

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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1 December 2006

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 8 DECEMBER 2006** at **2:30 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST**
3. **MINUTES**
Audit Committee 21 September 2006 (Pages 1 - 6)
4. **QUARTERLY SERVICE REVIEWS REPORTING**
Report by Performance Manager (Pages 7 - 10)
5. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2006-2007**
Report by Internal Audit Manager (Pages 11 - 14)
6. **MAINTAINING SCOTLAND'S ROADS - UPDATE**
Report by Internal Audit Manager (Pages 15 - 18)
7. **EXTERNAL AND INTERNAL AUDIT FOLLOW UP**
Report by Internal Audit Manager (Pages 19 - 40)
8. **RECENT EXTERNAL AUDIT REPORTS ISSUED 2006**
Report to follow

- 9. HMIE REPORT 2004-05**
Report by Internal Audit Manager (Pages 41 - 42)
- 10. AUDIT OF ACCOUNTS 2005/2006: MEMBERS LETTER / AUDIT OF ACCOUNTS AND CERTIFIED ACCOUNTS**
Report by Internal Audit Manager (Pages 43 - 88)
- 11. RISK MANAGEMENT - THE CURRENT POSITION**
Report by Internal Audit Manager (Pages 89 - 100)
- 12. LEGAL AND PROTECTIVE SERVICE PERFORMANCE - UPDATE**
Report to follow
- 13. BEST VALUE REPORTING PROCESS**
Report by Internal Audit Manager (Pages 101 - 102)

- E1 (a) APPENDIX 1** (Pages 103 - 104)
- E1 (b) APPENDIX 2A** (Pages 105 - 120)
- E1 (c) APPENDIX 2B** (Pages 121 - 124)
- E1 (d) APPENDIX 2C** (Pages 125 - 136)
- E1 (e) APPENDIX 3A** (Pages 137 - 138)
- E1 (f) APPENDIX 3B** (Pages 139 - 142)
- E1 (g) APPENDIX 4** (Pages 143 - 144)

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

The appropriate paragraph is:-

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

AUDIT COMMITTEE

Councillor Donald MacMillan
Councillor Gary Mulvaney (Chair)
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 CHAMBERS, KILMORY
on THURSDAY, 21 SEPTEMBER 2006**

Present: Councillor Gary Mulvaney (Chair)

Councillor John Tacchi

Ian Ross

Attending: Deirdre Forsyth, Area Corporate Services Manager
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Susan Mair, Head of Legal and Protective Services
Moirra Miller, Finance Manager - Corporate Accounting
Steve Keightly, KPMG
Angela Cassels, Audit Scotland
Ian Bell, Audit Scotland

1. APOLOGIES

Apologies were received from Christopher Valentine and Councillors Elaine Robertson, Donald MacMillan and John McAlpine.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

(a) AUDIT COMMITTEE 9 JUNE 2006

The minutes of 9 June 2006 were approved as a correct record.

(b) AUDIT COMMITTEE 13 JULY 2006

The minutes of 13 July 2006 were approved as a correct record.

4. MAINTAINING SCOTLAND'S ROADS

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. The Committee considered the current implementation position in respect of planned actions.

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 28 August 2006, submitted).

5. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2006-2007

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 both Audit Scotland and Internal Audit. The Committee considered the results from a review performed by Internal Audit for recommendations due to be implemented by the 30th June 2006.

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 31 August 2006, submitted).

6. HMIE ACTION PLAN 2004-2005

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 but indicated areas where further improvement could be made.

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 21 August 2006, submitted).

7. ANNUAL ACCOUNTS 2005-2006 (UNAUDITED)

The Committee considered the Annual Accounts (Unaudited) 2005-2006. The accounts had been submitted to the Council meeting on 28 June 2006 and it is usual practice to submit them to the following Audit Committee.

Decision

The Committee noted the accounts.

(Reference: Annual Accounts (Unaudited) 2005-2006, submitted).

8. INTERNATIONAL STANDARD ON AUDITING 260 (ISA 260) LETTER

Audit Scotland provided an audit letter to the Audit Committee in accordance with International Standard on Auditing 260 (ISA 260). This auditing standard requires external auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action to be agreed prior to the finalisation of the Annual Accounts for 2005 - 2006.

Decision

It was agreed to note and agree the contents of the ISA 260 letter.

(Reference: Report by Internal Audit Manager dated 12 September 2006 and ISA 260 correspondence, submitted).

9. RECENT EXTERNAL AUDIT REPORTS ISSUED 2005-2007

The Committee considered a report containing the executive summary and action plan for new reports issued by Audit Scotland since the last Audit Committee.

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 18 August 2006, submitted).

10. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2006-2007

The Committee considered an interim progress report detailing the audit work performed by Internal Audit up to the 8th of September 2006. The report informed the Committee of the progress of the Annual Audit Plan.

Decision

It was agreed to approve the progress made with the Annual Audit Plan for 2006 - 2007.

(Reference: Report by Internal Audit Manager dated 12th September 2006, submitted).

11. LEGAL AND PROTECTIVE SERVICE PERFORMANCE

At their meeting on 9th June, the Audit Committee requested that the Head of Legal and Protective Services provide a report detailing the department's performance indicators and value for money. The concerns were particularly centred around the delay in the provision of a legal service in respect of certain matters. The Committee considered a report which set out a number of issues which have impacted on the delivery of legal services within recent years.

Decision

It was agreed:

1. To note the contents of the report.
2. To receive a further report to the next meeting of the Audit Committee.

(Reference: Report by Head of Legal and Protective Services dated 14 September 2006, tabled).

12. QUARTERLY SERVICE REPORTING PROCESS

In February 2006 Audit Scotland issued a report entitled "The Audit of Best Value and Community Planning". The report and findings related to the performance of Argyll and Bute Council's statutory duties to secure Best Value and to initiate and facilitate the Community Planning process. Part 2 of the report pertaining to Scrutiny, recognised the effectiveness of the Audit Committee but requested its role be further developed to provide challenge on service performance information. In response to the Audit Scotland The Committee considered an outline of the process for scrutinising service performance information to the Audit Committee.

Decision

It was agreed to approve the process outline set out in this report.

(Reference: Report by Internal Audit Manager dated 31st August 2006, submitted).

13. BEST VALUE REVIEW PROCESS REPORT

In February 2006 Audit Scotland issued a report entitled "The Audit of Best Value and Community Planning". The report and findings related to the performance of Argyll and Bute Council's statutory duties to secure Best Value and to initiate and facilitate the Community Planning process. Part 2, paragraph 61 of the report pertaining to Scrutiny, recognised the effectiveness of the Audit Committee but requested its role be further developed to provide challenge on the findings and methodology of Best Value Reviews. In response to the Audit Scotland report the Council prepared an Improvement and Development Plan in May 2006. The Committee considered an outline of the process for scrutinising service performance information to the Audit Committee.

Decision

It was agreed to approve the process outline set out in this report.

(Reference: Report by Internal Audit Manager dated 31st August 2006, submitted).

The Chairman thanked Angela for her hard work over the last five years and on behalf of the Audit Committee wished her the best of luck for her retirement.

ARGYLL AND BUTE COUNCIL
CHIEF EXECUTIVE'S UNIT

AUDIT COMMITTEE
8 DECEMBER 2006

SUMMARY OF QUARTERLY PERFORMANCE REPORTS

1 SUMMARY

This paper provides a summary of the Service quarterly reports for the period July to September 2006, consisting of the exceptional performance sections only.

2 RECOMMENDATIONS

It is recommended that the Audit Committee notes the content of the attached summary report.

3 DETAIL

Services report their performance to the SMT quarterly, using a standard format. The information provided to the SMT typically consists of reports that services have been delivered on time and to budget. The full quarterly report therefore consists of about 85 pages of data, much of which is for information only.

A summary of the past three quarterly reports has been provided to the Senior Members and Officers Group, consisting of those service areas reporting exceptional performance. This has been found helpful in informing senior Members about levels of performance not closely aligned with planned levels.

The selection of performance included as 'exceptional' relies on the report provided by Services. Where the Service has reported a Priority to be either behind or ahead of schedule then it is included as exceptional performance.

Part of a quarterly report is provided in this paper showing exceptional performance across a number of indicators. This led to it's inclusion in the summary report.

The full quarterly reports are available from the Performance Manager in the Policy and Strategy Team.

For further information contact:

David Clements,
Performance Manager,
Policy and Strategy.
Telephone 01546 604205
Email: david.clements@argyll-bute.gov.uk

Argyll and Bute Council

Extracts from Quarterly Performance Reports Jul-Sep 2006

This paper draws together all the exception reports from the quarterly Service performance reports for the second quarter 2006/07. Exception reports are those areas of service delivery that the Head of Service considers ahead (✓) or behind (✗) the planned level of service. Where no exceptional performance has been reported, the level of service is generally as planned.

Chief Executive's Unit

<u>Communications</u>	no exception reports
<u>Personnel</u>	no exception reports
<u>Policy and Strategy</u>	no exception reports
<u>Strategic Finance</u>	no exception reports

Community Services

Community Regeneration

- ✓ Unified Benefits has improved performance in time taken to process claims, number of claims paid within 7 days and number of home visits
- ✓ Supporting People monitoring visits and service provider liaison meetings maintained at exceptional levels ensuring high quality service provision
- ✓ Community Learning and Development has improved the uptake of Community Based Adult Learning and learners in Literacy

Planning and Performance

- ✓ All capital programmes ahead of plans

Housing Services no exception reports

Community Support

- ✓ The homelessness service reports a number of excellent results, including reduction in B&B costs, increase in take up of Rent Deposit Scheme and increased customer satisfaction
- ✗ Telecare Strategy targets are not being met

Children and Families no exception reports

Integrated Care

- ✗ Scottish executive targets for delayed discharge missed in 'short stay' and 'more than 6 weeks' categories

Education no exception reports

Corporate Services

ICT and Financial Services

- ✗ Some delays in Contact Centre development and re-implementation of Care Fist modules
- ✓ Exchequer Services report a range of improvements in both cost and speed of delivery

Legal and Protective Services

- ✗ Food Hygiene inspections slightly behind planned level
- ✗ Trading Standards and Premises Inspections behind due to staff shortages
- ✓ Consumer Complaints and Business Advice requests ahead of targets
- ✗ Delays in council house sales due to staff vacancy

Democratic Services and Governance

- ✗ Contact Centre delayed
- ✗ Cash Collection handover delayed

Development Services

Transportation and Infrastructure

- ✓ Improved use of supported transport services
- ✓ Road Safety Education in schools ahead of schedule

Planning

- ✓ Response to Building Warrant applications has improved
- ✗ Response to Planning Applications slower than planned

Operational Services

Roads and Amenity Services

- ✓ Household Waste Recycling increased and well beyond target

Facility Services

- ✓ Financial surplus across the Service
- ✓ Improved customer satisfaction across the Service
- ✓ Improved sickness absence across the Service
- ✗ Some reduction in use of some facilities - Helensburgh pool and Mid-Argyll Sports Centre
- ✓ Overall attendance at facilities improved

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2006 - 2007

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the 3rd of November 2006. The objective of the report is to advise members of the progress of the Annual Audit Plan. (See Appendix 1).

2. RECOMMENDATION

2.1 The Audit Committee is asked to approve the progress made with the Annual Audit Plan for 2006 - 2007.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2006 –2007, and are ordered by section and level of completion.

3.2 As at the 3rd of November 2006, of 17 core financial systems audits set out in the audit plan, 7 have been completed. Of the remaining 10 audits, 4 have been started. As a result the total number of audits still to be commenced is 6. With regard to the e-Procurement/ Creditor audit, combining both audits resulted in 50 audit days being allocated to this audit area. Presently 25 days have been expended with a draft report issued. The remaining audit days will be allocated to testing a new e-Procurement system.

3.3 Of 16 non-financial audits identified for this years audit plan, as at the 3rd of November 2006, 6 audits have been completed. Of the remaining 10 audits, 5 have been started and 5 remain to be started. With regard to 2 audits Strategic and Property Asset Management recently started, these have been combined and this effect is reflected in Appendix 1. Both audits were originally allocated 15 audit days each, combined the total is now 30.

3.4 As set out in the Annual Audit Plan a total of 80 days were set aside for Other Areas – Follow Up Work etc. As at the 3rd of November 2006, a total of 28 days has been expended on this task.

3.5 A total of 80 days were set aside within the audit plan for Special Investigations / Contingency audit work. As at the 3rd of November, a total of 27 days have been expended.

4 SUMMARY OF AUDIT ACTIVITIES FOR 2006 - 2007

- 4.1 It can be reported that Internal Audit continues to make reasonable progress with the Annual Audit Plan. Joint working has recently commenced with Audit Scotland on the Unified Benefits System annual audit and joint computer audit work has been ongoing with KPMG. As the section approaches the end of the calendar year it is clear that there are 6 core and 5 non financial audits to be started. However, several of these audits have already been assigned and are due to commence.
- 4.2 Presently the Annual Audit Plan remains on course for completion by March 2007. Progress will continue to be monitored.

