to uncertainty over Argyll and Clyde Health Board's successor bodies.

Corporate governance and risk

18. There are a number of challenges to the council's corporate governance capabilities. Our particular concerns in this area relate to the delays the council has had in developing its asset management and risk management strategies, both of which are in the early stages of development and implementation.

Efficient government



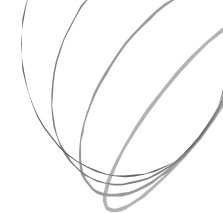
19. The Scottish Executive has set challenging targets for local authorities to liberate resources through efficiency savings. Funding settlements will make assumptions as to the amount of resources each council is expected to release through efficiencies. Lack of innovation and delayed or unsuccessful projects in this area will mean the anticipated level of savings will not be released and the council's resources will come under further pressure. To increase efficiency and meet its targets the fundamental business processes across the council will need to be revisited.
20. The measurement of efficiencies is a further key area. Efficiencies are broadly achieved where increased outputs are obtained for the same inputs or reduced inputs are applied for the same amount of output. Without fundamental review of current service delivery there is a risk that the council is unable to demonstrate that its efforts are being rewarded by increased efficiency of service delivery.

Summary assurance plan

21. Within these strategic risk areas there is a range of more detailed risks and these are summarised at appendix A. In most cases actions are either planned or already underway within the council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in appendix A. The work of internal audit plays a key part in the management assurance framework and specific areas where we plan to place reliance on their work in 2005/06 are outlined at appendix B.
22. Our *Financial Statements Strategy* sets out our approach to the audit of Argyll and Bute Council's financial statements. This provides more detail in how we will approach our audit of the financial statements and the significant accounting or financial risks which we have identified for 2005/06. The *Financial Statements Strategy*, together with this *Audit Risk Analysis and Plan*, form our overall strategy for the audit in 2005/06.

Reporting arrangements

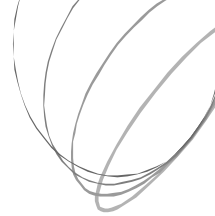
23. Matters arising from our audit will be reported on a timely basis during the year and will include agreed action plans. Draft reports will be issued to the head of strategic finance and responsible director or senior officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
24. A copy of all final agreed reports will be sent to the chief executive, the head of strategic finance, responsible director, internal audit and Audit Scotland's Performance Audit Group. All



formal reports, or summary thereof, will be made available to the Audit Committee for its consideration. Regular updates on the completion of audit reports will be provided to the Audit Committee.

25. We will provide a report to Argyll and Bute Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to the members of Argyll and Bute Council will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks. From 2005/06, all annual reports produced by Audit Scotland will be published on our website (www.audit-scotland.gov.uk).
26. The full range of outputs to be delivered by the audit team are summarised below:

Example	Target delivery Date
Governance	
Audit risk analysis and plan	31 March 2006
Review of internal audit	31 March 2006
Computer audit report	31 March 2006
Governance report 1	30 May 2006
Governance report 2	30 June 2006
Performance	
Efficient government	31 March 2006
Statutory performance indicators return	31 August 2006
Financial statements	
Financial statements strategy	31 March 2006
Report to Audit Committee in terms of ISA 260	30 September 2006
Independent auditor's report on the financial statements	30 September 2006
Annual report to members of the council and the Controller of Audit	30 September 2006 (draft)
	31 October (final)
Audit opinion on whole of government accounts	Date to be determined
Certification of DWP/Scottish Executive and European grant claims	Various dates throughout the year



27. In addition to the above work which will result in reports aimed at your organisation, Audit Scotland is conducting a programme of studies on behalf of the Auditor General and Accounts Commission. Current and planned studies include:

- Review of community planning partnerships (April 2006);
- A teaching profession for the 21st century (Stage 1: early 2006, Stage 2: autumn 2006);
- Housing stock transfer (February 2006);
- Waste management (autumn 2006);
- Police call management (March 2006); and
- Fire and rescue review (November 2006).

Quality Control

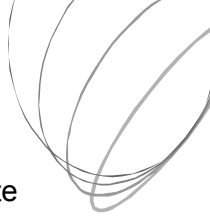
28. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Argyll and Bute Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client (in your case this is Angela Cassels, Assistant Director of Audit (Local Government) who is responsible for quality control;

29. As part of our commitment to quality and continuous improvement, we may seek your views from time to time. We would be grateful for any feedback on our services.

Fees and resources

30. Our agreed fee for the 2005/06 audit of Argyll and Bute Council is £271,750, comprising a local audit fee of £180,050 and a fixed charge of £91,700. Our fee covers:

- all of the work and outputs described in this plan;
- a contribution towards the costs of national performance studies and statutory reports by the Accounts Commission;
- attendance at audit committees;
- access to advice and information on relevant audit issues;
- access to workshops/seminars on topical issues; and
- all travel and subsistence costs.



31. In determining the agreed fee we have taken account of the risk exposure of Argyll and Bute Council and the management assurances in place. We have assumed receipt of the unaudited accounts and working papers by 30th June 2006. If the unaudited accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any work on PPP or other significant exercises not within our planned audit activity.

32. Angela Cassels, Assistant Director of Audit (Local Government) is your appointed auditor, and she is responsible for ensuring that our work is carried out on time and to a high quality standard. She is also responsible for the certification of the council's financial statements. The local audit team will be led by David Jamieson, who will carry out the day to day management of the audit and will be your primary contact. Details of the experience and skills of our core staff are provided at appendix C. The core audit team will call on other specialist and support staff, as necessary.



March 2006

Appendix A: Summary assurance plan

Summary assurance plan - In this section we identify a wide range of operational risks facing Argyll and Bute Council, the related management assurances received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Performance management and improvement

The council aims to achieve demonstrable and significant improvements in performance across the range of its activities in order that it can meet its ambition to be a top performing local authority. Opportunities for improvement in existing processes and increasing expectations of stakeholders present significant challenges. Ultimately, a failure to demonstrably improve may lead to loss of credibility.

