

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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21 June 2007

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **MEMBERS ROOM, KILMORY, LOCHGILPHEAD** on **THURSDAY, 28 JUNE 2007** at **11:00 AM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST (IF ANY)**
- 3. MINUTES**
Audit Committee 30 March 2007 (Pages 1 - 8)
- 4. ANNUAL INTERNAL AUDIT REPORT 2006-2007**
Report by Internal Audit Manager (Pages 9 - 22)
- 5. REVIEW OF INTERNAL AUDIT**
Report by RSM Robson Rhodes (Pages 23 - 44)
- 6. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE**
Report by Head of Strategic Finance (Pages 45 - 46)
- 7. AUDIT COMMITTEE ANNUAL REPORT**
Report by Head of Strategic Finance (Pages 47 - 48)
- 8. KPMG WORK PLAN FOR 2007/2008**
Report by KPMG (Pages 49 - 50)
- 9. ADAPTING TO THE FUTURE**
Report by Head of Service (Adult Care) (Pages 51 - 54)

- 10. SUMMARY OF QUARTERLY PERFORMANCE REPORTS**
Report by Chief Executive's Unit (Pages 55 - 58)
- 11. MAINTAINING SCOTLAND'S ROADS**
Report by Internal Audit Manager (Pages 59 - 62)
- 12. RISK MANAGEMENT PROGRAMME UPDATE**
Report by Governance and Risk Manager (Pages 63 - 64)
- 13. COMMUNITY SERVICES - EDUCATION COMPUTER SERVICE REVIEW**
Report by ICT Development Manager for Community Services (Pages 65 - 66)
- 14. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2006-2007**
Report by Internal Audit Manager (Pages 67 - 88)
- 15. UNAUDITED ANNUAL ACCOUNTS TO MARCH 2007**
Report by Head of Strategic Finance (Members should bring copy of the report issued for Council meeting on 20 June 2007)
- 16. REPORT ON 2006-2007 INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)**
Report by Internal Audit Manager (Pages 89 - 92)

AUDIT COMMITTEE

Councillor Gordon Chalmers
Councillor Bruce Marshall
Ian M M Ross (Chair)
Christopher Valentine

Councillor Mary-Jean Devon
Councillor Roderick McCuish
Councillor Ron Simon

Contact: Fiona McCallum

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**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 30 MARCH 2007**

Present: Councillor Gary Mulvaney (Chair)

Councillor Donald MacMillan Ian M M Ross
Councillor Elaine Robertson Christopher Valentine
Councillor John Tacchi

Attending: James McLellan, Chief Executive
Susan Mair, Head of Legal Services
Bruce West, Head of Strategic Finance
Deirdre Forsyth, Area Corporate Services Manager
Alex Colligan, Internal Audit Manager
Graham Brown, Operations Manager
Gary Devlin, RSM Robson Rhodes
Steve Keightley, KPMG

1. MINUTES

The Minutes of the Audit Committee of 8 December 2006 were approved as a correct record subject to an additional decision at item 12 to read "To request that the Head of Legal and Protective Services revisit the targets/outputs which are outlined at paragraph 2.3 of the submitted report".

2. ADAPTING TO THE FUTURE

The Committee were provided with details of a full review of service delivery by AGE Ltd which highlighted issues relating to Occupational Therapy equipment.

Decision

1. To note the contents of the report.
2. That the Chief Executive raise the following points with the Head of Integrated Care with a view to a further report being brought back to this Committee:-
 - (i) In view of redundancies associated with the Single Status exercise, could a project manager not be appointed from within existing staffing levels to minimise costs on the basis that the service is under funded?
 - (ii) What are the costs associated with the areas of progress identified within paragraphs 3.1 to 3.4 of the submitted report?
 - (iii) Will NHS also be contributing to the roll out to the other areas identified within the report as was the case in Oban?

(Ref: Report by Head of Adult Care services dated 6 March 2007, submitted).

3. LEGAL AND PROTECTIVE SERVICES PERFORMANCE - UPDATE

A breakdown of types of licence applications processed, as requested at the meeting held on 8 December 2006 was before the Committee for consideration.

Decision

1. To note the contents of the submitted report
2. To agree that the Best Value Review of the Regulatory Components of Legal and Protective Services be conducted on the basis of the following three elements:-
 - (i) To make recommendations on the configuration and level of the environmental health service.
 - (ii) To make recommendations on the configuration and level of the trading standards service, and
 - (iii) To make recommendations on the configuration and organisation of the different licensing functions in legal and protective services and that this particular review is carried out by independent external consultants.
3. To request that a further report regarding decision 2(iii) be submitted to a future meeting of the Audit Committee.