5. CONCLUSION

- 5.1 Satisfactory progress is being made on audits planned for 2006 – 2007.

6. IMPLICATIONS

- 6.1 Policy: Update on audit plan for 2006 – 07.
- 6.2 Financial: The audit plan is based on budgeted provision.
- 6.3 Personnel: None
- 6.4 Legal: None
- 6.5 Equal Opportunities: None

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

Ian Nisbet
Internal Audit Manager 22nd November 2006.
22Novfinalport22Nov

APPENDIX 1

Assessment of audit days: 2006-2007 strategic plan

AUDIT WORK SCHEDULE As at the 3rd of November 2006	Last audited	Risk ranking	Original Estimated Audit Days 2006-07	Revised Estimated Audit Days 2006-07	Actual Audit Days 2006-07	Balance
Core financial systems						
Complete						
Cash Income and Banking	2005-06	2	30	30	27	3
Contract Hire and Operating Leases	2005-06	2	20	20	20	0
Stocktaking	2005-06	2	25	25	25	0
Debtor Accounts	2005-06	2	20	20	20	0
Council Tax and Non-Domestic Rates	2005-06	2	30	30	25	5
Government & European Grants	2005-06	1	30	30	22	8
Car Allowances	2004-05	2	20	20	16	4
Started						
e - Procurement/Purchasing/Creditors	2005-06	2	50	50	25	25
Unified Benefits System	2005-06	2	30	30	0	30
Treasury Management	2005-06	2	20	20	6	14
Tendering Procedures	2005-06	1	30	30	5	25
Not Started						
Budgetary preparation and control	2005-06	1	20	20	0	20
Capital Accounting	2005-06	1	20	20	0	20
Capital Contracts	2005-06	1	20	20	0	20
General Ledger Operations	2005-06	2	25	25	0	25
Payroll	2005-06	2	30	30	0	30
Payments to Voluntary Bodies (Following the Public Pound	2005-06	2	20	20	0	20
Section Total			440	440	191	249
Non-financial Audits						
Complete						
All Depts - Business Continuity Planning	2005-06	1	30	20	21	-1
All Depts - Corporate Governance	2005-06	1	30	30	30	0
Performance Indicators	2005-06	1	50	50	50	0
Community Services - HMle	2004-05	1	20	20	16	4
Corporate Services - Risk Management Register	2004-05	3	25	20	20	0
New Legislation	2005-06	1	30	20	19	1
Started						
Chief Executives Unit - Policy & Strategy - Best Value	2005-06	1	30	145	33	112
Corporate Services - ICT - Applications	New	2	25	25	6	19
Development Services - Partnership Project Funding	New	1	30	20	0	20
All Depts - Strategic/Property Asset Management	2005-06	1	30	30	8	22
All Depts - Property Asset Management/ Combined See Above	2005-06	1	30	0	0	0
Not Started						
Community Services - Care Services	2005-06	2	30	20	0	20
Community Services - NPDO - Contract Monitoring	2005-06	1	30	20	0	20
Community Services - Transportation	2005-06	1	30	20	0	20
Operational Services - Amenity & Roads Services	2002-03	3	30	20	0	20
All Depts - Partnership Working	2005-06	1	30	20	0	20
Section Total			480	480	202	278
Actual Direct Audit Time			920	920	394	526
Special investigations contingency						
Community Services			80	80	12	53
Chief Executive's Unit					15	
Section Total			80	80	27	53
Other Areas						
Follow-up External & Internal Audit Management Letter Point:			60	60	28	32
Risk Assessment, Strategic Plan, Annual Plans			20	20	0	20
Section Total			80	80	28	52
TOTAL			1080	1080	449	632

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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 planned actions.

2. RECOMMENDATION

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

3. DETAILS

3.1 As at the 3rd of November 2006, it can be reported that all of the remaining 6 recommendations are progressing towards implementation. See Appendix 1. With regard to recommendation 3, management have reported to Internal Audit that they have not yet received word from the Scottish Executive as to whether the EGF bid for funding has been successful.

3.2 With regard to recommendations 7 and 8 management have reported continued progress with the Roads Maintenance Management System (RMMS) roll out. RMMS is now fully operational in both Street Lighting and Bridge Structure sections. All Road Engineers now have RMMS on their systems. However there is still training to be delivered. Management are reporting timing difficulties in arranging ICT training. They estimate that it will be February 2007 before both recommendations are fully implemented and operational assisted with the receipt of EGF funding.

3.3 Of the remaining 3 recommendations management have reported that for recommendation 1, information is being collated for the annual report on the condition of roads and maintenance backlog for the SPC in December 2006. A copy of the report will be available for the Audit Committee prior to the 8th of December 2006.

3.4 Management have reported progress with recommendation 6. The option appraisal for procuring and financing road maintenance services is being reviewed to comply with the Best Value agenda. Operational Services management are proposing to develop a more proactive locally based way of delivering services. This way is being referred to by them as 'Streetscene'. A paper outlining the proposal was presented to the SPC in August 2006 and was approved. It is proposed that the Audit Committee receive an annual progress report.

3.5 Recommendation 4 remains an ongoing task for Operational Services.

4. CONCLUSION

4.1 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 24th November 2006.
24Novfinalreport24Nov

Maintaining Scotland's Roads 2005 – 2007
Action Plan

No.	Recommendations	Current Position	Proposed Action	Timescale	Progress update as at 3 rd of November 2006
1	Report on the condition of roads and maintenance backlog.	2005/06 Information received.	Continue to report on annual basis.	Report to SPC October 2006	Information being assembled for a report to the December 2006 SPC.
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	The Society of Chief Officers of Transportation in Scotland (SCOTS) is working on an overall Scotland Approach and is seeking funding from Efficient Government Fund (EGF).	The Council is part of this Scotland Wide process.	Ongoing	The Council is still awaiting the result notification of the 32 Council SCOTS EGF funding bid from the Scottish Executive.
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.	-	Continuous monitoring.
6	Conduct an option appraisal for procuring and financing road maintenance services.	Work has commenced.	Undertake recommendation.	March 2007	The option appraisal is proceeding to timetable.
7	Improve inventory information on the roads assets.	Work ongoing.	Complete inventory.	March 2006	The Roads Maintenance Management System (RMMS) is now fully operational within Street Lighting and Bridge Structures. It is yet to become fully operational in Roads. Funding is awaited from the SCOTS EGF bid that will allow a physical link to the systems of other Councils. Although management had thought implementation would be complete by October, it is more

APPENDIX 1

<p>8</p>	<p>Use asset management system linked to GIS and financial system.</p>	<p>Progress is now being made.</p>	<p>Introduce a Roads Maintenance Management System.</p>	<p>Initial introduction complete full implementation on 1st April 2006</p>	<p>likely full implementation will be by February 2007.</p> <p>This recommendation is linked to points 3 & 7 above. Progress continues to be made towards implementation with the RMMS operational in both Street Lighting and Bridge Structures. Roads Engineers have the system but require training to fully operate the system. There have been ongoing issues with ICT and training regarding timing. After RMMS is established then in can be linked to GIS and the financial system. It is now thought that there will be full implementation by February 2007.</p>
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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
8 DECEMBER 2006

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2006 – 2007.

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 both Audit Scotland and Internal Audit. The current reporting system was introduced and approved by the Audit Committee in August 2004. Set out below are the results from a review performed by Internal Audit for recommendations due to be implemented by the 30th September 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 2004/05 and 2005/06 Internal Audit reports issued prior to September 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 30th September 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 July to September 2006. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by the 30th June 2006 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, the original and 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 are included in the summary list in Appendices 3 & 4 of this report.

4. CONCLUSIONS

Implementation of all 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)

20 November 2006
20Novreport20Nov

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From July to September 2006

Audit	Report Number	Points to be actioned by 30 September 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2005/06					
Review of Capital Accounting	13 (February 2006)	1	1	0	
Review of Cash & Income Banking, Hermitage Academy & Education Services	9 (January 2006)	4	1	3	C 1, 3 & 5
Review of Council Tax	15 (March 2006)	2	2	0	
Review of Housing Rents	18 (March 2006)	3	3	0	
Review of Recruitment & Retention of staff	20 (June 2006)	5	4	1	F 5
2006/07					
Review of Cash & Income Banking - School Fund Update	3 (July 2006)	1	1	0	
Total		16	12	4	

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Action Points Behind Schedule – Internal Audit

A – 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	BCP Role Play event 26/10/06 will rehearse and train on scenario. This will provide a sound basis for addressing BCP issue across the full range of scenarios.	High	31 January 2006	End of December 2006
2	Without sufficient resources, the objectives of the business continuity group are unlikely to be met.	Governance and Risk Manager	The delay from August to December 2006 to complete planning is as a result of gap when Governance and Risk Manager Post was vacant.	High	31 January 2006	December 2006

B – Review of Capital Accounting

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Lack of supporting documentation for option appraisal	Head of Strategic Finance	Brodies consultancy has been commissioned to review and redraft the overall approach to capital planning in order to address the issues here and the actions in the Best Value Improvement and Development Plan. A draft report has been prepared and an action plan is being finalised	Material	30 September 2006	31 January 2007

C – Review of Cash & Income Banking – Hermitage Academy & Education Services

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Various Council FSR's have not been complied with.	Heads of Service for Primary and Secondary Education	Questionnaire completed by all schools. A working group has been established to revise Standard Circular 1:10. The group is to conclude its work in December 2006.	Material	31 August 2006	8 December 2006
3	Written procedures are not in place for day to day administration of the GPF. This could lead to difficulties in the event of sickness and changes of staff.	Acting Head Teacher (Hermitage Academy) & Heads of Service for Primary and Secondary Education.	Written procedures in place at Hermitage Academy. Revisions to the appendices to Standard Circular 1:10 will also cover this issue for other schools.	Minor	31 August 2006	8 December 2006
5	Surprise spot checks of GPF arrangements not undertaken by Education Service management.	Heads of Service for Primary and Secondary Education.	The new Standard Circular 1:10 will give a commitment to spot checks being carried out by management.	Minor	31 August 2006	8 December 2006

D – Review of Contract Tendering & Vetting

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	There is no common department Health and Safety approval form.	Head of Facility Services	Proforma being progressed. The details will be revised, piloted and introduced in the next financial year.	Material	30 April 2006	1 April 2007

E – Review of Debtors – Estate Rents

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Some nominal rents are still subject to billing procedures when it is uneconomic to do so.	Head of Legal and Protective Services	Reviewing the position due to representations from departments.	Minor	28 February 2006	January 2007
7	There is no rolling programme of rent reviews	Head of Legal and Protective Services	Paper based system at present. Will be developing an electronic system to incorporate rent review feature. The delay has been due to the absence of a member of staff.	Material	30 April 2006	March 2007

F – Review of Recruitment & Retention of Staff

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	The Growing our Own initiative does not have a central budget and therefore the expected results may not be achieved.	SMT	This was discussed at SMT ON 18 July 2006. Douglas Hendry is to report back to SMT on this.	Material	31 August 2006	Ongoing

G – Review of the Prudential Code

APPENDIX 2

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	Brodies consultancy has been commissioned to review and redraft the overall approach to capital planning in order to address the issues here and the actions in the Best Value Improvement and Development Plan. A draft report has been prepared and an action plan is being finalised.	Material	31 March 2006	31 January 2007
5	Business plans have only been done for a limited number of projects. There is a need to develop an approach to business case and option appraisal for all projects that reflects robust estimates at the outset.	Head of Strategic Finance	As above.	Material	30 November 2005	31 January 2007.