Risk	Management assurances	Planned audit action
<p>The council has recognised a need to improve its approach to <u>performance management</u>. In the absence of an effective approach there are risks that:</p> <ul style="list-style-type: none"> corporate plan objectives are not closely integrated with service plan initiatives service plans are not clearly integrated with the revenue and capital budgets service plans should clearly indicate how the key themes contribute towards achieving the overall corporate objectives. <p>Lack of alignment between the corporate plan, service plans and budgets could result in financial risk to the authority if the resources required for the achievement of corporate objectives are not being clearly identified.</p>	<ul style="list-style-type: none"> In terms of aligning service planning with revenue and capital budgets, a project to align service and budget planning exercises is already underway and will be in place for the 2007/08 budget cycle. Policy and Strategy are currently developing a corporate strategy map as part of the council's performance management framework. This document will ensure there are links between corporate and service objectives. The performance management framework will be implemented in phases, as agreed in the project plan approved by the SMT and SPC. Evaluation of each phase will be conducted in line with the project plan. Regular progress reports will be submitted to the SMT. 	<ul style="list-style-type: none"> Track management assurances Review improved performance management arrangements as they are implemented Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.

Risk	Management assurances	Planned audit action
<p>Best value reviews should rigorously assess what the activity is aiming to achieve, whether it is still required, and whether it will continue to meet future needs. There should be a systematic approach for evaluating options for providing a service, including competition where appropriate, to ensure that customers receive the highest quality of service possible within the resources available. However, within the council, the methodology for the reviews is not well developed, sound options appraisal techniques are not used, and that the level of challenge is not significant with the resultant risk that reviews are not rigorous enough to address the 4 'C's option appraisal and provide an element of independent challenge.</p>	<ul style="list-style-type: none"> The best value review process within the council was halted pending the outcome of the statutory best value review. It is expected that the council will address this issue in response to the areas identified as most in need of improvement by the statutory best value review. 	<ul style="list-style-type: none"> Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.
<p>There is no formal provision for members to review the results of <u>scrutiny and efficiency reviews</u>. In the absence of member input to these reviews there is a risk that sufficient priority might not be given to implementing recommendations arising therefrom.</p>	<ul style="list-style-type: none"> It is expected that the council will address this issue in response to the areas identified as most in need of improvement by the best value review process. 	<ul style="list-style-type: none"> Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.
<p>There is a general lack of formal <u>scrutiny of performance</u> by members in relation to interim monitoring of service performance against plans. Whilst we are aware that the corporate plan action plan is monitored and reported to members b-annually, effective scrutiny by members of council performance requires that they receive regular and detailed updates on council performance.</p>	<ul style="list-style-type: none"> It is expected that the council will address this issue in response to the areas identified as most in need of improvement by the best value review process. 	<ul style="list-style-type: none"> Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.

Risk	Management assurances	Planned audit action
<p>Local authorities have a statutory duty to provide a range of information and advice to their communities, regarding the various services they provide.</p> <p>Recently internally conducted audits have identified <u>serious performance issues relating to the Citizens Advice Bureau</u> in terms of the assistance provided and poor value for money.</p>	<ul style="list-style-type: none"> • A policy development group has been set up to determine the scope and proposals of the service for the future. • Revised business and improvement plans have been requested 	<ul style="list-style-type: none"> • Review progress made by the council in addressing the issues identified

Financial strategy and sustainability

There is a risk that the council is unable to afford future developments planned to improve council services due to issues such as meeting the demands of the equal pay legislation.

Risk	Management assurances	Planned audit action
<p>Argyll and Bute Council is the only council undertaking a schools PPP project using an NPDO model. Our letters of 16 June 2005, 25 July 2005 and 26 August 2005 confirm that the process followed to determine whether the body should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance (subject to certain reservations detailed in the letters). Financial close on nine of the schools was achieved on 9 September 2005, with further negotiation continuing on the other school.</p> <p>The council will require to prescribe adequate controls for monitoring service delivery, ensuring compliance with contractual commitments and managing any under performance by the supplier. In the absence of an effective contract monitoring system, there is a risk that the council will be unable to ensure that the provision of education facilities under the NPDO model is provided effectively and in accordance with contract conditions and standards.</p>	<ul style="list-style-type: none"> • NPDO Working Group established to oversee process • Internal audit review 	<ul style="list-style-type: none"> • Track management assurances

Risk	Management assurances	Planned audit action
<p>The council is pursuing the option of transferring its housing stock to a community owned housing association. The transfer to Argyll Community Housing Association is expected to bring significant benefits in the form of refurbishment and upgrading of the existing stock. Following the successful tenants' ballot in December 2005, it is expected that a full transfer of the council's housing stock will take place towards autumn 2006. The council will require to adopt a clear corporate approach to manage the transfer process or there is a risk of the transfer failing or not being achieved on satisfactory terms.</p>	<ul style="list-style-type: none"> The council is managing the housing stock transfer corporately. Decision making at member level involves the full council and the Ad-hoc Sub Committee on housing stock transfer. The council identified the need at an early date to set up a dedicated core project team which meets regularly to progress the project. Other staff from within the council support the implementation team as required. 	<ul style="list-style-type: none"> Review of research analysis and data gathering, business planning and preparation, consultation with tenants and staff and negotiation with the landlord.

Risk	Management assurances	Planned audit action
<p>Homelessness applications have increased significantly in recent years and are continuing to do so, as a consequence of the provisions of the Housing (Scotland) Act 2001.</p> <p>There is a shortage of suitable accommodation and this has led to council house waiting lists being suspended. The council has also been forced increasingly to make significant use of short term, and expensive, bed and breakfast accommodation. As such there is a risk that the council may be failing to comply with the Homelessness Persons (unsuitable accommodation) Order 2004.</p> <p>There are also associated problems such as collecting rent when a homeless person is not entitled to housing benefit. Further the significant service cost element of rent charges, which is ineligible for recovery under the housing benefit scheme, is likely to place additional financial pressures on the council</p>	<ul style="list-style-type: none"> The council has a Homelessness Strategy in place and are currently preparing a Temporary Accommodation Strategy to address the capacity problems caused by the lack of suitable short term accommodation 	<ul style="list-style-type: none"> Track management assurances; Review longer term financial planning model as it is developed.