(Ref: Report by Head of Legal and Protective Services dated 28 March 2007, tabled)

4. AUDIT PLAN 2006/7

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. The responsibility both of the Council and the auditors were outlined within the Plan and details were given regarding the overall approach to be adopted to gain assurance to support external audit's opinion on the financial statement.

Decision

Noted the Audit Plan 2006/7.

(Ref: Report by RSM Robson Rhodes dated 22 January 2007, submitted)

5. ANNUAL ACCOUNTS 2006/7

Details on the plans in place for financial year end 31 March 2007 and the preparation of the Council's annual accounts for 2006/7 were provided.

Decision

To note that plans are in place to prepare the Council's annual accounts, which are consistent with the Accounting Code of Practice and the plans to submit them to Council prior to 27 June 2007 (provisional date) in line with the Scottish Executive's requirements.

(Ref: Report by Head of Strategic Finance dated 14 March 2007, submitted)

6. INTERNAL AUDIT'S ROLE IN BEST VALUE

The Committee were advised by KPMG on their views about the role Internal Audit could play in relation to the Council's duty of Best Value and Community Planning. It was noted that the report had been prepared at the request of Internal Audit and that the report content had previously been discussed with them.

Decision

Agreed that Internal Audit should discuss the ideas contained within the submitted report with Senior Management Team (SMT), external audit and the manager responsible for progressing Best Value within the Council. Thereafter, Internal Audit should agree a process outline for approval by the Audit Committee as to how the skills of the Audit Team will be used to assist the Council with its duty of Best Value.

(Ref: Report by KPMG dated February 2007, submitted)

7. MANAGING SCOTLAND'S ROADS - UPDATE

The Committee were asked to consider a report setting out the current implementation process in respect of planned actions of which it was noted did not have any implementation dates assigned to its 9 recommendations.

Decision

1. To note the contents of the report and the advice given regarding the EGF funding by the Operations Manager.
2. To note that the words "other Councils and" at paragraph 3.3 of the report should be deleted.
3. To instruct that the actions detailed within the report be followed up by Internal Audit.

(Ref: Report by Internal Audit Manager dated 28 February 2007, submitted)

8. QUARTERLY PERFORMANCE REPORTING AND BEST VALUE IMPROVEMENT PLAN

(a) SUMMARY OF QUARTERLY PERFORMANCE REPORTS

The Committee were provided with a summary of the Service quarterly reports for the period October-December 2006, consisting of the exceptional performance sections only.

Decision

1. Noted the contents of the submitted summary report.
2. To request that the figures for the percentages re Social Enquiry

Reports (Children and Families) be made available to Members of the Audit Committee.

(Ref: Report by Performance Manager dated 30 March 2007, submitted).

(b) BEST VALUE IMPROVEMENT PLAN - PROGRESS REPORT

The Council had previously adopted the Best Value Improvement and Development Plan on 4 May 2006. The Committee were given a report summarising the progress made against the Plan to the end of December 2006.

Decision

To note the progress made to date on the Improvement and Development Plan.

(Ref: Report by Performance Manger dated 30 March 2007, submitted).

9. RISK MANAGEMENT PROGRESS UPDATE

At the meeting on 8 December 2006, the Audit Committee noted a report submitted by the Internal Audit section following a review of Risk Management development across the Council. At this time, the Audit Committee had requested that they be provided with a quarterly report covering progress with the implementation of the reports action points. This information was detailed within a report by the Head of Democratic Services and Governance.

Decision

To note the progress made as at end of February 2007.

(Ref: Report by Head of Democratic Services and Governance dated 30 March 2007, submitted)

10. ANNUAL AUDIT PLAN 2007-8

The Committee were invited to consider a report which outlined in detail the areas that would be audited in 2007-8.

Decision

To approve the Annual Audit Plan for 2007-8.

(Ref: Report by Internal Audit Manager dated 6 March 2007, submitted).

11. EXTERNAL AND INTERNAL FOLLOW UP

Details of the results from a review performed by Internal Audit for recommendations due to be implemented by 31 December 2006 were set out within a report by the Internal Audit Manager.

Decision

1. To note the contents of the submitted report and instruct that these be followed up by Internal Audit.
2. To delete action point 6 from Section D (Review of Cash and Income Banking) and action point 3 from Section F (Review of Contract Tendering and Vetting).
3. To draw to the attention of the Director of Community Services that action 2 from Section A (Education Department – Computer Services Review) remains outstanding despite assurances that this would cease immediately. It was also agreed to draw his attention to actions 6 and 7 which also have a high risk grading and which also remain outstanding.