External Audit Report Follow up - Summary
External Audit Reports With Recommendations Due From July to September 2006

Audit	Points to be actioned by 30 September 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2005/06				
Education Department - Computer Services Review	2	0	2	B 3 & 4
Financial Strategy	3	0	3	C 2,3 & 4
Total	5	0	5	

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Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 30 September 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
Commissioning Community Care Services for Older People	2	2	1	1	A 2
Financial Strategy	1	1	1	0	
Prudential Code	1	1	0	1	D 5
Regularity & Governance (3)	1	1	1	0	
Business Continuity Planning Review	1	1	0	1	E 1
Improving Customer Services through Better Customer Contact	1	1	0	1	F 1
Total	7	7	3	4	

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Action Points Behind Schedule - Audit Scotland Reports**A – COMMISSIONING COMMUNITY CARE SERVICES FOR OLDER PEOPLE**

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Officers should implement information sharing arrangement to enable access to services across social work, housing and health, including the requirement to obtain consent.	Head of Integrated Care	Delays in development of the Care Assessment module of OLM system. Once tested a planned implementation will be developed between the council and the NHS.	Medium	30 April 2005	31 July 2007

B – EDUCATION DEPARTMENT - COMPUTER SERVICES REVIEW

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	<p>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.</p> <p>Risk - 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.</p>	ICT Development Manager & Quality Improvement Officer - ICT	With the introduction of SSDN and Pathfinder North over the next coming years, ICT delivery for the Education Service will change radically. Therefore, an ICT Strategy to reflect these significant changes should be developed by the ICT Development Manager for Community services and the Quality Improvement Officer ICT for Education.	High	30 August 2006	30 June 2007

APPENDIX 4

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
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 features.</p>	ICT Development Manager	The training requirements for the Primary Technician Team have been met and will continue to be addressed annually to ensure their Apple Repair Engineer certification. Training for the Secondary School Technicians is of equal importance and efforts are being made to deliver this training in 2006 – 2007.	High	30 August 2006	July 2007

C – FINANCIAL STRATEGY

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	<p>Corporate and service plans are not clearly integrated with the revenue and capital budgets. There is more of a focus on 'total budget' rather than costing of individual service level activities.</p> <p>Risk: Members may not be fully aware of the financial implications of individual service objectives and therefore not able to assess whether adequate and appropriate resources have been allocated.</p> <p>Recommendation: Key themes in the service plans should be costed in line with the resource allocation established on the revenue and capital budgets.</p>	Head of Strategic Finance	A project is underway to address this in a way that deals with the recommendations. Evidenced through service plans.	None Assigned	30 September 2006	31 January 2007
3	<p>Long term planning is generally restricted to a 3-year budgeting horizon.</p> <p>Risk: It is recognised that long term planning is difficult in the light of short term financial settlements. However failure to project the longer-term implications of previous spending decisions could restrict the ability to</p>	Head of Strategic Finance	<p>Have started to assess requirement of this and do not have the staff resources or budget to do this at present. Will need to delay for 6 months.</p> <p>This is a long term development issue rather than an immediate critical weakness in financial control.</p>	None Assigned	30 September 2006	31 May 2007

APPENDIX 4

	<p>achieve objectives beyond the 3-year budgeting horizon.</p> <p>Recommendation: The Council should develop longer term financial planning which incorporates projections and modelling for specific issues.</p>					
4	<p>Projected budgets for 2006/07 and 2007/08 have identified a corporate funding gap at a council wide level. Whilst savings have been identified at a service level to support the 2005/06 budget there has been no attempt to identify the impact of the funding gap in future years.</p> <p>Risk: Medium to long term corporate objectives may not be affordable and sustainable nor soundly based on realistic revenue projections.</p> <p>Recommendation: The potential impact of the projected corporate funding gap should be considered and achievable efficiency savings determined at a service level in order to minimise this impact.</p>	Head of Strategic Finance	Being considered as current budget develops.	None Assigned	30 September 2006	31 March 2007

D – 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	Brodies consultancy has been commissioned to review and redraft the overall approach to capital planning in order to address the issues here and the actions in the Best Value Improvement and Development Plan. A draft report has been prepared and an action plan is being finalised.	Medium	31 March 2005	31 January 2007

E – BUSINESS CONTINUITY PLANNING REVIEW

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	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. 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	Governance & Risk Manager	BCP role play event took place on 26 October 2006. The remaining BCP plans will be completed by 31/12/06	High	31 January 2006	31 December 2006

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	services that it's citizens expect					

F – IMPROVING CUSTOMER SERVICES THROUGH BETTER CUSTOMER CONTACT

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	<p>Councils need to commit to actively pursue a programme to manage customer service improvements as this is central to effective service delivery.</p> <p>Councils should improve how they research customers' opinion on service and make better use of feedback.</p> <p>Councils should improve performance measurement.</p>	Head of Democratic Services & Governance	<p>Contact Centre proposal for an expanded area of operation was presented to the Council on 15/11/06 and the development of the Contact Centre was agreed.</p> <p>The development will be on a phased basis encompassing all relevant services on an incremental basis. The development will be over 3 phases. Work on phase 1 commences December 2006.</p>	Medium	31 December 2005	Ongoing

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
8 DECEMBER 2006

HMIE REPORT 2004 – 05

1. SUMMARY

As part of a 5 year national inspection programme of all local authorities in Scotland, the Education Service of Argyll & Bute Council was inspected during the period December 2004 to January 2005 by HM Inspectorate of Education (HMIE). 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 but indicated areas where further improvement could be made.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 Arising from their inspection HMIE prepared an Action Plan containing 4 main action points. On the 8th of September 2005 the Action Plan was presented to and approved by the Strategic Policy Committee (SPC). Community Services management then commenced implementing the agreed action points and the Audit Committee received quarterly updates on management progress shortly thereafter.

3.2 At the last Audit Committee it was reported by Internal Audit that it was in the process of preparing a draft report following an audit of the management action taken to address the inspectorates 4 main action points. Internal Audit has concluded, supported by evidence, that all action points have been implemented. A draft report has now been issued for final management comment. When the report is finalised it will be sent to the inspectorate for their information.

3.3 HMIE are due to carry out an implementation review that will assess and comment on the progress made by Community Services management in addressing the 4 main action points. Any resultant findings will be passed to the Audit Committee for their review.

4. CONCLUSIONS

Internal Audit will report on the HMIE implementation review outcome.

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. 3 November 2006. 3Novfinalreport3Nov.

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
8 DECEMBER 2006

AUDIT OF ACCOUNTS 2005/2006 – ANNUAL ACCOUNTS

1. SUMMARY

Audit Scotland has completed its audit of the Council's Accounts for the year to 31st March 2006. The Annual Accounts (Unaudited) along with the International Standard on Auditing 260 (ISA260) were presented at the last Audit Committee meeting for review. On the 15th of November 2006 together with the Audit Certificate which contained no qualifications, the Certified Accounts and letter to Members were noted by the Council.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and agreed by the Audit Committee.

3. DETAILS

3.1 As requested by the Audit Chairman the Action Plan extracted from the letter to Members is provided in Appendix 2.

4. CONCLUSIONS

4.1 External audit recommendations contained within the members report will be monitored with progress reported to the Audit Committee.

5. IMPLICATIONS

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

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216).
Ian Nisbet, Internal Audit Manager. 30th November 2006. 30Novfinalreport30Nov.

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**AUDIT OF ACCOUNTS 2005/2006 – REPORT TO MEMBERS, AUDIT
CERTIFICATE AND CERTIFIED ACCOUNTS**

1. INTRODUCTION

- 1.1 The external auditors, Audit Scotland, have completed their audit of the Council's Accounts for the year to 31 March 2006 and the Audit Certificate, Certified Accounts and Report to Members are attached. The Audit Certificate contains no qualifications.
- 1.2 An action plan covering the external auditors recommendations is attached as Appendix A to the Report to Members, together with the proposed responses to the Action Points. The Audit Committee's remit includes monitoring of action within agreed timescales.

2. RECOMMENDATION

- 2.1 The Certified Accounts and the terms of the Audit Certificate and report to Members are noted.
- 2.2 To refer to the Audit Committee monitoring of the external auditors recommendations contained in the action plan.

3. DETAIL

- 3.1 The Certified Accounts, the Audit Certificate and the Report to Members are attached.
- 3.2 The Accounts were completed and submitted to Audit Scotland by the statutory date of 30 June 2006 and the audit has been completed within the timescale of 30 September 2006, set by Audit Scotland.
- 3.3 Member's attention is drawn to the Action Plan in Appendix A of the report to Members. Monitoring of action required will be carried out by Internal Audit and regular updates on compliance with the agreed points will be reported to the Audit Committee.

3.4 The Auditors' Certificate on the Council's financial statements for the year ended 31 March 2006 contains no qualification in that she is able to conclude that the Council's financial statements present fairly its financial position as at 31 March 2006. However, she has noted that the Council have failed to comply with the statutory requirement that the income from trading operations is not less than expenditure over a three-year period. This is in respect of Leisure Trading Service and the Catering and Cleaning Service.

3.5 The Auditors' Report provides comments on the following:

- Performance
- Financial Position
- Governance
- Financial Statements

3.6 The deficit for the year has decreased by £0.136 from £0.503m to £0.367. This results in a balance carried forward on the General Fund Reserve of £14.753m, an increase of £0.136. The committed sums included in the General Fund Reserve have increased by £0.067m from £8.878m to £8.945m. This leaves a free balance on the General Fund Reserve of £5.808m, compared to £5.739m per the unaudited accounts.

The decrease in the deficit for the year of £0.136m can be analysed as follows:

▪ Housing Benefits Overpayments Debtor	£0.174
▪ Understated Prepayment	-£0.011
▪ Other minor adjustments to debtors	-£0.027
▪ Total	£0.136

3.7 The completion of the audit of Accounts for the year 2005/06 within the timescale set by Audit Scotland means that the Council continues to be completely up-to-date in completion and audit of Accounts. In addition, there are no qualifications on the Audit Certificate.

3.8 The free General Fund Reserve stands at £5.808m. This is in excess of the proposals for 2% general contingency. The excess is £1.808m, however it should be noted that the Council, at its meeting on 28 June 2006, agreed to release £0.700m of the General Fund Reserve for elderly care. The Council will need to consider proposals to utilise the remaining part of the reserve at the upcoming budget process.

4. IMPLICATIONS

- | | | |
|-----|----------------------|---|
| 4.1 | Policy: | The completion of the accounts and the audit within set timescales complies with the Council's objectives on providing timeous and accurate information to the public. |
| 4.2 | Financial: | The external auditors independent examination of the Council's financial records has resulted in a clear Audit Certificate. Surplus balances are held on both the General Fund and in the Housing Revenue Account. The Council should continue with prudent financial management. |
| 4.3 | Legal: | The Accounts have been completed in accordance with all legislative and Code of Practice requirements. |
| 4.4 | Personnel: | None |
| 4.5 | Equal Opportunities: | None |

Bruce West
Head of Strategic Finance
1 November 2006

ANNEX 1 – CHANGES BETWEEN UNAUDITED AND AUDITED ACCOUNTS

CONSOLIDATED REVENUE ACCOUNT AND NOTES

- On the face of the CRA, the figure for Housing Service has reduced by £0.163m to £2.552m. This is a result of the inclusion of Housing Benefits Overpayments debtors and the correction of a prepayment which was understated.
- On the face of the CRA, the figure for Other Operating Income and Expenditure has increased by £0.027m to £2.126m. This is a result of other minor adjustments made in relation to debtor payments.
- Within Note 4 General Fund Balance Carried Forward, an additional line has been added for Grant Funded Local Action Fund monies to be carried forward amounting to £0.067m.

CONSOLIDATED BALANCE SHEET AND NOTES

- On the face of the Balance Sheet, the figure for Council Dwellings has reduced by £28,379 to reflect the amount that will be repaid by the Scottish Executive at Housing Stock Transfer. There is a corresponding decrease in the Financed By Section under Fixed Asset Restatement Account. This is also reflected within Note 2.3 Valuation of Operational Fixed Assets.
- On the face of the Balance Sheet, the figure for Debtors has increased by £0.136m. This relates to the inclusion of Housing Benefits Overpayment debtors and other minor debtors. This is also reflected within Note 7 Debtors.
- As a result of the above two points, Note 10 Analysis of Net Assets Employed has been amended.

STATEMENT OF MOVEMENT ON RESERVES

- The figures in Note 1 Fixed Asset Restatement Account have been amended to reflect the amount that will be repaid for Council Housings by the Scottish Executive at Housing Stock Transfer.

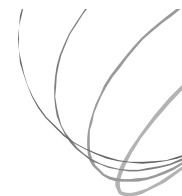
Argyll and Bute Council

Report to Members on the 2005/06 Audit



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Financial position	16	Appendix A: Action plan	37



Key messages

Introduction

In 2005/06 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an unqualified opinion on the financial statements of Argyll and Bute Council for 2005/06. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

The council had corporate governance systems in place during 2005/06 that operated well within a sound control environment. The council needs to further embed its risk management approach and ensure that it uses the opportunities presented by the *National Fraud Initiative* on an ongoing basis to assist in the direction of fraud.

The revenue position for the council, at 31 March 2006, as commented in the foreword to the accounts, was £3.323 million worse off than planned, mainly as a result of recognising equal pay costs. In relation to equal pay compensation payments, the council has completed a fundamental review and a £4.128 million estimate has been made of the total one-off cost of these payments, with these costs being recognised in the 2005/06 financial results in accordance with accounting rules.

The first quarterly update provided to the strategic policy committee meeting of August 2006, recorded that much of the best value improvement and development plan is on track. It was reported that, overall, five actions are complete, 59 actions are progressing as planned, 13 actions are delayed but plans are in place to progress them, and no actions are delayed and not rescheduled.

The council has recognised a need to improve its approach to performance management and a number of initiatives are underway to further develop the council's improvement culture. A working group has developed an improved approach to quarterly reporting, bringing together performance and budget reporting. Performance indicators have been developed by some services alongside their priorities. Other services are still in the process of developing performance indicators. Statutory performance indicators are also to be included where appropriate. Full reports are planned for the second quarter of 2006/07.