Risk	Management assurances	Planned audit action
<p>For 2007/08, the council requires to identify cumulative savings of some £23m - £12.5m from draft 06/07 budget (pre-savings) and further savings of £10.5m to meet the 07/08 budget requirement.</p> <p>However the impact of the <u>significant funding gap</u> identified in 2007/08 has not been assessed at a service level. Accordingly, in the light of short term, financial settlements, there is a risk that medium to long term objectives are not sustainable.</p>	<ul style="list-style-type: none"> As part of the 2006/07 budget process, all services submitted detailed proposals on how to achieve the £12.5m savings required to enable the council tax increase to be restricted to 2.5%. A longer term financial planning model will be developed as part of the project to align service and budget planning exercises and will be in place for the 2007/08 budget cycle. 	<ul style="list-style-type: none"> Track management assurances; Review longer term financial planning model as it is developed.
<p>The planned £4.3m equal pay settlement deal will impact heavily on the council's reserves. As well as using up all free uncommitted balances, there will be a requirement for the council to draw £0.5m from its 2% contingency balance.</p> <p>The actual take-up of the deal is not yet known. There is therefore a risk of an even greater impact on council reserves.</p>	<ul style="list-style-type: none"> Update on actual take-up is expected to be reported to SMT/SPC once known. 	<ul style="list-style-type: none"> Monitor developments

Risk	Management assurances	Planned audit action
<p>There is currently a varied approach to budgetary control throughout the council's service departments. There is therefore a risk that budgetary control could be weakened in the absence of appropriate skills, guidance and a consistent approach.</p>	<ul style="list-style-type: none"> • Principles of Community Service budget monitoring to be rolled out to all services with training for budget holders. • Preliminary discussions have been held within the council relating to the implementation of a service wide consistent approach to budget setting and monitoring and also the provision of budget holder training. The overall objective is to roll out the approach currently adopted by Community Services. It is recognised, however, that there will be a need to take account of the different nature of the operations in each of the services. Therefore it is intended to implement key principles and guidelines rather than a rigid set of rules and procedures. No formal timescales have been allocated to this task however it is intended for an initial roll out during the 2005/06 financial year. 	<ul style="list-style-type: none"> • Track management assurances; • Review improved budgetary control arrangements as they are implemented • External audit review of budgetary control arrangements 2005/06.

Risk	Management assurances	Planned audit action
<p>As a means of ensuring that strategic property decisions are soundly based and in order to set or revise prudential indicators, authorities are required to have regard to <u>asset management planning systems</u>, which should be linked to both strategic and service level plans.</p> <p>The council is currently coordinating the development of a suitable system. However the project is in its early stages. Officers envisage that this will be a substantial task, given the absence of any such previous formal reviews. The review is anticipated to have significant implications for the capital programme, in terms of identifying additional projects and expenditure requirements.</p> <p>There is therefore a risk that the council's current system does not provide a framework for ascertaining the suitability, condition and maintenance cost of the assets.</p>	<p>The council have already included the following actions within their draft best value improvement plan</p> <ul style="list-style-type: none"> • Need to review approach to monitoring capital plan to get more focus on projects rather than spending total budget. • Capital projects could be more robust with options appraisal. • Whole life assessment options being developed for major projects in line with prudential borrowing code and asset management processes. 	<ul style="list-style-type: none"> • Track management assurances; • Review improved asset management planning arrangements as they are implemented.

Risk	Management assurances	Planned audit action
<p>Capital expenditure for 2004/05 totalled £28.861 million against an approved budget of £37.627 million. The underspend arose due to slippage on a number of projects included in the programme; in particular Argyll Air Services, Bruichladdich Pier, Cuan Ferry Slipways, Campbeltown Community Project and Campbeltown New Quay. These five projects accounted for £10.5 million of the slippage.</p> <p>There is a risk that poor capital planning and monitoring can lead to delays in the completion of projects and policy objectives not being achieved.</p>	<ul style="list-style-type: none"> • A revised process for monitoring the capital plan is in place. This monitors project progress, benefits and risks as well as financial outturn. A traffic light approach is adopted where "red" projects require a supplementary report to be made by the relevant head of service • Slippage will occur and the approach to monitoring should now identify that early care needs to be taken when considering action / alternative action to ensure it does not create resource / capacity problems, leading to increased costs and impacting adversely on other projects. In managing the overall capital plan the council needs to consider VFM as much as it does the timing of individual projects. External factors such as market capacity can have an effect on capital projects which the council cannot control. 	<ul style="list-style-type: none"> • Track management assurances
<p>The current maintenance backlog on the council's roads network has been evaluated as £38 million. The current allocation of funding through revenue and capital budgets is insufficient to meet this backlog. The risk exists that if the backlog is not tackled over a reasonable timescale, it will have a significant impact on users of the road network and on council finances.</p>	<ul style="list-style-type: none"> • For 2005/06, the capital reconstruction budget is around £1.9 million and there is no allowance in the revenue budget for reconstruction work. The current estimate by the authority is that £9.5 million is required per annum for ten years and then £6.5 million thereafter. • The council has an asset management and planning system for roads that allows spending decisions to be prioritised. 	<ul style="list-style-type: none"> • Monitor developments and report

Risk	Management assurances	Planned audit action
<p>The Scottish Executive requires local authorities to produce schools estate management plans.</p> <p>The council's NPDO will not tackle a sizeable element of the school estate and some 82 (mainly primary) schools will still require extensive modernisation. The council has looked at a range of options for the non-NPDO schools although in reality there are only two options available. Either a major injection of capital takes place to rejuvenate the existing primary estate or a large-scale demand led modernisation of the primary estate is instigated. The total cost of modernising the whole of the council's school estate is estimated at £206.56m, made up of revised NPDO work of £75m with the balance of £131.56m for the remaining school estate. Based on retaining the existing number of buildings, the plan identifies a funding gap of £102.3m over 10 years after the NPDO work has been completed. The plan concludes that failure to address the issue now of massive over supply in the primary school estate will only lead to increasingly poorly maintained primary schools with very small school rolls.</p>	<p>Argyll and Bute Council's SEASMP was submitted to the Strategic Policy Committee of March 2005 and is designed to demonstrate the way forward for the school estate.</p> <ul style="list-style-type: none"> • The SEASMP outlines that the council is constrained in its achievements by the inadequacy of the physical environment of its school properties. • The SEASMP also states that design defects and lack of provision for ongoing investment in the physical fabric of the schools has led to failure of major components and an ad-hoc, reactive approach to maintaining the school estate. However, the document also states that this plan, together with the NPDO will prove a starting point for the rectification of the situation. 	<p>Monitor developments and report</p>