(Ref: Report by Internal Audit Manager dated 21 March 2007, submitted)

12. EDUCATION ICT TECHNICIANS TRAINING PLAN

The Audit of the Education Network which was undertaken by Audit Scotland in 2004/5 highlighted the need for establishing a training plan for ICT Support Technicians across the Education Service.

Decision

To note the contents of the submitted report.

(Ref: Report by ICT Development Manager for Community Services dated 19 March 2007, submitted)

13. INTERNAL AUDIT PROGRESS REPORT 2006-2007

An interim progress report had been prepared covering the audit work performed by Internal Audit up to 2 March 2007. Details of progress made against the Annual Audit Plan was before the Committee for approval.

Decision

1. To approve the progress made with Annual Audit Plan for 2006-7.
2. To clarify to the Members of the Committee what the issues are with the new e-procurement system.

(Ref: Report by Internal Audit Manager dated 14 March 2007, submitted)

14. FUTURE ROLE OF THE AUDIT COMMITTEE

The Terms of Reference for spokespersons, Policy and Performance Groups and the Audit Committee, as prepared by the Policy Development Group on Local Governance (Scotland) Act 2004 were submitted for discussion.

Decision

To recommend that the Council, following the elections in May 2007 agree the

following amendments to the suggested Terms of Reference as proposed by the Policy Development Group on the Local Governance (Scotland) Act 2004:-

1. To amend paragraph 5 of the Audit Committee Terms of Reference to read “To be consulted on the external audit strategy and plan, review all reports from the Council’s External Auditors and review action on external audit recommendations.
2. To include the following functions within the Terms of References:-
 - (i) To report annually to the Council on the internal control environment.
 - (ii) To receive internal audit progress reports.
 - (iii) Without prejudice to the role of the Standards Committee (if the Council agrees to have a Standards Committee) to deal with matters included in their terms of reference, in particular matters arising from the investigation of disclosures under the Council’s Public Interest Disclosure Policy, to provide assurance on the Council’s compliance with Financial and Security Regulations, Contract Standing Orders and Accounting Codes of Practice.

(Ref: Terms of Reference – Spokesperson and Policy and Performance Groups and Terms of Reference – Audit Committee, submitted)

Councillor MacMillan and Christopher Valentine left the meeting at this point.

The Committee resolved in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude the public for the following 2 items of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraphs 1 and 9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

15. BEST VALUE SERVICE REVIEWS

The Audit Committee accepted a reporting process agreed originally with Audit Scotland and subsequently with RSM Robson Rhodes. Following on from this, a service review update commenced on 8 December 2006 and a quarterly report as at 2 March 2007 was submitted for consideration.

Decision

1. To note Appendices 1, 3, 4, 5, 6, 7 and 8.
2. With regard to Appendix 2, the Committee agreed to request that the next stage of the review implementation includes benchmarking with the private sector.

(Ref: Report by Internal Audit Manager dated 2 March 2007, submitted)

16. CAMPBELTOWN NEW QUAY

At a meeting of Argyll and Bute Council on 13 February 2007 the Audit Committee were requested to give consideration to the circumstances surrounding a past agreement for use of the New Quay and requested to bring back a report on their findings to the Council meeting on 25 April 2007.

Internal Audit had looked into the matter and their report was submitted for consideration.

Decision

Agreed to recommend to the Council:-

1. Where a Capital contract is to be part funded by income to be recovered from a Commercial company then a formal agreement setting out the terms and conditions related to that funding must be in place prior to tenders being accepted.
2. All departments likely to have an involvement in agreements with third parties must be involved at the earliest possible stage.
3. Legal and Protective Services are to implement the Case Management System to allow them to better manage their workload. It would improve the prioritisation and allocation of workload both for Legal Services staff and Brodies, the Council's external advisers.
4. When agreements are being entered into there should be an agreed timetable for producing the agreement. When the outcomes are not achieved, by any of the internal or external parties involved then this should be reported to management in order that corrective action can be taken.

(Ref: Extract Minute of Argyll and Bute Council 13 February 2007, Internal Audit Report dated March 2007, Joint report by Head of Legal and Protective Services and the Head of Roads and Amenity Services dated 21 March 2007, submitted and Extract Minute of Argyll and Bute Council of 22 March 2007, tabled)

17. VALEDICTORY

The Chair thanked the Officers and Members of the Committee for their valued contributions and wished those who were standing for re-election well. He thanked the external Members for the valuable skills they had brought to the Committee and hoped that the new Committee would continue to take forward the good work that had been done to date.

In response, the Vice-Chair thanked the Chair for his steady hand on the wheel and wished him well on behalf of the Committee.