The council is pursuing the option of transferring its housing stock to a community based housing association. Transfer is envisaged in November 2006. Following the transfer, some corporate costs



previously borne by the housing revenue account will fall to the general fund. Departments have identified posts that will transfer to Argyll Community Housing Association (ACHA), costs that can be recharged to ACHA, and cost savings and additional income that can be used to offset the costs transferring to the general fund. The net effect is an additional burden of £350,000 per annum on the general fund from 2007/08

The council has developed a pathfinder non-profit distributing organisation (NPDO) approach for the improvement of the school estate. The council approved a full business case in May 2005. Financial close was in two stages: covering, firstly, nine schools, and the remaining school some nine months later. Construction has started. Despite some delays, the council expects hand-over to be according to the target dates, without additional costs. This is an important project for the council, which should contribute to continuing improvement in education services.

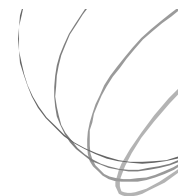
The council continues to face significant challenges in refocusing its resources on service delivery. Good progress has been made in a number of areas, including plans for the creation of a customer contact centre providing a shared service facility for the public services in Argyll and Bute, and in developing a more strategic approach to procurement. However, significant effort will be required to deliver the level of efficiencies required while continuing to improve performance. A more structured approach to measuring and monitoring outputs, integrated with the council's developing performance management systems, is essential to underpin this.

The council continues to work towards implementation of the single status agreement. The pay and grading group has produced three models which will be further developed, in order to recommend a preferred pay and grading model to the council in November 2006. Once agreed, it is planned that this will form the basis for formal consultation with unions and employees.

Outlook for future audits

Argyll and Bute Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. While this will help to reduce financial risk in this area to some extent, there remain significant risks in this area, particularly while existing pay and reward structures remain in place.

Until a local agreement is concluded the initial and continuing costs of single status cannot be reliably estimated. This represents a significant financial risk to the council. Evidence from other councils is that there is significant variation in the level of potential costs. The annual amount currently budgeted by the council represents around 3% of current non-teaching pay costs.



For 2007/08, reductions in budgeted expenditure in a range of £10.251 million to £11.347 million have been identified as necessary, based on council tax increases of between 5% and 2.5% respectively. These reductions are broadly equivalent to 5% of the council's current budget and represent a significant challenge.

Work is continuing on the introduction of a more systematic performance management system, with key performance indicators being developed within each service, although services are at different stages in this process. As well as underpinning performance improvement, an effective system is an essential tool to support decision making if the council is to be clear on the extent to which potential savings will impact on outputs and quality.

A number of initiatives will help to transform the way in which the council engages with individuals with the help of technology, particularly through developments associated with the council's customer contact centre. However, the council remains to develop a fully coherent approach to public performance reporting, ensuring that service users and the wider public receive balanced information about performance.

Developing modern infrastructure is essential for supporting the delivery of improved services. Successful delivery of the schools modernisation project and housing stock transfer will remain key components of the council's improvement strategy. The council also needs to further develop its asset management process to ensure that all the council's assets are used effectively and efficiently to deliver services in line with the council's priorities.

The recent focus of the council has been on equal pay and single status. The best value improvement and development plan contains three actions linked to workforce planning which require to be coordinated with the new corporate plan and associated area and service plans to ensure that, in particular, consistent policies are applied across the council and that consultation is maintained with staff representatives.

Changes to the code of practice on local authority accounting (ACOP) will have a significant impact on the presentation of the 2006/07 annual financial statements which will require to be more consistent with the accounts of other public and private sector organisations.

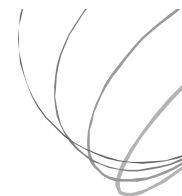
This is the final year of our current appointment to the audit of the council. From 2006/07 RSM Robson Rhodes will become the council's appointed auditor for a five year period to 2010/11.

**Audit Scotland
October 2006**



Introduction

1. This report summarises the findings from our 2005/06 audit of Argyll and Bute Council. The scope of the audit was set out in our audit risk analysis and plan, which was submitted to the audit committee on 9 June 2006. This plan set out our views on the key business risks facing the council and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the council's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.



Performance

Introduction

3. In this section we summarise key aspects of the council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the best value audit which was carried out during the year, the progress against agreed improvement actions arising out of this best value audit and the findings of national performance audit studies.

Corporate objectives and priorities

4. Argyll and Bute Council's corporate plan for 2003—2007 was reviewed following the report arising from the best value audit, and the subsequent development of a best value improvement and development plan. The review reinforced the need for a more focused corporate plan with actions detailed at the most appropriate level. The new corporate plan was agreed by the council in August 2006 and covers the remainder of the 2006/07 financial year and the budget setting process for 2007/08. The timeframe for the plan is acknowledged as being shorter than would normally be expected because of the 2007 elections. The council has developed a vision of being the '*leading rural area*' and the new plan sets out three themes, which cut across a variety of services:
 - outstanding environment;
 - vibrant communities; and
 - forward looking.
5. A total of 24 priorities are established across these themes. These priorities are linked to the council's strategic objectives:
 - to protect and promote Argyll and Bute;
 - to promote sustainable use of the environment;
 - to encourage active caring communities;
 - to make Argyll and Bute an attractive place to work;
 - to create opportunities and lead the way; and
 - to innovate in service delivery.



Overview of performance in 2005/06

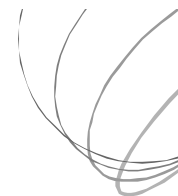
Best value audit

6. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a cyclical approach involving a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
7. The council received a full best value audit in 2005, with the report published in February 2006. The audit concluded overall that:

Argyll and Bute Council has made limited progress in establishing Best Value. Elected members, the chief executive and some senior officers need to provide clearer leadership to drive change and promote a culture of challenge. Continuous improvement is not embedded in the way the council works and it remains largely traditional in its approach to delivering services and managing its business. At a corporate level, the council does not focus sufficiently on the people who use its services.

While elected members and officers have worked together effectively to deliver major projects, efforts must now be directed towards making up for lost time in addressing Best Value. A number of services perform well, but the council needs to ensure that all services have a culture of rigorous challenge and improvement.

8. The council's policy and strategy unit prepared a first draft of a best value improvement and development plan to address the matters raised. The plan was discussed by the strategic management team in February and a summarised version was presented to members at a seminar on 9 March 2006. Further seminars took place during April to develop the plan. In addition to the seminars, a meeting was held between the Audit Scotland best value team and senior council members to discuss the process to date. On 4 May 2006 the plan was adopted by the council.
9. Monitoring arrangements for the plan include quarterly reports to members through the strategic policy committee. The first quarterly progress report which was submitted to the committee's August 2006 meeting, indicated that much of the improvement and development plan is on track. It was reported that, overall, five actions are complete, 59 actions are progressing as planned, 13 actions are delayed but plans are in place to progress them, and no actions are delayed and not rescheduled. Progress against the improvement and development plan will be monitored through the normal audit process.



Annual reporting

10. The council publishes an annual public performance report booklet which is available on the website, in libraries and in public offices. The report is based almost exclusively on national statutory performance indicators and lists the performance indicators for the council for the preceding three-year period. The public performance report for 2004/05 was prepared in December 2005.
11. In the absence of performance targets and indicators directly linked to the objectives and priorities in the council's corporate plan, it is impossible to assess whether the resources of the council are being used most effectively to address the corporate priorities. The council has started to address this matter and the best value improvement and development plan contains an action point to develop, adopt and implement a public performance reporting strategy by December 2006 that fulfils the statutory duty to message its achievements against its corporate plan.

Statutory performance indicators

12. In the absence of other performance indicators, the council's performance as measured by statutory performance indicators (SPIs) has, historically, been in the middle ground of national comparisons.
13. In 2005/06, no general trend of continuous improvement can be identified from a review of the indicators. Performance is mixed, with some indicators showing improvement:
 - the net cost of refuse collection per premise;
 - the average time taken to process new benefits claims;
 - the percentage of days lost by teachers through sickness absence; and
 - the overall cleanliness index achieved by the authority;
14. However, performance has declined in other areas such as:
 - the cost of collecting council tax per dwelling;
 - the percentage of council house sales completed within 28 weeks;
 - current tenants' arrears as a percentage of rent due; and
 - inspection of trading premises.
15. Two indicators have been classified as unreliable; education and children's services 9—respite care, and housing 1—response repairs.



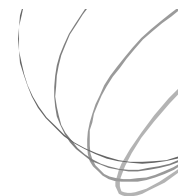
Performance outlook – opportunities and risks

Introduction

16. In our audit risk analysis and plan we identified some of the strategic risks to Argyll and Bute Council delivering on its stated objectives and priorities. These risks have been grouped into five risk areas which will drive and support service delivery.

Performance management and improvement

17. The council has recognised a need to improve its approach to performance management. Its commitment to best value is characterised by the positive response of members and officers to development and agreement of the best value improvement and development plan, and the review of the corporate plan. Continued development of the existing improvement culture in areas such as performance management and member scrutiny will further support the achievement of key aims and policy objectives. The council has recognised and is addressing this agenda.
18. A number of initiatives are underway to further develop the council's improvement culture. A working group has developed an improved approach to quarterly reporting, bringing together performance and budget reporting. Ledger hierarchies create the links between the financial information in the ledger and the service priorities included in the service plan reports. Each service has a small number of priorities with a total of around 80 priorities across all council services. Performance indicators have been developed by some services alongside their priorities. Other services are still in the process of developing performance indicators. Statutory performance indicators are also to be included where appropriate. Full reports are planned for the second quarter of 2006/07 (Jul-Sep 2006).
19. While work is progressing, further development is required and planned approaches have not yet been fully implemented. A new programme of eight thematic reviews was agreed in February 2006. We have, however, been unable to establish the rationale for the selection of the 2006/07 programme. The selection of areas for review constitutes an important decision for the council as the consequent investment of staff time to conduct the examination and inevitable de-selection of other aspects of service provision from the review process will impact on staff availability and service development. Given this position it is important that there should be a robust consultation process and transparent methodology for selection of review areas.
20. Overall, in relation to the conduct of best value reviews, development of the following would help the process of review:
 - development of a transparent mechanism for the selection of review topics;
 - compilation of a programme of reviews linked to wider planning objectives;



- the introduction of training for review team members;
- more detailed specification of review objectives;
- costing and evaluation of reviews and their outcomes; and
- wider use of members in developing the review schedule and participation in review teams, for example as a 'critical friend', to challenge the approach and emerging findings.

Action Point 1

21. A further project to align service planning and revenue and capital budgets is underway and will be in place for the 2007/08 budget cycle. In addition, the council's policy and strategy unit is developing a corporate strategy map to ensure that there are links between corporate and service objectives. Full implementation of all initiatives will support both members and officers in actively managing the council's performance and the risks it faces in delivering against its objectives and priorities.

Refocusing resources on service delivery

22. In seeking continuous improvement and responding to increasing demands for council services, the council needs to work with its partners to promote efficiency, getting the most from available resources to enhance services to local people. Significant efficiencies are necessary to release funding for improvements to service delivery and to respond to the challenges of funding settlements and the government's efficient government agenda.
23. In common with other councils, much work is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency and how it should be measured, monitored and reported. The council aims to deliver in excess of the indicative three year efficiency gain targets set by the Scottish Executive for 2005—2008.
24. The council shows an awareness of the most challenging aspects of efficient government including building in mechanisms to ensure that outcomes and quality are not adversely affected by efficiency savings, therefore ensuring that efficiency savings are genuine. However, until these mechanisms are fully established, the council is not in a position to demonstrate that its 2005/06 efficiency savings have not impaired service quantity or quality.
25. The council continues to face significant challenges in refocusing its resources on service delivery. Good progress has been made in a number of areas, including plans for the creation of a customer contact centre proving a shared service facility for the public services in Argyll and Bute, and in developing a more strategic approach to procurement. However, significant effort will be required to deliver the level of efficiencies required while continuing to improve performance. A more structured approach to measuring and monitoring outputs, integrated with the council's developing performance management systems, is essential to underpin this.

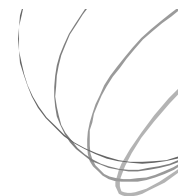


Responding to customers, clients and communities

26. Increasingly, if the council is to deliver effectively on the themes and objectives set out in its corporate plan it needs to ensure that services and professions work more closely together to focus the design of services around the needs of individuals and communities. To do so it needs to work effectively with partners to engage with and respond to customers, clients and communities.
27. The community planning duties of the council have helped generate a complex network of relationships, projects and initiatives in partnership with other agencies. The community plan identifies a number of priority themes. The community planning partnership's strategic regeneration objectives flow directly from these overall "priority themes". There is a direct relationship between these objectives and the Scottish Executive's national priorities for community regeneration and the *Closing the Opportunity Gap* objectives.
28. Membership of the community planning partnership has grown, and currently comprises 24 organisations. It encompasses almost all of the major public service providers in the area. The full partnership meets three times a year and is chaired by the leader of the council. A management committee is responsible for the day to day running of the partnership. It meets every two months and is chaired currently by Scottish Natural Heritage. The committee is comprised of 11 of the 24 organisations which form the full partnership.
29. The best value report commented that, whilst the council is very committed to working with partners, it needs to identify and report on the difference this is making to the people who use services. The best value improvement and development plan contains six actions linked to developing community planning priorities and a revised community plan. The new community plan is expected to incorporate an improvement plan, revised targets and a suite of new indicators linked with the council's developing performance management systems. Community planning at a more local level is being piloted presently in Cowal and Bute, prior to being rolled out to other areas. The community planning manager is currently evaluating the achievements of the pilot.