Risk	Management assurances	Planned audit action
<p>Local residents rely heavily on ferry transport to the area's islands and peninsulas and there is a risk that if the piers and harbours sustainability issues are not tackled within a reasonable timescale, there could be a significant impact on users of the service and on council finances.</p>	<p>A report arising from a review of piers, harbours and ferries provision within Argyll and Bute was submitted to the Strategic Policy Committee on 5 May 2005. The main issues considered by the review were:</p> <ul style="list-style-type: none"> • Appropriate maintenance and management techniques for piers and harbours and how the council can increase the income for future investment and maintenance work. • The provision of ferry services and the level to which the council should be involved in this service delivery. <p>The report noted the need to reduce pier ownership and to consider opening council run ferry services to competitive tendering. The results of a subsequent consultation exercise are due to be considered soon.</p>	<ul style="list-style-type: none"> • Monitor developments and report.

Workforce planning

People play the key role in delivery of high performing services and the council may not have the right skills, in the right place, at the right time. Underlying this is a risk that insufficient management information is available to allow joined up planning across the council. There are also risks over the ability of the council to retain and recruit staff in some specific areas.

Risk	Management assurances	Planned audit action
<p>The recently launched "Grow Your Own" scheme is designed to address the council's difficulty in recruiting certain key skills and types of staff.</p> <p>At present, however, the scheme only involves two management trainees. There are plans to increase this number however there is a risk that the scheme will not address <u>workforce requirements in the longer term</u>.</p>	<ul style="list-style-type: none"> The scheme is currently being extended to include various skilled trades 	<ul style="list-style-type: none"> Track management assurances; Review improved recruitment procedures as they are implemented.
<p>There is currently no central monitoring of the PDR process. Further the scheme has not yet been extended to manual workers.</p> <p>There is a risk that some reviews may not be of the required quality and may not be taken at all. As a result the training needs of certain staff may not be fully realised or met.</p>	<ul style="list-style-type: none"> None as yet 	<ul style="list-style-type: none"> No audit activity; reporting only
<p>There has been little recent evidence of direct staff consultation. The last staff survey was undertaken in 2001.</p> <p>There is a risk that management may not be fully aware of the concerns of it's workforce and may fail to realise problem areas</p>	<ul style="list-style-type: none"> None as yet 	<ul style="list-style-type: none"> No audit activity; reporting only

Risk	Management assurances	Planned audit action
<p>Within the council, personnel management is heavily devolved to departments. Some services are clearly more inclined to implement specific policies than others. The lack of <u>corporate strategy</u> has led to services devising their own. For example Corporate Personnel is accredited under Investors in People (IIP), as are certain other services but there is no corporate policy on organisational accreditation or further roll-out.</p> <p>There is a risk that services may not be adhering to policies which are in the corporate interest.</p>	<ul style="list-style-type: none"> It is expected that the council will address this issue within the action plan it is preparing in response to the issues raised within the best value audit 	<ul style="list-style-type: none"> Follow-up the issues raised in the best value report and consider the implementation progress made in relation to the action plan once devised and approved.
<p>For Corporate Personnel, the biggest challenge continues to be <u>preparation for single status</u>.</p> <p>In addition to the likelihood of incurring significant costs, there is a risk that the council may also require to make some potentially tough decisions in relation to existing terms & conditions.</p>	<ul style="list-style-type: none"> Funding made available in future years budgets Union negotiations ongoing 	<ul style="list-style-type: none"> Monitor developments

Joint working and community planning

There is a risk that the council is not best positioned with its community partners to deliver the aims and objectives of community planning.

Risk	Management assurances	Planned audit action
<p>The impending dissolution of Argyll & Clyde Health Board has caused some uncertainty for the council. A community health plan has not yet been agreed with Highland NHS. There is therefore a risk that a delay to the CHP holds up development of health initiatives and militates against achieving CP objectives.</p>	<ul style="list-style-type: none"> The council is in continuing discussions with partners It was agreed at the recent joint futures seminar that the Strategy would be finalised and agreed by March 2006 Governance, standing orders, HR issues and accountability arrangements are currently being developed Key improvement targets and outputs are also being devised 	<ul style="list-style-type: none"> Monitor progress of Joint Futures Working Group and relevant committee reports made to the council
<p>The community planning duties of the council have helped generate a complex network of relationships, projects and initiatives in partnership with other agencies. In this environment there are risks:</p> <ul style="list-style-type: none"> of <u>duplication and overload</u> for the organisations involved; that the <u>organisational status</u> of the community planning partnership restricts its effectiveness, as it is unable to hold funds or make direct decisions over allocation of resources; that <u>unclear accountabilities</u> may lead to underperformance; that an early focus on structures and processes results in partners being unable to demonstrate sufficient progress in terms of <u>improved outcomes for service users</u> 	<ul style="list-style-type: none"> Argyll and Bute Community Planning Partnership was established in 1999, and comprises the key providers of public services within the area and representatives from the local community. The Community Plan identifies a number of priority themes and the CPP's Strategic Regeneration Objectives flow directly from these overall "priority themes" and are concerned with tackling disadvantage where it exists geographically and where it relates to particularly disadvantaged groups. There is a direct relationship between these strategic regeneration objectives and the Executive's National Priorities for Community Regeneration and the Closing the Opportunity Gap Objectives. 	<ul style="list-style-type: none"> Track management assurances; Audit Scotland national review of community planning partnerships (Winter 2005/06).