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
28 JUNE 2007

INTERNAL AUDIT ANNUAL REPORT 2006 - 2007

1. SUMMARY

Internal Audit has the responsibility to provide to the Audit Committee an annual report that comments on the duties and audits carried out by the section throughout the financial year. The Annual Report for 2006 – 2007 is attached in Appendix 1.

2. RECOMMENDATION

2.1 That the Internal Annual Audit Report for 2006 - 2007 is approved.

3. DETAILS

3.1 The objective of the report attached in Appendix 1, is to advise members of internal audit standards, current practices and comment on the performance of Internal Audit throughout the financial year 2006 - 2007.

3.2 Further comment on Internal Audit performance in 2006 – 2007 is given within the report for:-

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

The Assessment of Audit days for the 2006 – 2007 Strategic Plan is provided in Appendix 2.

3.3 There is only one Core Financial Audit where the fieldwork and draft report have not been completed. This audit is entitled Payments to Voluntary Bodies, Following the Public Pound (FtPP) and was suspended to allow financial review work to be undertaken. Internal Audit has therefore decided in agreement with RSM Robson Rhodes that this audit be deferred.

3.4 Throughout 2006 - 2007, Internal Audit resources were under pressure with a resultant loss of direct audit days due to 2 members of staff on secondment for the year, in addition audit days were lost due to sickness and absence. Contract resources were brought in to assist with audit plan delivery, allowing the Internal Audit annual audit plan to be progressed.

4. CONCLUSION

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

5. IMPLICATIONS

5.1 Policy: None

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

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

Ian Nisbet
Internal Audit Manager 20 June 2007.
20Junereport20June



Annual Internal Audit Report 2006 - 2007

June 2007

APPENDIX 1

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1. FOREWORD

The annual audit plan for 2006 – 2007 has been delivered in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ('the Code'). As well as complying with the Code, Internal Audit has to comply with its Mission Statement and Terms of Reference, both of which have previously been approved by the Audit Committee and are covered below.

2. INTERNAL AUDIT - MISSION STATEMENT

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

3. INTERNAL AUDIT - TERMS OF REFERENCE

Objectives

- To assist the Council and its Strategic Management Team in their governance responsibilities;
- To provide assurance on the adequacy of control within the Council's systems and activities;
- To advise management on cost effective controls for new or modified systems and activities;
- To highlight opportunities to reduce costs through greater economy and efficiency within systems and activities.

Scope

The scope of Internal Audit includes the examination and evaluation of the adequacy and reliability of Council systems of internal control. To this end an annual audit plan is presented to the Audit Committee for approval with any adjustments reported throughout the year. The work of Internal Audit therefore provides assurance across all of the Council's activities.

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

4. INTERNAL AUDIT – ACTIVITY AREAS

To fulfil the above responsibilities Internal Audit undertakes the following activities based on an annual audit plan:

Core Financial Audits

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

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Non Core Financial Audits

The Code requires that Internal Audit not only review financial systems but also other systems of management control used to ensure the Council's objectives are being properly managed, and that control arrangements have been established and operate within the Council to achieve Best Value, VFM and Performance Improvement in service delivery. Internal Audit in complying with the Code, prepare this section of the annual audit plan incorporating high risk areas identified by all Heads of Service through an operational risk exercise. This exercise is supported by both the Corporate Services Department – Democratic Services and Governance section, and KPMG our Internal Audit partners.

Contingency and Other Areas

Within the annual audit plan contingency direct audit days are set aside for unforeseen events which, by their very nature, cannot be planned for, e.g.:

- Notification of frauds, significant weaknesses or loss;
- Consideration of controls for new or amended systems; and
- Reviews of significant breakdown of internal control that cannot be accommodated within planned audits.

Clearly, the extent to which any contingency requirement is used depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity. In addition, direct audit days are provided in the annual plan for the follow up of management agreed recommendations cited in external and internal audit reports, risk management and annual planning, this is designated as other areas.

Internal Audit Reporting

Audit Committee

The Audit Committee holds quarterly meetings at which they review progress on:

- The annual audit programme in terms of audits planned and completed with the number of days expended;
- The progress made by management in implementing External and Internal Audit report recommendations; and
- National report issues that Council departments need to address such as; HMIe, Integrated Care and Roads Maintenance.

At the culmination of the years audit work the Audit Committee receives:

- An Annual Internal Audit report; and
- A draft Internal Financial Control Statement (IFCS) for approval. The IFCS assists the Head of Strategic Finance as Section 95 Officer, prepare a statement on control for the Annual Accounts.