Delivering modern infrastructure

30. The council requires physical infrastructure and assets that are suitable and sufficient to meet the requirements placed on them in delivery of the themes and objectives set out in the corporate plan. They need to support the provision of high quality services now and into the future in a sustainable manner. The council has recognised that it needs better schools, housing and other assets, and plans are in place to achieve an ambitious programme of improvements.



31. The council is pursuing the option of transferring its housing stock to a community based housing association. A report on the financial evaluation of Argyll Community Housing Association's (ACHA) business plan was presented to the council in June 2005. The report provided sufficient comfort to the council on the ACHA business plan for the consultation process to proceed. Ministerial permission to move forward to ballot was granted in September 2005. This triggered the formal stage 1 and stage 2 consultation period followed by the ballot. The positive result of this was reported to the council at their meeting in December 2005. Transfer is envisaged in November 2006. Following the transfer, some costs previously borne by the housing revenue account will need to be met by the general fund. Departments have identified posts that will transfer to ACHA, costs that can be recharged to ACHA and cost savings and additional income that can be used to offset the costs transferring to the general fund. The net effect is an additional burden of £350,000 per annum on the general fund from 2007/08
32. In common with other councils, a significant investment in school buildings is required. The council has been successful in securing revenue support towards a PPP for school buildings. The council has developed a pathfinder non-profit distributing organisation (NPDO) approach for the improvement of its schools estate. The council approved a full business case in May 2005. Financial close was in two stages. Stage 1 covering nine schools on four sites took place on 9 September 2005. Stage two, covering Hermitage Academy, took place on 3 July 2006. Construction work started on stage 1 sites during September/October 2005, with target completion dates varying between April to December 2007. Although some construction delays were reported to the strategic policy committee (education) in March 2006, it was also reported that none of the final hand over dates have been compromised and that any costs that may be incurred in terms of the contract in relation to delay or penalties for late delivery are not borne by the council.
33. 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 asset management planning systems, which should be linked to both strategic and service level plans. The system should provide a framework for ascertaining the suitability, condition and maintenance cost of the assets. The best value improvement and development plan contains six actions linked to asset management which require to be integrated and coordinated with the implementation of the council's asset management strategy. A project board and four project groups have been established to integrate asset management into the planning/business processes of the council.
34. The council entered into a waste management PPP in 2001. Performance by the contractor (Shanks Argyll and Bute Limited) in meeting contractual targets for landfill diversion has generally been unsatisfactory, leading to a shortfall in recycling and waste diversion by the council. For 2004/05, this shortfall amounted to around 26% of overall municipal waste generation in the contract area. For 2005/06, Shank's target for diversion of waste from landfill of just under 15,300 tonnes, was

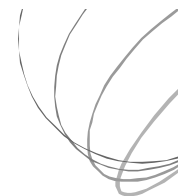


equivalent to 40% of the waste delivered to them. In the event, they under-achieved this target, reporting a diversion figure of 12,500 tonnes of waste or 33%. However, since agreeing the contract, changes have taken place in both regulation relating to waste disposal and the types of waste being collected. Some of this has impacted on necessary capital investment which was not envisaged at the time of the contract. Consequently, there has been a contract review which was reported to the strategic policy committee in August 2006 and which records that further work is required to establish the variations which may be necessary to the contract.

35. Developing modern infrastructure is essential for supporting the delivery of improved services. While progress has been good in relation to the schools PPP project and housing stock transfer arrangements, the council has not fully developed its asset management process which should ensure that all the council's assets are used effectively and efficiently to deliver services in line with the council's priorities.

Managing the workforce

36. People play the key role in delivering high performing services. The council needs to make sure it has the right skills, in the right place, at the right time. This requires effective workforce planning, successful recruitment and retention practices and good industrial relations.
37. Responsibility for personnel issues is largely devolved to departments. At present, there is no single strategy tying together all the various strands of current and future workforce planning issues, and some services are clearly more inclined to implement specific policies than others. The lack of a corporate strategy 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. There has also been little recent evidence of direct staff consultation
38. The best value report identified that: *"The council needs to take a more systematic approach to workforce planning. It needs to do more to consult staff more regularly on corporate issues and publicise the findings."* The best value improvement and development plan contains three actions linked to workforce planning which require to be coordinated with the new corporate plan and associated area and service plans to ensure that, in particular, consistent policies are applied across the council and that consultation is maintained with staff representatives.
39. During 2005 and 2006, the focus of the council has been the resolution of the equal pay arrangements, in conjunction with planning for the single status agreement within the council. (This is commented upon in section 80 of this report.) While there has been notable progress in some other aspects of workforce management, the council requires to refocus resources in order to ensure that



the strategies and arrangements, which are put in place, link and fully support the council's overall priorities and objectives.

National studies

40. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year include reviews of public sector pension schemes, and of the National Fraud Initiative as summarised later in this document. Other reports published during the year and of direct interest to the council are set out below. Further information on these studies and reports can be obtained for Audit Scotland's webpage at www.audit-scotland.gov.uk.

A mid-term report: a first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21st Century*

41. In May 2006 Audit Scotland published the results of a review of the implementation of the teachers' agreement arising from the 'McCrone' report. This found that the agreement has brought benefits for the teaching profession, but the lack of performance measures makes it difficult to assess the wider impact of the £2.15 billion investment. The report recommends that the Scottish Executive work with other parties to the agreement to identify and report on a set of comprehensive performance measures.

Council housing transfers

42. In March 2006 Audit Scotland published the results of a review of how well the Scottish Executive's housing transfer policy has been implemented and whether transfers have provided good value for money. This found that the transfer of council housing ownership is bringing benefits for tenants, including more investment in properties, promoting tenant control, facilitating increased repairs and maintenance and the building of new homes, and keeping rent increases down. The report also finds that the management of transfers is improving but better, clearer measures are needed to assess impact and value for money. The report recommends that the Scottish Executive should reinforce its approach with clearer goals and measures for quality of service and tenant involvement. This would help increase the overall impact and the value for money of transfers.

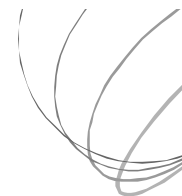


Following the public pound – a follow-up report

43. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information about their funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.
44. The Accounts Commission found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations, although only five councils had a low level of compliance. Argyll and Bute Council displayed a high level of compliance with the guidance contained in the report.
45. There is scope for councils to improve their financial and performance monitoring. Councils should apply a risk-based approach taking account of factors such as the amounts of money involved, the size of organisations funded and how they are managed. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the council's objectives, have arrangements for scrutiny and explore joint working with other councils.

Community planning – an initial review

46. In June 2006, Audit Scotland published its initial review of community planning arrangements. This found that community planning is progressing but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular, the large number of national policy initiatives, each with their own funding arrangements can make it difficult for partnerships to plan and deliver effectively. This report contains a useful evaluation framework of the characteristics of community planning partnerships which could be used as a checklist by the council.



Financial position

Introduction

47. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

Council tax and the general fund

Revenue performance 2005/06

48. The council's net revenue expenditure in 2005/06 was £202.236 million. This was met by government grants and local taxation of £201.869 million resulting in a net general fund deficit of £0.367 million.

49. The budget set for 2005/06 was based on a Band D council tax level of £1,117. The council was planning to use brought forward balances to fund a projected deficit of £3.690 million when the 2005/06 council tax was set. The main variances relating to 2005/06 activities are increased income from local taxation £1.506 million; savings in loan charges of £0.506 million offset by overall overspends by departments of £0.171 million. In his foreword to the financial statements, the head of strategic finance highlights that, after allowing for adjustments to budget in respect of additional revenue support grant and items transferred from revenue to capital, the overall results for the year were £3.323 million worse off than planned as a result of:

- savings in loan charges of £0.506 million;
- movement in earmarked funds of £1.851 million;
- improvements in tax collection of 1.506 million;
- net underspend on services of £0.102 million; and
- the equal pay settlement of £4.128 million.

Reserves and balances

50. At 31 March 2006 the council had total cash backed reserves and funds of £18.157 million:

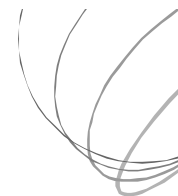


Table 1
Reserves and Funds 2005/2006

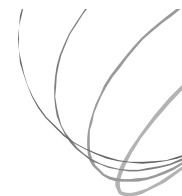
Description	2005/06 £ Million	2004/05 £ Million
General Fund	14.753	15.120
General Fund —Housing revenue account balance	1.756	1.015
Usable Capital Receipts Reserve	0.0	0.467
Repair and Renewal Funds	1.648	1.820
	18.157	18.422

51. Amounts earmarked by the council in June 2006 from its general fund balance totalled £8.945 million, leaving an unallocated general fund balance of £5.808 million. The council has a policy of maintaining a general contingency at 2% of net expenditure which is equivalent to £4 million.
52. Significant earmarked amounts include:
- contribution to the anticipated costs of the waste management PPP of £3.916 million which is required to smooth the budgetary effect of the waste management PPP over the 25 year contract period;
 - balances committed to the 2006/07 budget of £1.926 million as agreed at the budget setting meeting of the council; and
 - community services underspends in 2005/06 of £0.589 million used to fund the 2006/07 budget.

However, the council faces a range of financial issues which will significantly impact on its reserves position and this is discussed further in our financial outlook section at para 71.

Rents and the housing revenue account

53. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2005/06 was based on an average weekly rent level of £45.59, an increase of 3.5% on the previous year. A contribution of £0.280 million from balances was planned.
54. At 31 March 2006 the HRA shows a surplus for the year of £0.696 million, together with interest earned on balances of £0.045 million. The surplus arose primarily because of savings on capital financing costs of £1.1 million, resulting from the accelerated write off of accumulated capital receipts during 2004/05 and 2005/06. The surplus brought forward from 2004/05 was £1.015 million, resulting in a balance carried forward of £1.756 million. The intention was to preserve the HRA balance to meet the costs of early redemption premiums of some £1.9 million, which have arisen from debt



rescheduling and will fall to be met by the HRA upon stock transfer. However, we are informed that the early redemption premium will now be met by the Scottish Executive.

Group balances and going concern

55. Arrangements for the preparation of group accounts are mandatory for the first time in 2005/06. Many local authorities are exploiting novel service delivery arrangements including the use of limited companies and trusts. The purpose of group accounts is to ensure that a comprehensive account of a council's activities is presented to the public by way of consolidated group accounts. The need for a record of group activity has become more important with the *Prudential Code for Capital Finance in Local Authorities* which requires authorities to take note all of their commitments, including those in the accounts of alternative service delivery vehicles controlled by the council.
56. The council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures. The group accounts are primary accounting statements of the council. The statement on the system of internal financial control refers only to the council itself. In future years there is an opportunity to take a wider perspective of the group as a whole within the accounts. This is acknowledged by the head of strategic finance within the statement itself.
57. The council consolidated associates into its group accounts. This includes the Strathclyde Police Joint Board, Strathclyde Fire and Rescue Joint Board, and Strathclyde Passenger Transport Authority, all of which had an excess of liabilities over assets at 31 March 2006. In the case of the two joint boards this relates to the substantial pension liabilities from their unfunded pension schemes, being in total some £4.5 billion, of which the council's share is £176.23 million. For the Strathclyde Passenger Transport Authority, the net liability arises mainly from the long-term borrowing required to fund new investment in rail and other passenger transport facilities. The overall effect of inclusion of the council's associates on the group balance sheet is to reduce reserves and net assets, reducing net assets by £164.833 million and giving a net liability on its group balance sheet of £99.165 million.
58. All group associates have prepared their accounts on a going concern basis. Statutory arrangements in place with the Scottish Executive and constituent authorities for the funding of the deficit on police and fire pensions means that the financial position of the boards remain assured. Similarly, funding arrangements are in place between the Scottish Executive, constituent authorities and the Strathclyde Passenger Transport Authority. The chief financial officer of the council has, therefore, taken the view that group financial statements should be presented on a going concern basis, as there is no reason to suggest that future funding will not continue.