Risk	Management assurances	Planned audit action
<p><u>improved outcomes</u> for service users.</p>	<ul style="list-style-type: none"> Agencies involved in the Community Planning Partnership are actively promoting collaboration as a way of ensuring effective integration and synergy based on the development of joint plans and strategies. It is anticipated that the delivery of the regeneration outcome agreement (ROA) will result in better value for money from spend by all partners as a result of economies of scale from a joint strategic approach. The CPP has assisted the process of improving the strategic focus and targeting of services. A number of significant investments are underway which will impact significantly on the most deprived data zones over the lifetime of the ROA. The importance of the economic and social regeneration of communities is, for example, a key theme of Argyll and Bute Council's Corporate Plan 	

Risk	Management assurances	Planned audit action
<p>Progress has stalled on the development of the new CPP framework, in facilitating the integration of SIPs. There is an apparent lack of progress with the pilot project in the Bute & Cowal area.</p> <p>There is a risk that the principles behind the Scottish Executive's Regeneration Statement and the Local Government Scotland Act may not be fully delivered</p>	<ul style="list-style-type: none"> The regeneration outcome agreement (ROA) for Argyll and Bute provides an outline of the overall approach that has been developed in relation to the integration of Social Inclusion Partnership (SIP) funding with the Better Neighbourhood Services Fund (BNSF) into the new Community Regeneration Fund (CRF). The ROA builds on the progress that has been made within Argyll and Bute through the work of the SIP and BNSF. The approach also draws on the lessons and experience gained through the operation of the previous programmes, and provides a strategic and operational framework for the implementation of the CRF over the three-year period 2005 – 2008 The ROA sets out, for each of the CPP regeneration objectives, the key outcomes, associated indicators, target areas, target groups, baseline data and (for the target areas as a whole) final targets. 	<ul style="list-style-type: none"> Follow-up the issues raised in the best value report and consider the implementation progress made in relation to the action plan once devised and approved.
<p>The objectives of the CPP are wide-ranging and do not appear specific enough Also, these objectives are not easily measurable via targets (i.e. they are not SMART). As a result it is difficult monitor performance or gauge success. There is a risk that the CPP may begin to lose it's momentum and direction.</p>	<ul style="list-style-type: none"> It is expected that the council will address this issue within the action plan it is preparing in response to the issues raised within the best value audit 	<ul style="list-style-type: none"> Follow-up the issues raised in the best value report and consider the implementation progress made in relation to the action plan once devised and approved.

Corporate governance and risk

There is a risk that the systems of internal control within the council do not adequately safeguard against future risks.

Risk	Management assurances	Planned audit action
<p><u>Risk management</u> is incomplete but developing within the authority. There remains a risk that the council and services are not fully identifying or controlling the risks related to their business and services</p>	<ul style="list-style-type: none"> A strategic risk management group has been set up, which meets on a quarterly basis and is intended to support the development and implementation of corporate risk management. The group has met on a number of occasions undertaking an initial high level review of the strategic risk register. The group has also agreed a form of risk matrix and register and is examining the constitution of loss control groups within service areas. It is expected that the council will continue to address this issue in response to the areas identified as most in need of improvement by the best value review process. 	<ul style="list-style-type: none"> Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.
<p>There is a training budget available for members and general/ specific events are provided during the year. Members are also free to make specific requests as and when required. There is no formal proactive mechanism, however, which ensures that the exact training needs of a specific member are identified and addressed.</p> <p>There is therefore a risk that an individual member's specific training needs are not adequately assessed or realised.</p> <p>There is also a risk that training resources are not adequately utilised or focussed</p>	<ul style="list-style-type: none"> None yet 	<ul style="list-style-type: none"> No audit activity; for reporting only

Risk	Management assurances	Planned audit action
<p>The council holds fixed assets worth approximately £358 million, mainly consisting of land and buildings. The council's asset management strategy, which provides an action plan and timetable for the integration of asset management into service planning and performance management, is being taken forward. There is a risk, however, that in the absence of a robust <u>asset management planning process</u>, capital investment decisions do not represent the best fit to corporate objectives</p>	<ul style="list-style-type: none"> • Completeness checks and some property condition surveys are currently being undertaken across the council. Asset use and options appraisal will be considered once the completeness checks are finalised. Work has also been completed on the schools estate asset management plan and the roads maintenance and asset management plan and the council has assessed the level of backlog maintenance in both areas. It is expected that the council will continue address this issue in response to the areas identified as most in need of improvement by the best value review process. 	<ul style="list-style-type: none"> • Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.
<p>The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for <u>significant trading operations</u>, which are required to break even over a three-year rolling period. There are risks that the council:</p> <ul style="list-style-type: none"> • does not conduct operations of STOs to ensure break even; • fails to review its activities and the criteria used to identify STOs to reflect changing circumstances • processes internal recharges at the end of the year which are inconsistent with the concept of trading and do not represent proper accounting practice. 	<ul style="list-style-type: none"> • The implementation of the action plan arising from the previous external audit report on STOs; • Continuing STO financial and performance monitoring arrangements • Review of charging basis for trading services carried out to ensure that all trading service recharges are on a trading basis. 	<ul style="list-style-type: none"> • Track management assurances; • Follow-up of previous audit report.

Risk	Management assurances	Planned audit action
<p>The costing system used within the Roads & Lighting trading operation is outdated and there are concerns over the information provided. There is a risk that full costs are not identified by the system and that stock may be inappropriately valued.</p>	<ul style="list-style-type: none"> A working group has been set up to oversee the development of a revised costing system for use within the Roads & Lighting Trading Account, with input from Internal Audit 	<ul style="list-style-type: none"> Monitor progress and proposals made by the working group and provide advice as required
<p>All local authorities are required to prepare full <u>group accounts</u> from 2005/06, including comparative figures for 2004/05. The quantity of arms length organisations, their relationships to the council and the variety in accounting practices and timetables currently operated are likely to present significant risks to the council's ability to comply.</p>	<ul style="list-style-type: none"> Review of the impact of group accounts requirements and early engagement with affected organisations. 	<ul style="list-style-type: none"> Track management assurances; Review the council's progress in preparing for the introduction of group accounts.