Auditees

With regard to Internal Audit reporting audit findings, Internal Audit provides management with an independent and objective opinion on the control environment by taking into consideration the review of internal controls and risk, and recommends changes where appropriate in agreement with management. The audit work undertaken is reported to the auditee, either in the form of a report or a memo whichever is the most relevant. Our reports

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are in a standard format and provide an opinion on controls reviewed awarding one tick (✓) for very poor control and up to 5 ticks for very good control against the specific objectives of each audit. A system of grading audit findings that have resulted in a recommendation within an action plan has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definition for each classification is set out below: -

- **Fundamental.** Significant weakness in control is discovered that may give rise to loss or error;
- **Material.** A weakness is found but is not necessarily great, but the risk of error would be significantly reduced if it were rectified; and
- **Minor.** The weakness does not appear to affect the ability of the system to meet its objectives in any significant way but should be rectified.

5. EXTERNAL AUDIT

The relationship operated by Internal Audit with the Council's External Auditors is one of joint working where we try to either avoid areas of duplication and in other areas work jointly on large system control issues. Consultations are held on a regular and informal basis to co-ordinate work and we use external audit approved programmes to carry out our audit work. In 2006 – 2007 external and internal audit worked jointly on the Housing Benefit Grant Claim and the Council's Statutory Performance Indicators.

On an annual basis External Audit carry out an evaluation of Internal Audit work, the outcome of which is published in their Annual Accounts report. For 2005 – 2006 Internal Audit received a favourable report, and this has continued in 2006 – 2007 with the review of Internal Audit carried out by RSM Robson Rhodes.

6. INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

It is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of Council internal financial control systems to the Head of Strategic Finance as Section 95 Officer. The IFCS is informed by a review of the findings of audit work carried out by both external and internal audit throughout the financial year. In addition departmental internal financial control statements are prepared by Strategic Directors regarding specific audit areas identified as requiring future attention. These departmental internal financial control statements are then signed and passed to internal Audit. All of the above therefore supports the overall statement of control prepared for the Head of Strategic Finance.

The IFCS has 2 sections in which Internal Audit is required to give an opinion on the Council control environment. The first is on matters brought forward from last year. The second section is for any new matters arising in 2006 – 2007.

7. PROGRESS OF THE ANNUAL AUDIT PLAN 2006 – 2007

Appendix 2, lists all audits planned by Internal Audit for the financial year 2006 – 2007 inclusive of reported changes. The objective of the assessment of audit days is to advise the Audit Committee members of the final status of each audit. The annual audit plan was based on the section operating with a full staff compliment. The outcome was that the section operated throughout the year with reduced resources augmented by contract audit staff. Of 1,080 audit days planned for only 814 days were expended.

The shortfall of 266 days resulted from:

- Secondment - Audit Assistant Post lost Direct Audit Days of 207;

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- Accountant Post - Out of 200 planned direct audit days, contractors covered all but 27 days; and
- Sickness Absence - Direct Audit Days lost, 32 days.

Emphasis throughout the financial year was placed on achieving the audit plan. In the last quarter of the year the section came under further pressure when a member of staff had a sustained period of Sickness Absence. This resulted in the number of direct audit days expended on the remaining audits being reduced from that originally planned. The remaining audits therefore received audits focused on key control areas. This enabled the agreed audit plan to be broadly achieved and provide assurance for external audit and the preparation of the annual IFCS.

A total of 34 audits were planned for the financial year 2006 – 2007 these were allocated into the following categories:

- 18 Core Financial Systems Audits and
- 16 Non Financial Audits.

Of 18 Core Financial Systems audits, 16 have been completed with reports and action plans issued. With regard to the other 2 audits it was reported to the Audit Committee in December 2006 that the Procurement and Creditors audits had been combined for operational reasons and it was anticipated that remaining audit days resultant from combining both audits would be allocated to testing a new e-Procurement system. However, due to system set up problems within Corporate Services testing could not be carried out and resulted in a surplus of direct audit days.

The audit Payments to Voluntary Bodies, Following the Public Pound (FtPP) was reported to the Audit Committee in March 2007 as deferred in agreement with external audit. In 2005 – 2006, Internal Audit assisted the Council external auditors Audit Scotland with this audit area. What resulted was an agreement with them that Internal Audit would continue to monitor progress made by the Council over a 3 year period. However, in 2006 – 2007 due to operational reasons little progress was made by the Council which delayed the commencement of the audit. Audit Scotland was kept informed and the conclusion reached was that the audit may have to be deferred to 2007 – 2008. In agreement with the Council's new External Auditors, RSM Robson Rhodes this audit was deferred.

Internal Audit and Audit Scotland planned to carry out joint audit work on the Council's, Unified Benefit System in November 2006. As a result of a combination of factors Audit Scotland commenced the audit later than planned. This meant that Internal Audit resources were engaged on other scheduled audits. This resulted in a surplus of direct audit days for this specific audit. In the final analysis out of 440 planned direct audit days for Core Financial Audits, 335 days were expended as at the end of March 2007.