59. In compiling group accounts, the council has achieved compliance with group accounting policies in accordance with the accounting code of practice for local government (ACOP). One exception relates to the valuation of the land and buildings of the Strathclyde Passenger Transport Authority which have been valued at historic cost. The difference in accounting treatment has been disclosed within the group accounts and efforts are to be made to ensure compliance from 2006/07.
60. The share of the results of all council associates is set out below.

	Associates £ million
Balance at 1 April 2005	(134.531)
Net (income)/ expenditure	(31.812)
Transferred to reserves	(166.343)

Spending on assets and long-term borrowing

Capital performance 2005/06

61. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2005/06 were set in February 2005.
62. The annual treasury report for 2005/06, which was submitted to the strategic policy committee in August 2006, records that during the financial year, the council operated within the treasury limits and prudential indicators set out in the council's treasury policy statement and annual treasury strategy statement. Prudential indicators for the period 2006/07 to 2008/09 were submitted to the strategic policy committee at its meeting of 26 January 2006.
63. Capital expenditure in 2005/06 totalled £33.628 million, rising from £28.860 million in 2004/05 and £21.566 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. As the council has increased its capital spending, within the limits set within its prudential indicators, the proportion funded by debt has increased significantly with aggregate long and medium term borrowing at 31 March 2006 of £222.565 million, an increase of £28.794 million on the previous year.

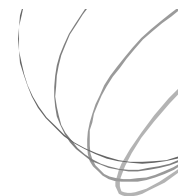


Chart 1
Sources of finance for capital expenditure

	2004/05 (£m)	2005/06 (£m)
Capital receipts	5.651	5.225
Government grants	11.353	7.358
Capital financed from current revenue	0.315	0.572
Repayment of external loans	13.749	15.232
Capital element of finance lease payments	0.133	0.103
Capital receipts from useable capital receipts reserve	0.359	0.467
Other	0.005	0.174
Borrowing	(2.705)	4.497
Total funding	28.860	33.628

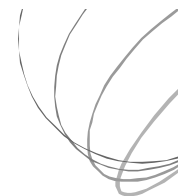
64. Almost 99% of long and medium term loans at the year-end mature after more than 10 years. However the council has actively managed its exposure to variable interest rate movements with less than 6% of all debt exposed to variable rate risk well below its prudential maximum exposure of 30%.
65. We have previously reported that actions require to be identified which would prevent or minimise significant unspending of programmed capital expenditure at the year end. Net capital expenditure in 2005/06 amounted to £21.4 million against budgeted net expenditure of £28.9 million. Some 11 projects accounted for 45% of the slippage. The net expenditure deferred to 2006/07 is £9.4 million after allowing for the school improvement fund. The effect of this was to increase the budget for 2006/07 from £26.6 million to £36.0 million.
66. Following a report by the head of strategic finance to the June strategic policy committee, members agreed to re-profile the level of capital plan expenditure for the period 2006/07 to 2008/09 to achieve a more even spread of workload and expenditure over the next three years. General services capital plans for 2006/07 and 2007/08 now anticipate annual capital expenditure of £19.496 million and £19.472 million respectively as against £26.556 million and £9.088 million as per the capital plan approved in December 2005. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing over the two years.
67. The council's 5-year capital plan is reviewed annually. 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 asset management planning systems, which should be linked to both strategic and service level plans. The system should provide a framework for ascertaining the suitability, condition and maintenance cost of the assets. The council's best value improvement plan has six actions linked to asset management which require to be integrated and coordinated with the implementation of the council's asset management strategy. A project board and four project groups have been established to integrate asset management into the planning/business processes of the council.



Significant trading operations

68. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06. In 2005/06, the council reported on five STOs:
- roads and lighting;
 - waste management;
 - leisure;
 - catering and cleaning; and
 - building maintenance
69. In the three years to 31 March 2006, the council's STOs achieved a surplus with the exception of the catering and cleaning trading account which recorded a deficit of £1.571 million and the leisure trading account which recorded a deficit of £0.170 million. The equal pay settlement made during 2005/06 had a major impact on the catering and cleaning trading account with the result that it recorded a deficit of £1.576 million for 2005/06. The allocation of full central support costs to the leisure trading account in 2005/06, resulted in an in-year deficit of £0.157 million.
70. Our 2004/05 final report contained a recommendation that all credits to trading accounts should be made in respect of charges for services provided and no credits should be made in respect of year end internal recharges of cost. The council carried out a review of charging bases for trading services during 2005/06 to ensure that all trading service recharges are on a trading basis. Our follow-up enquiries established, however, that whilst service level agreements have now been established for waste management, leisure and catering and cleaning operations, these do not fully or clearly specify the basis for all income due to the trading accounts. All three trading accounts have been credited with "fixed fee income" journalised from client services, which is not specified or referred to in the service level agreements. Our enquiries also established that a major portion of income in respect of the catering and cleaning trading account is based on recharges at cost plus 10% or 20% mark-up, instead of a pre-agreed or budgeted rate. Accordingly, we consider that these service level agreements should be reviewed in order that they clearly specify and set out the basis for all classes of income in respect of the trading operations. If some activities are recharged at cost or if some costs are not included in charge out rates, it is impossible to assess whether the trading operation is trading efficiently and whether the council is obtaining best value.

Action Point 2



Financial outlook

Current budget

71. The 2006/07 budget was based on a Band D council tax level of £1,172, an annual rise of 4.92%. A contribution of £80,000 to the general fund was planned. General allowances for pay and cost inflation pressures were built into the budget together with allowances for demographic pressures on demand led services in education and adult and elderly services. Additional annual pay costs of £1.6 million resulting from the future implementation of single status were also allowed for. The total reduction in the draft budget required to bring departmental budgets in line with available resources was £11.566 million
72. The council is facing a very challenging position in the 2007/08 financial year. The settlement increase from 2006-07 is only £3.399 million (1.9%). This includes specific additions to Scottish Executive funding of £2.097 million. The Scottish Executive has indicated that council tax increase should be around 2.5%. In addition to inflation exceeding the allowances in the finance settlement, there are efficiency targets that the council will need to meet that have been factored into the settlement. Much of the specific additions are directed towards particular Scottish Executive priorities, while locally the council is facing a number of areas of significant cost and service pressure. Over the past few years, the council has faced significant cost pressures in terms of home care for the elderly and residential child care. The increasing elderly population is also putting further pressure on council budgets. Levels of maintenance in terms of roads and properties have also been areas where expenditure pressures have been identified.
73. For 2007/08, reductions in budgeted expenditure in a range of £10.251 million to £11.347 million have been identified as required based on council tax increases of between 5% and 2.5% respectively. These reductions are broadly equivalent to 5% of the council's current budget and represent a significant challenge.

Action Point 3

74. Local authorities have yet to be provided with details of provisional Scottish Executive aggregate external finance allocations for 2008/09. The council has yet to agree a high level revenue budget or issue an indicative council tax level for this year.

Equal pay

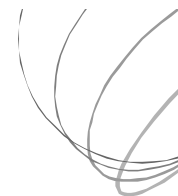
75. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal.



76. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06. There are risks for councils not only on whether traditionally female roles have been underpaid but also in relation to many mainly male manual workers in areas such as cleansing, grounds maintenance and building trades receive bonus payments that typically are not available in areas such as catering and cleaning staff where the workforce is predominantly female.
77. In common with many other Scottish councils, Argyll and Bute Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay payments to specific groups of employees as part of a compensation package. The council has completed a fundamental review and a £4.128 million estimate has been made of the total one-off cost of these payments, with these costs being recognised in the 2005/06 financial results.
78. The extent to which the actual costs vary from current estimates will depend on a number of factors including take-up rates and level of awards of any cases taken to tribunal. Costs above that already budgeted will increase further the financial pressure on the Council.
79. While moves to agree compensation payments to affected employees will help to reduce financial risk in this area to some extent, there remain significant risks in this area, particularly while existing pay and reward structures remain in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

Single status

80. In 1999 a single status agreement was reached between Scottish local authorities and trades unions which would harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers covering pay, working hours, leave and negotiating mechanisms. There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
81. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. To date only once council, South Lanarkshire, has implemented the single status agreement. Argyll and Bute Council has not yet implemented an agreement.
82. A £1.6 million base budget for increased pay costs has been retained within the 2006/07 and 2007/08 revenue budgets. In addition, the council would normally need to budget for approximately £400,000 per annum in terms of salary increments. As increments are included in the single status costings, this sum has been included in establishing the available budget.



83. In his report to the council meeting in September 2006, the chief executive outlined the current situation regarding implementation of the agreement and the three models being considered. Work is continuing to bring forward for consideration by the council, a preferred pay and grading model which would form the basis for formal consultation with unions and employees.
84. Until a local agreement is concluded the initial and continuing costs to the council cannot be reliably estimated. This represents a significant financial risk to the council. Evidence from other councils is that there is significant variation in the level of potential costs. The annual amount currently budgeted by the council represents around 3% of current non-teaching pay costs. In securing a local agreement the council needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

Efficient government

85. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.
86. The *Efficient Government Plan* sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive (SE) has not notified councils of the efficiency savings they should achieve each year it anticipated that Argyll and Bute Council's contribution to the top-sliced target of £168.3 million will be £3.243 million over three years, equating to £1.036 million for 2005/06.
87. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided. In order to claim an efficiency, councils need to demonstrate that service outcomes have been maintained or improved. Overall, the council aims to deliver in excess of the indicative three year efficiency gain targets set by the Scottish Executive for 2005—2008. The council's change programme includes:
- the council is one of only six councils which are live with the eProcurement Scotl@nd (eps) service offered through the Scottish Executive/CAP Gemini Ernst & Young. As at March 2005, the council was already able to recognise price savings of £200,000 per annum;
 - the council has supported a bid by the Society of Chief Officers of Transportation in Scotland (SCOTS) to the Scottish Executive's efficient government fund to develop a nationwide roads asset management framework;
 - the customer contact centre is due to go live in early 2007;



- the Scottish Executive has approved the e-planning bid enabling on-line submission of applications and appeals; and
- working with the council's external partner to provide a catering service in NPDO schools.

88. The council is aware of the most challenging aspects of efficient government which require mechanisms to ensure that outcomes and quality are not adversely affected by financial savings. In common with other councils, much work is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes efficiency and how it should be measured, monitored and reported. The Improvement Service has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for councils to assist forward planning and aid the demonstration of efficiency gains in 2006/07.

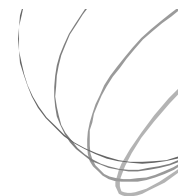
Roads maintenance

89. 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 and 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. For 2005/06, the capital reconstruction budget was around £1.9 million and there was no allowance in the revenue budget for reconstruction work. The current estimate by the council is that £9.5 million is required per annum for ten years and then £6.5 million thereafter. As outlined at paragraph 87, the council has supported a bid by the Society of Chief Officers of Transportation in Scotland (SCOTS) to the Scottish Executive's efficient government fund to develop a long-term nationwide roads asset management framework.

Schools estate

90. 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. Based on retaining the existing number of buildings, the schools estate asset management plan identifies that the overall capital requirement simply to bring the current estate up to a good standard of repair is £227.3 million, with £86 million of this sum being invested through the NPDO project. Argyll and Bute's school age population is declining and the plan estimates that this is leading to an average over supply of capacity of about 47% in primary schools and 24 % in secondary schools. In the short to medium term, the council will be making a capital expenditure commitment of around £4 million per annum to the non NPDO schools estate.

Action Point 4



Social work and free personal care expenditure

91. In terms of social work expenditure on older peoples' services, the council underspent its allocation against GAE by £2.7 million in 2005/06 and has a projected underspend of £4.9 million in 2006/07. Expenditure on children and families was overspent by £4.5 million in 2005/06 with a projected overspend of £4.5 million in 2006/07. Expenditure on free personal care was £5.9 million in 2005/06 against an allocation of £3.8 million. The council estimates that despite overspending on free personal care compared to GAE, a further £0.902 million is required on a recurring basis to fund people on the waiting list. The council is currently undertaking a strategic review of social work which is due to report in October 2006 and which should contain recommendations on this issue.

Action Point 5

Pension liabilities

92. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. In addition there are proposals to amend the local government pension scheme which are designed to reduce the ongoing cost although these have not yet been implemented. In accounting for pensions, *Financial Reporting Standard 17 (Retirement benefits)* is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised on the face of annual accounts.
93. The council's estimated pension liabilities at 31 March 2005 exceeded its share of the assets in the Strathclyde Pension Fund by £65.681 million, decreasing from £81.535 million in the previous year. Whilst both main scheme liabilities and unfunded liabilities for 2005/06 have increased by £51.752 million during the year, the estimated employer assets have risen by £67.606 million.
94. A full actuarial valuation of the Strathclyde Pension Fund was carried out as at 31 March 2005 by Hymans Robertson. The next full valuation of the scheme is due as at 31 March 2008. Factors such as volatile stock markets and increasing life expectancy resulted in a funding level of 97% as at 31 March 2005 (calculated as the ratio of fund assets to past service liabilities). Hymans Robertson was commissioned to review the funding level again in 2006, and as at 18 May 2006, the funding level had improved to 100.4%. The actuary is required to make a 3-year assessment of the contributions that should be paid by employing authorities to maintain the solvency of the fund. The latest assessment indicates that contributions are expected to rise from 240% of the employees' contribution in 2004/05 to 280% by 2008/09.