Efficient government

There is a risk that the council are not in a position to be able to demonstrate that they can achieve savings which do not in any way adversely affect services to the public.

Risk	Management assurances	Planned audit action
<p>The council has gone some way towards meeting the £7.5m efficiency savings target set by the Scottish Executive. It has still, however, to identify how £2.5m of this will be achieved. In addition, the council has yet to demonstrate how its costings have been derived for the efficiency savings. There is therefore a risk that these savings may not be soundly based, and that the target may not be met.</p>	<ul style="list-style-type: none"> • None yet 	<ul style="list-style-type: none"> • No audit activity; for reporting only
<p>The 5 key workstreams of efficient government (asset management, managing absence, procurement, shared services, and streamlining bureaucracy) have not been considered in a systematic manner over the council's services. Risks are that:</p> <ul style="list-style-type: none"> • opportunities to gain efficiencies are not identified and acted upon in a systematic manner; and • Scottish Executive targets are not met 	<ul style="list-style-type: none"> • None yet 	<ul style="list-style-type: none"> • No audit activity; for reporting only
<p>A benefits tracking system has not yet been developed by the council. The absence of such a system will prevent the council from substantiating any claimed efficiency savings.</p>	<ul style="list-style-type: none"> • None yet. 	<ul style="list-style-type: none"> • No audit activity; for reporting only

Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our 2005/06 review of the internal audit service has concluded that, subject to certain resourcing issues, the council's internal audit service operates in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government*. We therefore plan to place reliance on the work of internal audit work in the following areas:

- Payroll
- Council tax and NDR
- Capital accounting
- Capital contracts
- Cash income and banking
- Payments to voluntary bodies
- Unified benefits
- Contract hire and operating leases
- Creditor payments and purchasing
- Debtor accounts
- Housing rents
- General ledger operations
- Government & European grants
- Treasury management
- Tendering procedures

We expand on specific aspects of reliance on internal audit within our *Financial Statements Strategy* which will be submitted to the council during March 2006.

Audit team

Summarised information for each core team member is set out below:

Name	Summary
Gavin Stevenson Director of Local Government	CPFA 17 years experience of the public sector
Angela Cassels Assistant Director of Audit	BA (Hons), Post-graduate Diploma in Professional Accountancy, CPFA . 16 years experience of local government audit.
David Jamieson Senior Audit Manager and lead contact	CPFA 22 years experience of public sector audit.
Ian Bell Senior Auditor	BA CPFA 9 years experience of local government
Laurence Slavin Auditor	MA (Joint Hons) QICA CISA 8 years auditing experience
Jim Cumming ICT Senior Auditor	BSc CEng MBCS CITP

**ARGYLL & BUTE COUNCIL
FINANCE**

**AUDIT COMMITTEE
9 JUNE 2006**

REPORT ON 2005 - 2006 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. 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 for 2005 – 2006 and this is provided in 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 2006;
- The assessment of needs completed during the preparation of the 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.

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 the previous year. The second is new matters arising in 2005 - 2006. 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 2005 – 2006.

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 2006.

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 15th May 2006.
15Mayfinalreport15May

DRAFT
INTERNAL FINANCIAL CONTROL STATEMENT
2005-2006

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 2006.

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 2006;
- 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 2006:-

Matters brought forward from previous year(s):-

- 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 2006 - 2007.
- The development of linkages between budgets and the service planning processes with a corresponding review of procedures and training is to continue into 2006 - 2007.

New Matters to be considered in 2006/07

- A review of charging procedures for trading accounts;
- The procedures for granting and monitoring payments to outside bodies are to be considered for improvement (Following the Public Pound);
- Asset Management Strategy to be developed in 2006 – 2007;
- Best Value Improvement Plan to be progressed throughout 2006 – 2007; and
- Reconciliation processes to be reviewed for the annual Unified Benefits Claim.

Ian Nisbet, MBA MSc ACMA MIIA
Internal Audit Manager
HQ Kilmory
15th May 2006
internalcontrolstatementdraft

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 JUNE 2006

RECENT EXTERNAL AUDIT ISSUED REPORTS 2005 – 2006.

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 action points included in Action Plan set out in Appendix 1. The Action Plan will be incorporated into the reporting system for the next Audit Committee.

2. RECOMMENDATION

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

3. DETAILS

3.1 In March 2006, Audit Scotland issued a report entitled “Computer Services Review”. The audit was a high level review of the arrangements for Information Communications Technology (ICT) services within the Education Department.

3.2 The Action Plan, which accompanies the report, details 11 recommendations for action. Seven of the action points have implementation dates between August and December 2006. Management have reported to Internal Audit that progress is being made with these action points.

3.3 Of the other 4 action points, management have reported that 3 have been completed, 2 prior to the finalisation of the report and the other in April 2006. Action point 11 will not be complete till the end of June 2006 due to an unforeseen delay with the renegotiation of the SLA. The report Executive Summary and Action Plan are provided in Appendix 1.

4. CONCLUSION

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 5 May 2006 5Mayfinalreport5May

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Executive Summary

1. As part of our 2005/06 audit of Argyll and Bute Council, we conducted a high level overview of the overall arrangements for the provision of Information Communications Technology (ICT) services within the Council's Education Department. The review covered:
 - ICT strategy;
 - organisational structure;
 - installation management;
 - service delivery;
 - asset protection;
 - business continuity/contingency; and
 - networking.

Conclusion

2. Overall, provision of the ICT Service within the Education Department appears satisfactory. Our audit work has, however, identified several areas where further improvements could be made. A summary of these areas is included below, with details included as part of the action plan at section 2.

Main audit findings

3. The main areas for improving the management and operation of the ICT within the Education Department include:
 - a process for procuring software and hardware involving both teaching and ICT staff should be developed;
 - all software and hardware installed within the Education Department should be carried out by suitably trained ICT technicians or other trusted employees (trusted employees is Council terminology);
 - updating the ICT strategy for the Education department to include timescales, indicating when and by whom will monitor and review it; and
 - developing appropriate business continuity plans for ICT services within the department.