With regard to 16 Non Core Financial Systems audit areas, 15 have been completed with reports and action plans issued. Within the planned 480 direct audit days 145 were assigned to Best Value, however just short of 100 days were actually expended. In March 2007 it was reported to the Audit Committee that 2 audits namely, Strategic and Property Asset Management would be combined thus reflecting senior management planning. In conclusion, there were 480 planned direct audit days inclusive of 145 days for Best Value work of which 383 days were expended.

A total of 80 days were set aside within the annual audit plan for Contingency to provide advice and assistance to management. In the final analysis out of the 80 planned audit days 53 days were expended.

A further 80 days were set aside for Other Areas at the commencement of the financial year. This includes days for the follow up of external and internal audit recommendations and

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subsequent reporting, risk assessment and internal audit planning. In the final analysis out of the 80 direct audit days planned for this section of the plan 43 days were expended.

In 2006 – 2007 the Audit Committee was provided with more objective responses from departmental management regarding recommendations that had not been implemented within agreed deadlines. This process provided the opportunity for the Audit Committee to focus its time on areas of non implementation by management of agreed external and internal audit recommendations. The process also enabled the Audit Committee to request senior management attendance at Audit Committees in order to establish reasons for non implementation of agreed recommendations. In addition, during 2006 – 2007, the Audit Committee took advantage through the receipt of national report recommendations to request senior management attendance at the committee.

Throughout 2006 - 2007, Internal Audit resources were under pressure with a resultant loss of direct audit days due to 2 members of staff on secondment for the year and additional days lost due to sickness and absence. Contract resources were brought in to assist with audit plan delivery, which allowed the Internal Audit annual audit plan to be progressed.

Audit Opinion

Based on audit work carried out in 2006 – 2007 by Internal Audit, I am of the opinion that the Council's systems provide reasonable assurance regarding the effective and efficient achievement of the Council's objectives. Audit reports have indicated certain matters which are currently being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented. Additional assurance has been given in my Internal Financial Control Statement (IFCS) which is the subject of a separate report to the Audit Committee.

In conclusion, the Annual Audit Plan for 2006 – 2007 will be completed by the end of June 2007 as remaining issues are addressed. The Audit Committee is asked to accept the assurances provided by Internal Audit, based on the audit work completed in 2006 – 2007.

8. AUDIT ANALYSIS of 2006 - 2007

Apart from the deferment of 1 audit the planned work programme has been completed and in particular:

- Quarterly reports have been prepared for the Audit Committee advising of progress with the Annual Audit plan;
- Joint audit work was completed between Internal Audit and Audit Scotland;
- A higher percentage of audits continued to be carried out by qualified staff in 2006 – 2007; and
- Analysis of returned client questionnaires indicated that an average approval score of 3.8 has been achieved by Internal Audit in 2006 – 2007. The highest achievable approval score is 4. This is the same average as that achieved in 2005 – 2006.

9. INTERNAL AUDIT PERFORMANCE MEASUREMENT

Annually, Internal Audit measures the performance of its service delivery. This allows comparison to be made year-on-year and to set targets for improvement. In total there were 11 performance indicators agreed by the Audit Committee for Internal Audit to adhere to. They are set out under two headings:

- **6 Input;** and

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- **5 Output** indicators.

The tables below set out the performance for both sets of indicators for 2006 - 2007. A comment has been made for each performance indicator. Internal Audit will strive to maintain the quality standards achieved and will endeavour to make improvements.

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INPUT PERFORMANCE MEASURES 2006 - 2007

Ref	Performance Indicator	Target	Achieved 2006-2007	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%	80%	This percentage figure is higher than last year's 75% when consideration is taken of the engagement of contract auditors, which in 2006 – 2007 were all qualified Accountants.
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%	96%	The percentage figure achieved has fallen short of the 100% target due to the issue of one draft report after the 10 day period.
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	100%	Achieved.
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion; contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.	100%	As last year all of the target requirements have been met.
5.	Management's feed back on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (i.e.: a mean score of '3' or more for each question	3.8	Management are asked to provide an opinion on the work carried out by Internal Audit and it can be reported that the level of achievement has remained the same as last year at 3.8. This represents a good performance for the section given the resource issues faced throughout the year.
6.	Percentage of direct audit time	Target 81%	82%	The percentage figure reflects actual direct audit days available to Internal Audit.