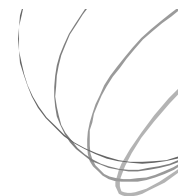
Governance

Introduction

95. In this section we comment on key aspects of the council's governance arrangements during 2005/06. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2005/06

96. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the Council had many aspects of a sound governance system in place and have reached the same conclusion this year.
97. A statement on the system of internal financial control is included within the annual financial statements, with the aim is of providing assurance to stakeholders that an effective system of internal financial control is maintained and operated. The council concluded that reasonable assurance can be placed on the adequacy and effectiveness of the council's internal financial control system.
98. At a corporate level the council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined remits for relevant regulatory committees.
99. The council's audit committee adheres to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provides a sound contribution to the overall control environment. The best value review commented that the audit committee's monitoring role needs to be developed, particularly to provide challenge on the findings and methodology of best value reviews, and supported by better information about service performance. In response to this comment, an action was included within the council's improvement and development plan to ensure that the audit committee scrutinises quarterly performance reports (outlined at para 18 above) and all best value reviews. At its meeting in September 2006, the audit committee agreed that the summary performance report prepared by policy and strategy unit for the senior members and officers group would be routinely included on their agenda
100. The best value improvement and development update records that the council has now approved a risk management strategy. The council also has a strategic risk management group which meets on a quarterly basis and is intended to support the development and implementation of corporate risk management. Although the group has met on a number of occasions, there has been little progress in undertaking a review of the strategic risk management register. Further development to fully



embed risk management processes in all council activities is also required. This area will be subject to further development during 2006/07.

Action Point 6

101. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our financial statements strategy for 2005/06, which was submitted to members of the audit committee in June 2006, set out that we planned to place reliance on the work of internal audit in a number of areas. Our review of the work performed by internal audit in these areas was found to be satisfactory and accordingly, reliance has been placed on their work. The annual internal audit report which was also submitted to the members of the audit committee in June 2006, identified that all core financial audit work was completed for 2005/06 with the exception of work in relation to following the public pound which, with our agreement, was carried forward to 2006/07.

Systems of internal control

102. In his annual report for 2005/06 the internal audit manager provided his opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the council are generally satisfactory.

103. Recommendations made in previous years' internal and external audit reports are monitored by management and internal audit, with progress reported to the audit committee quarterly. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. Although the majority of recommendations have been implemented, more work is required to:

- develop financial skills across the organisation; and
- develop an approach to business case and option appraisal for all projects that reflects robust estimates at the outset.

104. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the central systems as having a satisfactory level of control for our purposes:

105. We concluded that the reconciliation process for the unified benefits claim was unlikely to provide us with the necessary level of audit assurance in view of the absence of review processes within the system. We have previously made a number of recommendations to management to improve internal controls in this area.



Prevention and detection of fraud and irregularities

106. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and corruption policy.

107. Under the *National Fraud Initiative* (NFI), councils compare information about benefit applicants, students, public sector employees and pensioners with other public bodies to find fraud and errors. The initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. The findings of the 2004/05 exercise were published in May 2006, highlighting that across Scotland £15.1 million of fraud, overpayments and savings were found, including:

- 270 cases where pensions were being paid to people who had died;
- 564 cases of public sector employees and pensioners either fraudulently claiming housing benefits or receiving them in error;
- 215 cases of housing benefit overpayments to students; and
- 53 cases referred to the procurator fiscal and 32 employees who have been dismissed, disciplined or who resigned as a result of the initiative.

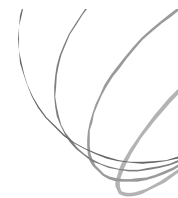
108. In this council, a clear approach for investigating matches and reporting findings was implemented by the unified benefits section. A similar approach was not however adopted by the payroll section. Following discussions with the council, an acceptable timetable for the investigation of all pension anomalies was reached.

109. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The council needs to ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

110. Each year Audit Scotland gathers information on actual cases of fraud identified by councils. In 2005/06 the council identified 5 cases of fraud where losses were in excess of £1,000, experiencing a total loss of £43,554.

Governance outlook

111. Continuing development of risk management and scrutiny arrangements will further strengthen the council's corporate governance arrangements. Consideration of the level resource applied to the investigation of potential frauds will ensure that the public purse is properly protected from fraud.



112. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, have potential implications for the political make-up and governance of the council. The Scottish Executive's intention is also to remove barriers to encourage the widest possible range of people to serve as councillors, with changed remuneration arrangements for members. These reforms will require significant input from the council to ensure its governance arrangements are fit for purpose, including committee structures, role/remits of members and arrangements for training new members.



Financial statements

Introduction

113. In this section we summarise key outcomes from our audit of the council's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

114. We audit the financial statements and give an opinion on:

- whether they present fairly of the financial position of the council and its expenditure and income for the period in question; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

115. We also review the statement on the system of internal financial control by:

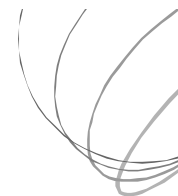
- considering the adequacy of the process put in place by the head of strategic finance and council to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

116. We have given an unqualified opinion on the financial statements of Argyll and Bute Council for 2005/06. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

117. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in para 69 of this report, in the three years to 31 March 2006 all of the council's STOs achieved a surplus with the exception of the catering and cleaning trading account which recorded a deficit of £1.571 million and the leisure trading account which recorded a deficit of £0.170 million, with the result that the council has failed to meet this statutory requirement.

118. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly.



119. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the council and publication. The financial statements are the means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

120. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). A number of accounting adjustments were made to the figures included in the unaudited accounts provided for public inspection. Details of these adjustments and other significant accounting issues arising in the course of our audit are summarised below.

Housing stock valuation

121. The net realisable value of the housing stock should comprise the cash consideration to be received from the housing association, as well as the cash received from the Scottish Executive to repay outstanding housing debt. In the accounts submitted for audit, the housing stock was valued on the basis of existing use value for social housing and as a result, council property was overvalued by approximately £34 million.

Leisure trading account

122. No charge for central support costs was made to the leisure trading account in the accounts submitted for audit. These costs (£157,000) were instead included within the support charge made to community services. This adjustment has resulted in the trading operation reporting a significant in-year deficit.

Debt restructuring costs

123. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal.

124. Over the last four years the commercial money market has been increasingly competitive with new products such as LOBOs being of particular interest to councils as an additional form of borrowing over the longer term. Although LOBOs do not fully provide the guaranteed long term interest rate stability of PWLB fixed rate maturity loans, longer term stability has improved in recent years with longer call intervals, and loan maturity now available up to 60 years.



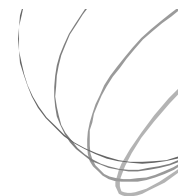
125. There is currently a debate over the appropriate accounting treatment of LOBOs. One issue is whether the characteristics of a LOBO require any premium arising from replacing existing PWLB debt to be recognised immediately rather than over the life of the replacement borrowing. A secondary issue is whether interest should be charged according to the actual debt profile or smoothed over the length of the period.
126. The council had LOBO debt totalling £23 million at 31 March 2006. Its accounting policy is to recognise the cost of premiums arising from all debt restructuring, including that involving use of LOBOs, over the full life of the replacement borrowing. A total of £2.14 million of rescheduling costs relating to the use of LOBOs was being carried on the balance sheet.
127. As stated in the representation letter signed by the head of strategic finance his approach has been taken because the council considers that the overall economic effect of the original and the replacement borrowing is substantially the same. In reaching this view the council has considered:
- the definition of the term “overall economic effect” offered by the ACOP guidance notes;
 - the expected stability of interest rates over the period of replacement borrowing;
 - that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any increases; and
 - the expectation that the loans will run to maturity.

Unspent grants

128. The accounts include, as part of creditors, some £3.5 million relating to unspent specific grants at the year end. These grants are ring fenced funds and are being carried forward to 2006/07. It is our view that, in accordance with proper and transparent accounting practice, these balances should more correctly be shown as part of the closing general fund balance and earmarked for use in 2006/07.
129. In discussion with colleagues we took the view that the letters from the Scottish Executive approving the carry forward of some of the grants involved were open to interpretation in accounting terms. In addition, various technical authorities are currently discussing the accounting treatment of grants in a wider context and this is likely to impact on local government accounts in the future. I have not required that the accounts be changed for these grants this year. This issue will be considered further during 2006/07.

Housing benefit bank account

130. The working papers package provided by the council to support the financial statements did not include a reconciliation of the housing benefit bank account. Following additional work by the council an acceptable position was reached. However, officers have agreed that such a reconciliation will be



prepared for future years to assist in the ongoing control of the authority's assets and to provide the necessary confirmation of the balances at the year end.

Legality

131. Each year we request written confirmation from the head of strategic finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The head of strategic finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the chief executive and council's senior management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

132. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the council has recognised a liability in the financial statements in relation to the potential contravention of this Act. Until the single status agreement is implemented, however, there remains the possibility that the council could be judged to have contravened the act.

133. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

134. Overall the council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting practice. Significant challenges ahead are summarised below.

135. A number of changes have been made to the 2006 SORP. These include:

- changes to the single entity statement of accounts which include the replacement of the consolidated revenue account with a traditional income and expenditure account; a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and the replacement of the statement of total movement in reserves with a statement of total recognised gains and losses;
- similar changes to the housing revenue account; and
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to the single entity statement of accounts.



136. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The council should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

Change of external auditor

137. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.
138. This is the final year of our current appointment to the audit of Argyll and Bute Council. From 2006/07 RSM Robson Rhodes will become the council's appointed auditor. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.



Final Remarks

139. The members of Argyll and Bute Council are invited to note this report. We would be pleased to provide any additional information that members may require.

140. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members. The action proposed should be considered alongside the council's best value improvement plan.

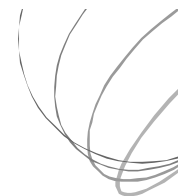
141. This is the final year of our five year appointment. I would like to take this opportunity to express my appreciation for the assistance and co-operation provided by members and staff over the five years of our audit appointment.



Appendix A: Action plan

Key risk areas and planned management action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	The council cannot demonstrate that it has a transparently-identified programme of focused service reviews in place.	As incorporated in its Best Value Improvement and Development Plan agreed on 4 May 2006 the Council will adopt a programme of Best Value reviews across the Council using the corporate Best Value review process. This will include development of an approach to service review.	Chief Executive	Apr-07
2	Internal recharges at the end of the year are inconsistent with the concept of trading and do not represent proper accounting practice.	Review of charging basis for trading services to be carried out to ensure that all trading service recharges are on a trading basis.	Head of Planning and Performance / Head of Facility Services	Dec-06
3	For 2007/08, reductions in budgeted expenditure in a range of £10.251 million to £11.347 million have been identified as required based on council tax increases of between 5% and 2.5% respectively. These reductions are broadly equivalent to 5% of the Council's current budget and represent a significant challenge.	The Council needs to consider the target level for the General Fund Reserve now that the outturn for 2005/06 is known. This will be considered as part of the 2007-08 budget setting exercise.	Head of Strategic Finance	Feb-07
4	Whilst the NPDO will deliver new schools for a significant proportion of the pupil population, there remains some 82 (mainly primary) schools that will still require extensive modernisation.	As incorporated in its Best Value Improvement and Development Plan agreed on 4 May 2006 the Council will continue to develop a long term financial resources plan for the school estate which will seek to address backlog maintenance and other areas of expenditure (mandatory and discretionary).	Director of Community Services	July-07



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
5	Despite overspending on free personal care compared to GAE, a further £0.902 million is required on a recurring basis to fund people on the waiting list.	The council is undertaking a strategic review of social work which is due to report in October 2006.	Director of Community Services	Dec-06
6	There is not an ongoing process for identifying, evaluating and managing the risks faced by the council.	Risk management strategy to be promoted within the council and the strategic risk register to be regularly updated.	Head of Democratic Services and Governance	Ongoing

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
8 DECEMBER 2006

RISK MANAGEMENT

1. SUMMARY

Risk management is a relatively new requirement which has been placed on Councils. Audit Scotland in its Annual Accounts - Report to Members 2005/06 stated, "the council needs to further embed its risk management approach". The Council Constitution details the Audit Committee as responsible for scrutinising risk management aspects of the Council's business. With regard to the above the Audit Chairman has requested that a report be prepared for the Audit Committee, detailing the current status of risk management within the council. As part of the 2006/07 audit programme Internal Audit has carried out an audit of Risk Management. The report summary and Action Plan are provided for review by the Audit Committee in Appendix 1 and 2.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 The broad objective of the audit was to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, aid the SMT and satisfy external audit requirements.