Management action

4. Detailed recommendations on those areas where controls could be improved are noted in the action plan that follows. The action plan also describes under the 'risk exposure' column the possible consequences of our audit finding. The factual accuracy of the report and the timescales for implementing our recommendations has been agreed with officers.

5. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
6. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
7. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

Section 2 – Action Plan

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
1	<p>ICT staff highlighted major security concerns in relation to two software applications (NETIDME and Truancy Call) which some schools planned to install. Testing by ICT staff identified security issues with these applications.</p> <p>Our review identified that no formal process exists for procuring software or hardware within the Education Department.</p> <p>Since the audit the Council has developed a procedure for procuring software (and hardware). However, this procedure has yet to be used.</p>	<p>Purchasing software without involving specialist ICT staff can result in the purchasing of a badly performing application (for example the current network capacity could be insufficient to support the application). In addition, the application could have weak security or may have an unsuitable licence.</p> <p>ICT staff should therefore ensure that any new hardware complies with corporate standards and that they have the necessary level of expertise to support it.</p>	<p>A procurement process should be developed involving both teaching and ICT staff. Teaching staff should identify the software application and ICT staff should check that the software and hardware</p> <ul style="list-style-type: none"> • complies with the appropriate corporate standards; • the impact of the new application on the network performance; and • the security of the application. <p>Priority : High</p>	<p>Action: Apply the recently developed procedure to procurement of any new software and hardware.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: December 2006</p>	<p>The ICT Development Manager has reported to Internal Audit that there is ongoing progress with implementation.</p>

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
2	Currently many staff with the Education Department can install software on the schools networks.	Allowing a lot of staff to install software on the schools computers can potentially result in poorly configured applications, badly performing applications and weak security. Staff who install the software may be unaware of the licensing restrictions which can potentially lead to legal action against the Council if software is installed against the licence arrangement or if illegal software is installed.	Any software installations on the schools network should be handled or carried out under the supervision of the ICT technicians or other trusted employees. Priority : High	<p>Action: Management procedures are being developed as part of the identified Information Security (IS) Policy for Education.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: Initial draft of policy will be available by December 2006</p>	The ICT Development Manager has reported to Internal Audit that there is ongoing progress with implementation.
3	The future strategy for ICT within the Education Department is outlined in ICT Strategy for Education Overview. Whilst this document outlines the plans for the future it does not include appropriate timescales. Nor does it indicate when it will be reviewed and by whom or who is responsible for monitoring progress against the strategy.	Developing a strategy for ICT within the Education Department is to be commended. However without indicating timescales for implementation or the review and monitoring mechanisms installed restricts understanding among management and staff and is likely to reduce the effectiveness of the strategy.	Update the existing strategy by adding timescales, review and monitoring mechanisms. Priority : High	<p>Action: The strategy will be further developed in conjunction with colleagues in the Education Service.</p> <p>Responsibility: ICT Development Manager and Quality Improvement Officer - ICT</p> <p>Date: Initial draft will be available by August 2006</p>	As above.

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
4	<p>ICT is one area where software applications and environments are rapidly changing. It is important that ICT staff receive the appropriate training in these new developments or at least set aside time to become familiar with any new applications. Council staff recognise this requirement and work is ongoing in development training plans for technicians and introducing a mentoring system.</p>	<p>Without adequate time set aside for training or for familiarisation with the application, ICT staff will not be able to fully support the introduction of new applications and associated the features.</p>	<p>The training plan for ICT staff should be completed and implemented. The planned mentoring scheme should be implemented. When installing new software or hardware appropriate training, if required, should be provided to ICT staff. It is advisable to include this task within the project plan for any new hardware or software. The training provision should be subject to periodic review. Priority : High</p>	<p>Action: ICT Training Plan being developed for all ICT Support staff within Community Services Responsibility: ICT Development Manager Date: Plan established by August 2006</p>	<p>The ICT Development Manager has reported to Internal Audit that there is ongoing progress with implementation.</p>
5	<p>During our audit visit we identified that visitors could enter Inveraray Conference Centre without challenge.</p>	<p>Unauthorised access to council premises should not be permitted as it raises both security and health and safety issues.</p>	<p>All staff should be reminded that visitors should sign in to council premises and if appropriate be escorted. Priority : High</p>	<p>Action: Procedures are in place. Closer monitoring of security arrangements is being done.</p>	<p>Complete.</p>

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
6	In secondary schools, one network hosts both teaching and administrative computers.	This is a potential security weakness, as in theory, it is possible for pupils to hack into the administrative computer.	A review of the existing network should be undertaken to ascertain if improvements to security of the existing networks is feasible. Possibilities include separating the student and administrative computers into different segments of the network. This approach would help enforce better access controls to the respective computers. Priority : High	<p>Action: Closer monitoring of activities will be undertaken as part of implementation of IS Policy for Education.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: Initial draft of policy will be available by December 2006</p>	The ICT Development Manager has reported to Internal Audit that there is ongoing progress with implementation.
7	In general, most staff were aware of the need to use strong passwords. However, a small number were unaware of this requirement.	Staff use easily guessable passwords, which could allow unauthorised and inappropriate access to the Education Department's computer facilities.	All staff using computers within the Education Department should be reminded to use strong passwords. Priority : High	<p>Action: This exists on Corporate Network and will be implemented as part of IS Policy for Education.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: Initial draft of policy will be available by December 2006</p>	As above.