APPENDIX 1

OUTPUT PERFORMANCE MEASURES 2006 - 2007

Ref	Performance indicator	Target	Achieved 2006- 2007	Comment
1.	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)	Achieved	The 2007 – 2008 Annual Audit Plan was presented to the Audit Committee on the 30 th of March 2007.
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year	Achieved	There is now a new reporting structure in place and therefore follow-ups are carried out as a routine task for the quarterly meetings of the Audit Committee.
3.	Completion of the Annual Audit Plan subject to variations agreed by Audit Committee, and if appropriate, Audit Managers.	100%	97%	With the deferment of the Core Financial Audit Payments to Voluntary Bodies this has reduced the percentage achieved against plan. As in previous years individual audit assignments in 2006 – 2007 varied in actual audit days to plan. A number of audits were either completed on time or ahead of budget whilst others took more days than had been budgeted. However in overall terms, audits have been completed within the total number of planned direct audit days set out in the annual audit plan.
4.	Recommendations accepted compared to recommendations made.	Fundamental – 100% Material and minor - 100%	100% 100%	Achieved. Achieved.
5.	Internal audit costs are within budget (including in-year budget variations)	Total costs were well within budget.	100%	Achieved.

APPENDIX 2

Assessment of Audit Days: 2006-2007 Strategic Plan

AUDIT WORK SCHEDULE	Last Audited	Risk Ranking	Estimated Audit Days 2006-07	Actual Audit Days 2006-07	Balance
Core financial systems					
Cash Income and Banking	2005-06	2	30	27	3
Contract Hire and Operating Leases	2005-06	2	20	20	0
Stocktaking	2005-06	2	25	31	-6
Debtor Accounts	2005-06	2	20	20	0
Council Tax and Non-Domestic Rates	2005-06	2	30	30	0
Government & European Grants	2005-06	1	30	28	2
Car Allowances	2004-05	2	20	17	3
Treasury Management	2005-06	2	20	19	1
Capital Contracts	2005-06	1	20	15	5
Unified Benefits System	2005-06	2	30	7	23
Purchasing/Creditors	2005-06	2	50	27	23
Tendering Procedures	2005-06	1	30	23	7
Capital Accounting	2005-06	1	20	17	3
Budgetary preparation and control	2005-06	1	20	15	5
General Ledger Operations	2005-06	2	25	17	8
Payroll	2005-06	2	30	22	8
Deferred					
Payments to Voluntary Bodies (Following the Public Pound)	2005-06	2	20	0	20
Section Total			440	335	105
Non-financial Audits					
All Departments - Business Continuity Planning	2005-06	1	20	22	-2
All Departments - Corporate Governance	2005-06	1	30	30	0
Performance Indicators	2005-06	1	50	50	0
Community Services - HMIE	2004-05	1	20	16	4
Corporate Services - Risk Management Register	2004-05	3	20	20	0
New Legislation	2005-06	1	20	20	0
All Departments - Asset Management	2005-06	1	30	22	8
Community Services - Education Services	2005-06	2	20	17	3
Chief Executives Unit - Policy & Strategy - Best Value	2005-06	1	145	94	51
Corporate Services - ICT - Applications	New	2	25	34	-9
Community Services - Transportation	2005-06	1	20	11	9
All Departments - Partnership Working	2005-06	1	20	9	11
Development Services - Partnership Project Funding	New	1	20	12	8
Community Services - NPDO - Contract Monitoring	2005-06	1	20	15	5
Operational Services - Amenity & Roads Services	2002-03	3	20	11	9
Section Total			480	383	97
Actual Direct Audit Time			920	718	202
Special investigations contingency					
Community Services	-	-	80	11	27
Chief Executive's Unit				42	
Section Total			80	53	27
Other Areas					
Follow-up External & Internal Audit Management Letter Points			60	43	17
Risk Assessment, Strategic Plan, Annual Plans			20	0	20
Section Total			80	43	37
TOTAL			1080	814	266

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Argyll and Bute Council

Review of Internal Audit

May 2007

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1 Executive Summary

Introduction

Internal audit is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. As such, it is a central element of the Council's overall governance arrangements.

The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA in 2000 sets out good practice in delivering internal audit services. The Code has recently been revised to reflect the changing requirements and expectations of internal audit in local government.

We reviewed the Council's internal audit department against the eleven standards set out in the Code.

Findings

Overall, we found that the Council is compliant with eight of the eleven standards set out in the Code as summarised below. In particular, we found that the Council has made significant progress in meeting Code requirements since Audit Scotland's national review of internal audit in 2001.