3.2 In the course of the audit it was found that a number of key steps have been taken to establish risk management within the Council. For example, risk management procedures are currently being developed by the Council in accordance with a nationally agreed standard.

3.3 However, areas were identified that require management action. The Internal Audit report outlines a process for the development of risk management within the Council. The report has now been agreed by Corporate Services management as has the Action Plan. The report summary and action plan are provided in Appendices 1 and 2.

3.4 Risk management will be included as a standing item on future Audit Committee agendas. This will ensure that regular progress updates from officers come forward for scrutiny.

4. CONCLUSIONS

An audit has been completed of risk management and a process outlined for its development within the Council. Regular quarterly progress reporting to the Audit Committee will now commence.

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. 10th November 2006. 10Novfinalreport10Nov.

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Risk Management as part of the 2006/2007 Internal Audit programme.
- 1.2 Risk Management is a relatively new requirement for Local Authorities to develop and implement. However, there is specific reference to risk management and responsibilities within the Council Constitution:
- The full Council is responsible for approving the Council's risk management policy and strategy ,and for reviewing the effectiveness of risk management;
 - The Director of Corporate Services is responsible for preparing and promoting the Council's risk management policy throughout the Council;
 - The Audit Committee is responsible for scrutinising risk management aspects of the Council's business.
- 1.3 Risk Management is more than Health & Safety and insurance issues. It encompasses a whole range of activities of the Council in achieving its operational and strategic objectives - this is why it is a core part of Best Value and why external audit will increasingly focus on it. External audit has expressed the following views regarding risk in its Annual Accounts - Report to Members 2005/06, "the council needs to further embed its risk management approach" and "there has been little progress in undertaking a review of the strategic risk management register". The latter comment is based on an external audit review that took place at the end of March 2006.
- 1.4 As a result of our audit work, some findings were generated. These findings were subsequently discussed with management and where appropriate included in the action plan for future implementation.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored and reported in accordance with best practice.
- 2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to five ticks (✓ 's). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 6 (figure 1). The assessment has been made by considering the value and significance of the findings and recommendations.

3 AUDIT APPROACH

- 3.1 The following approach was used to satisfy the objectives of the audit:-
- Discussions were held initially with the Head of Democratic Services and Governance and the Governance and Risk Manager for background to risk management procedures and development in the Council and its relationship with promoting the principles of Best Value within the Council;
 - Audit prepared and requested the completion of a questionnaire by management to assist in addressing the above objective;
 - Tests were devised and carried out as part of the exercise, and relevant evidence was requested and reviewed of progress made;
 - Other councils were contacted to establish what developments they are making and to provide contact points for future development;
 - Any problem areas were highlighted, and brought to the attention of management via a draft report and their comments were incorporated into the report where appropriate;
 - A final report was prepared for the attention of the Director of Corporate Services.

4 SUMMARY OF MAIN FINDINGS

- 4.1 Internal Audit in the course of the audit found through testing that a number of key steps have been achieved in establishing Risk Management within the Council.
- 4.2 Risk management procedures are currently being developed by the Council in accordance with "A Risk Management Standard" produced in 2002 by The Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in the Public Sector (ALARM).
- 4.3 The RMG has organised training for service managers and members regarding the management of risk. A draft strategic risk management register has been produced for all services. This follows on from two previous registers commenced in 2003. The latest draft is expected to be agreed by the RMG on behalf of the SMT by December 2006.
- 4.4 There is a requirement for an overall understanding of how risk management should be promoted within the Council. It appears to Internal Audit that at the strategic level some Heads of Service require to have more involvement than presently with progressing risk management procedures.
- 4.5 There is a requirement for a framework by which everyone in the council has a view as to how the risk management process is supposed to work. Internal Audit has taken the key elements of the

Risk Management Strategy and produced a model which will be adopted by the SMT. (See Below).

RISK MANAGEMENT FRAMEWORK MODEL

AUDIT COMMITTEE GOVERNANCE AND REVIEW	
EXTERNAL AUDIT REVIEW	<p style="text-align: center;">RMG</p> <ul style="list-style-type: none"> • Establish Higher Level Corporate Risks • Review Departmental Strategic risks • Meet with chair of LCGs • Agree and Monitor Department Risks / Evidence • Report Strategic Risks to SMT
	<p style="text-align: center;">SMT</p> <ul style="list-style-type: none"> • Review all Referred Risks from the RMG • Obtain Input from Department Directors • Quarterly Updates from RMG • SMT Address High Level Risks
	<p style="text-align: center;">DMT's</p> <ul style="list-style-type: none"> • Agree their Department Risks • Work with LCGs • Agree Department Operational/Strategic Risks • Agree Strategic risks to RMG • Ensure that LCGs keep evidence of risks resolved
	<p style="text-align: center;">LCGs <- Services</p> <ul style="list-style-type: none"> • Establish Registers for Operational /Strategic Risks • Initially set up Quarterly Meetings between: LCGs & RMG • Gather Evidence of Risk Resolved. • Section Registers if required

- 4.6 It is recognised that Loss Control Groups (LCGs) have been set up in some departments. However, LCGs need to be set up as soon as possible in all departments and a framework set out for their operation. Some departments need to consider whether they need to set up service registers below their LCG to cover the variety of services they deliver. This requires agreement by their Departmental Management Team (DMT).
- 4.7 The DMT will initially request quarterly updates from the LCG representative so that they are fully aware of both the corporate and departmental risks that need to be addressed. They will expect the LCG to keep evidence of those risks addressed.
- 4.8 The RMG will provide the link between the departments and the SMT. It will liaise with the LCGs initially on a quarterly basis through the RMG meetings. At these meetings the LCGs will bring their departmental assessments of the risks for discussion and review by the RMG. The outcome will be a report to the SMT listing the top risks to the council.
- 4.9 The SMT should only receive through exception reporting by the RMG, the high level strategic and operational risks that the Council needs to address. It is suggested that the limit should be set at the top 10 risks.
- 4.10 The Chairman of the Audit Committee has indicated that risk management should be included as a standing item on the Committee's agenda. Thereby ensuring both regular updates on progress from officers and scrutiny by the committee. It will enhance the Council development of Best Value.

- 4.11 It is recommended that Internal Audit include an assurance statement regarding risk management in the Annual Internal Control Statement commencing March 2007. This statement currently addresses internal control and governance issues.
- 4.12 It is recommended that ways of measuring benefits are considered by the RMG as soon as possible. Simple measurements should be devised in the short term and developed as resources permit with a report going to the SMT on a quarterly basis.

5 ACTION PLAN

- 5.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Head of Democratic Services and Governance.
- 5.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.
- 5.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification is set out below:-

Fundamental - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Material - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Minor - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

6 CONCLUSION

- 6.1 Risk Management is a relatively recent governance control and local government has been expected to embrace it at the same time as dealing with many other demands on services. Considering the general lack of adequate resources to cope with all the demands it is Internal Audit's opinion that reasonable progress has been made by the Council

to address the requirements of introducing a Risk Management framework.

- 6.2 However, during the course of the audit, some areas were identified as requiring further development and therefore some recommendations have been made. These have been discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)
- 6.3 Figure one below sets out a summary of the overall conclusions arising from the audit in terms of the specific objective detailed at section 2.1

Figure 1: Summary of overall conclusions

Specific objectives	Assessment
To ensure that a Risk Management framework is in place which can enable the risk management process to be carried out in a comprehensive manner, whereby all significant risks will be identified, evaluated, controlled, monitored and reported in accordance with best practice.	✓✓✓
<p>Key:</p> <ul style="list-style-type: none"> ✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily. ✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement. ✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement. ✓✓ - Arrangements in place offer scope for substantial improvement. ✓ - Concern is expressed about the adequacy of the scope of these arrangements. 	

7 ACKNOWLEDGEMENTS

- 7.1 Thanks are due to Head of Democratic Services and Governance and his staff for their co-operation and assistance during the audit and the preparation of the report and action plan. Thanks are also due to Council departmental management and staff along with Audit Scotland who provided comment on the relevance of the proposed model.
- 7.2 Argyll & Bute Council's internal audit department has prepared this report. Its work was limited to the scope in paragraph 3.1 of this report. It cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to it.
- 7.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

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APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARA	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	1.6 2.3 2.5 4.7	Fundamental	LCGs have not yet been set up by all Departments	LCGs are to be set up by all Departments in accordance with the new risk management framework model as set out at appendix 1 paragraph 3.	DMT's	Immediate
2	2.2 2.4	Material	Officers delegated to attend the RMG are not given sufficient authority to take decisions to take risk management processes forward	Members of the RMG to be delegated full authority to take decisions on behalf of their departments	DMT's	Immediate
3	3.4	Material	There is no Risk Management Framework Model in place for the Council. As above.	The Risk Management Framework Model to be recommended to the SMT by the RMG.	RMG	Immediate
4	5.7	Material	As above.	DMT's are to implement the framework of operation as set out in appendix 1 paragraph 5 of the report.	DMT's	Immediate
5	6.4	Material	The RMG do not produce an action mandate following each meeting	The RMG will produce an action mandate document following each meeting	Head of Democratic Services & Governance	Following next RMG meeting

ACTION PLAN NO	PARA	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
6	7.4	Material	The RMG do not produce quarterly reports to the SMT on a regular basis	The RMG will provide a quarterly report to the SMT identifying progress is being made in addressing risks	Head of Democratic Services & Governance	Following next RMG meeting
7	8.1	Fundamental	Audit Committee do not currently, on a regular basis, formally scrutinise progress with implementing the risk management framework	Progress with implementation of the Council's risk management framework is to reported to the Audit Committee on a regular basis	GRM	December 2006 and then quarterly
8	9.3	Fundamental	Strategic Risk Register is still in the process of being finalised	The Strategic Risk Register is to be agreed by the RMG on behalf of the SMT.	RMG	December 2006.
9	9.3	Fundamental	Operational Risk Registers not prepared	The Operational Risk Registers are to be prepared.	RMG and LCGs	March 2007
10	10.2	Material	Internal Audit does not currently include an assurance statement in its annual Internal Control Statement regarding progress with the implementation of the risk management framework.	Internal Audit will include an assurance statement regarding risk management in the Annual Internal Control Statement commencing 2007.	Internal Audit Manager	May 2007

ACTION PLAN NO	PARA	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
11	11.1	Material	Currently no formal procedures in place to measure and report on any benefits obtained from the introduction of a risk management framework	Processes are to be established for measuring and reporting benefits obtained from introducing a risk management framework for the SMT, DMT's and LCGs.	RMG	Immediate
12	11.4	Material	Use not currently being made of risk management processes used by other authorities	Links to be established with other authorities to establish possible knowledge integration points.	GRM	Immediate

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
8 DECEMBER 2006

BEST VALUE SERVICE REVIEWS

1. SUMMARY

In February 2006 Audit Scotland issued a report entitled “The Audit of Best Value and Community Planning”. The report and findings related to the performance of Argyll and Bute Council’s statutory duties to secure Best Value. The report recognised the effectiveness of the Audit Committee but requested its role could be further developed to provide challenge on the findings and methodology of Best Value Service Reviews. On the 21st of September 2006 the Audit Committee accepted a reporting process agreed with Audit Scotland and agreed that they commence receiving service review updates on the 8th of December 2006, and thereafter on a quarterly basis.

2. RECOMMENDATIONS

2.1 The Audit Committee to challenge the findings and methodology of service reviews.

3. DETAIL

3.1 The agreed process for reporting on service reviews is that lead officers are contacted prior to each Audit Committee by Internal Audit and asked to provide a progress comment for their review. Where a service review is reported complete by management the final report is to be presented to the Audit Committee for review along with any action plan. This process would allow the Audit Committee to evaluate and monitor progress as well as challenge completed reviews.

3.2 The date chosen for a progress update from Directors and where applicable their Heads of Service was the 31st of October 2006. Their comments are provided in Appendix 1. The reviews detailed in the appendix are arranged in the following order of completion:

- Complete - There are 2 service reviews noted by management as complete along with Phase 1 of the Design Services service review with Phase 2 already commenced.
- Still to be completed - Proposed completion dates are given in **BOLD** for the remaining 5 service reviews. These dates range from November 2006 to the end of January 2007.

3.3 One of the main recommendations from the Phase 1 of the Design Services review was that Roads Design Services transfer from Development Services to Operational Services. This decision has now been implemented and is reflected in Appendix 1 both in terms of review title and Lead Officer. The final reports in respect of the 2 completed reviews and Phase 1 are provided in Appendices 2, 3 and 4.

- 3.4 Of the remaining 5 reviews 4 are approaching their final reporting stage and the remaining one is expected to report at the end of January 2007.

4. CONCLUSIONS

The reporting process has commenced and Internal Audit will maintain regular reporting 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. 10th November 2006. 10Novfinalreport10Nov.

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