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
8	<p>At the time of audit, the inventory of software and hardware was incomplete. At present the opportunity exists for items to be purchased directly by schools. These items are not reflected on the inventory consistently.</p>	<p>Software licences are included in the council's balance sheet as fixed assets. However, without a detailed count of the software licenses this figure may be inaccurate. Generally software is subject to license agreements, which can be legally enforced. Operating with unlicensed software is an offence. Without a detailed inventory it is difficult to argue that all the necessary steps were taken to ensure that only properly licensed software is used within the schools.</p>	<p>Update the existing inventories to ensure that all software and hardware are included. Consideration should be given to monitoring hardware and software configurations of all networked computers. Priority : Medium</p>	<p>Action: This will be implemented as part of IT work plan over the coming year. Responsibility: ICT Development Manager Date: In place by November 2006</p>	<p>Complete.</p>

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
9	We were unable to establish the existence of standard network procedures, security and data protection handbook.	<p>Network procedures describe how various networking administrative tasks are carried out. They are useful in training staff new to the task and in documenting tasks which are generally only undertaken once or twice during the product's lifetime.</p> <p>One of the tasks identified as necessary for the Council to meet BS7799 Information Security Management standard, was for the Education Department to develop a security and data protection handbook. Without such a document the department would find it difficult to comply with this standard.</p>	<p>Develop the appropriate network procedures. Develop security and data protection. Priority : Medium</p>	<p>Action: Network management procedures are being developed as part of the identified (IS) Policy for Education.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: Initial draft of policy and handbook will be available by December 2006</p>	<p>The ICT Development Manager has reported to Internal Audit that there is ongoing progress with implementation.</p>
10	A comprehensive service level agreement (SLA) is an essential requirement for the provision or receipt of any important service. A SLA defines the parameters for the delivery of that service, for the benefit of both parties.	<p>The parameters of the service delivery arrangement are not adequately defined.</p>	<p>Finalise the SLA for National Grid for Learning project.</p>	<p>Action: This will be addressed in re-negotiation of contract.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: April 2006</p>	<p>Management has reported that finalisation of the SLA was delayed due to resolving a hardware issue. A new implementation date of end June 2006 has been provided by management.</p>

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date	Update as at 5 th May 2006
11	<p>The aim of business continuity planning is to ensure that an adequate service level can be provided if an unforeseen incident occurs.</p> <p>The Progress Report on Argyll and Bute Council Education Information Security Implementation Plan dated February 2005 highlighted several outstanding actions in the area of business continuity planning.</p>	<p>Incomplete business continuity plans will have an impact on the service provision provided by the Education Department should an unforeseen incident occur.</p>	<p>Identify the resources required to complete this action.</p>	<p>Action: The Education Management Information System (SEEMIS) will be included incorporate Disaster Recovery Project which accommodates Business Continuity plans.</p> <p>Responsibility: ICT Development Manager</p> <p>Date: April 2006</p>	<p>Complete.</p>

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ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
9 June 2006

**REPORT RE FIRST YEAR OF THE RENEWED PARTNERSHIP AGREEMENT
WITH KPMG AND PROPOSALS FOR THE SECOND YEAR**

1. SUMMARY

This report details the progress of the internal audit partnering agreement in its first year of operation and explains KPMG's proposals for the forthcoming year.

2. RECOMMENDATIONS

2.1 That this committee notes the progress of the agreement in its first year and approves the proposals for the forthcoming year.

3. DETAILS

3.1 The Council entered into a three partnership agreement with KPMG for the years 2002-2005 to assist with internal audit arrangements with the specific objective: "In any follow-up review of internal audit functions at Scottish Local Authorities by Audit Scotland, that of Argyll and Bute will be classed as amongst the best." This objective was achieved. After a tender exercise KPMG was awarded a follow on contract for the period 2005-2008 with fewer days being required. KPMG now provide 28 days audit advice and management support and 25 days Information Technology audit input.

3.2 The objective of the partnering arrangement is:

- To consolidate and build upon the improvements made in the operation of the internal audit function at the Council; and
- To provide specialist IT audit resource with an added remit to transfer skills in this area to a member of Argyll and Bute audit staff.

3.3 In 2005-2006 KPMG undertook the following work:

- Advice regarding the role and stakeholder expectations of internal audit in a Scottish Local Authority;
- Training sessions to both elected members and members of staff on governance and audit issues;
- Attendance at Audit Committees;
- Assistance and advice about the development of a new risk based three year internal audit strategy;
- Undertook a review of budgetary control arrangements at the Council;
- Undertook a file review to provide an opinion on compliance with professional standards of file keeping and working papers;

- Miscellaneous ad hoc advice to audit management as required; and
- An IT security control review, including “penetration testing”, alongside a nominated member of Argyll and Bute audit staff to facilitate skill transfer.

3.4 KPMG propose the following activities for the second year of the partnership agreement:

- Management and professional support – focusing this year on the role of internal audit in relation to the Council’s duty of Best Value;
- Formal and informal training (both to the elected members and staff as required);
- Direct audit time where KPMG’s wider experience of local authority issues adds value;
- Audit Committee attendance;
- Meetings/relationship management and audit functioning (in particular continuing reviews of compliance with good practice and guidance and continuous improvement); and
- IT audit alongside a nominated member of staff. This year we propose to look at the operation of two key computer applications – the finance ledger and the council tax system.

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)

Steve Keightley
Partnership Manager
18 May 2006.
KPMGprogreport18may

**ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
9 JUNE 2006**

APPOINTMENT OF EXTERNAL AUDITORS 2006/07 TO 2010/11

1. INTRODUCTION

- 1.1 The financial year 2005/06 is the final year of appointment for the Council's current external auditors Audit Scotland. A tendering exercise for all local authority audits covering the period 2006/07 to 2010/11 has recently been carried out and the Accounts Commission has now confirmed that RSM Robson Rhodes LLP as the Council's external auditors for 2006/07 to 2010/11.
- 1.2 This is RSM Robson Rhodes LLP's first venture into external audit for Scottish local authorities. In addition to Argyll and Bute Council they have also secured the audits of East Dunbartonshire Council and Clackmannanshire Council. Despite this lack of experience of local authority audit in Scotland, it should be noted that RSM Robson Rhodes LLP are a large accountancy practice although not one of the Big 4.
- 1.3 Contact has been made with RSM Robson Rhodes LLP and an early meeting has been sought with a view to
- Planning a smooth transition between external auditors
 - Raising the awareness for RSM Robson Rhodes LLP of key issues within Argyll and Bute
 - Understanding how RSM Robson Rhodes LLP propose to plan and resource the audit of Argyll and Bute Council.

Bruce West
Head of Strategic Finance
30 May 2006

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