Standard	Fully Compliant
1 Scope of Internal Audit	✓
2 Independence	×
3 Ethics for Internal Auditors	✓
4 Audit Committees	×
5 Relationships	✓
6 Staffing, Training and Continuing Professional Development	×
7 Audit Strategy and Planning	✓
8 Undertaking Audit Work	✓
9 Due Professional Care	✓
10 Reporting	✓
11 Performance, Quality and Effectiveness	✓

However, we identified some areas where further work is required to reach full compliance with Code requirements, in particular:

- the resource assessment for the 2006-07 internal audit plan was not based on the resources actually available resulting in a resource shortfall for the year;
- Performance Development Reviews are not completed for internal audit staff in line with Council policy;
- three members of the internal audit department are currently seconded to the strategic finance department. This significantly reduces the resources available for internal audit work; and
- the findings from internal audit work are not routinely reported to the audit committee.

The Way Forward

The findings and recommendations from our review are summarised in an Action Plan (Appendix A) which accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of management to decide the extent of the internal control system appropriate to the Council.

Acknowledgements

We would like to take this opportunity to thank the officers who have been involved in this review for their kind assistance and co-operation.

This report is part of a continuing dialogue between the Council and us and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

RSM Robson Rhodes LLP

May 2007

2 Scope of Internal Audit

The Code requires that the Council formally defines the purpose, authority and responsibility of internal audit.

This includes:

- establishing terms of reference for internal audit, covering the key Code objectives;
- defining the scope and remit of internal audit and the process for determining how to allocate audit resources;
- defining any other work that internal audit may be required to undertake such as fraud or consultancy work; and
- defining internal audit's role in the prevention and detection of fraud or corruption.

The Council has included terms of reference for internal audit in an appendix to the Financial and Security Regulations (the Regulations). These set out the scope of internal audit, the role within the Council's operations and the department's mission statement. They also define the reporting lines between internal audit and those charged with governance. Internal audit are required to review the effectiveness of the control environment and to deliver an annual opinion on the adequacy of the Council's control environment.

Internal audit allocate audit resources by performing a risk assessment of each of the Council's core financial and non-financial systems over a three year period. The assessment considers the inherent risk associated with the nature of each system, the level of impact of any possible breakdown in the level of effective operation of the system, materiality factors assessing the financial size of the system and controls effectiveness based on the current level of assurance over the system controls and previous audit recommendations.

The Council's procedures for the prevention of fraud and corruption are detailed within the Regulations which includes guidance for staff reporting suspected fraud. The guidance states that all cases of fraud are reported to the head of strategic finance. The terms of reference do not specifically detail the role of internal audit in fraud investigations, however, the Regulations require that information on all frauds is passed to internal audit.

Our review found that internal audit are actively involved in any fraud investigations and report their findings to the senior management team and audit committee.

Action plan point 1

Conclusion

The scope of internal audit work meets the requirements of the Code.

3 Independence

Internal audit should be independent of the activities they audit to allow auditors to perform their duties in a way that allows them to make impartial, effective professional judgements and recommendations. This includes:

- maintaining an independent internal audit function with operational and organisational independence;
- appointing a head of internal audit with sufficient status within the Council;
- ensuring the independence of individual auditors and contractors; and
- establishing a process to declare conflicts of interest.

Internal audit's terms of reference state that auditors should not have operational responsibilities in order to maintain independence from the activities they audit. Our review found that three members of the internal audit team are currently seconded to positions within the strategic finance department. Each secondment was instigated at the request of the employee and will provide a significant development opportunity for the staff concerned. It is now unlikely that any of the secondments will return to internal audit.

Secondments from internal audit may compromise the independence of auditors should their return to the department not be effectively managed at the end of their secondment.

Action plan point 2

The Council does not operate with a single head of internal audit position. Internal audit is led by two managers although, in practice, one of the managers takes a lead role in the management of the department. In order to comply with the Code, the Council should formally designate a head of internal audit post. This would bring the Council in line with the majority of other Councils in Scotland, would raise the profile of internal audit and would help clarify reporting lines and responsibilities within the department.

Action plan point 3

The internal audit managers both report to the head of strategic finance, who is a member of the strategic management team. The terms of reference also enable the internal audit managers to report directly to the chief executive, the chair of the audit committee and elected members. These arrangements comply with the Code requirements.

A register of interests is maintained for all internal audit staff. Our review found that the register of interests is regularly reviewed and updated.

Conclusion

The independence of the internal audit is not fully Code compliant as there is no formal process in place to ensure staff returning from secondment do not compromise the effective working and independence of the department. In addition, there is no formally designated head of internal audit position at the Council.

4 Ethics for Internal Auditors

The Code sets out the minimum standards for the performance and conduct of all internal auditors. The Council should ensure all internal audit staff are regularly reminded of their ethical responsibilities with regards to:

- integrity;
- objectivity;
- competence; and
- confidentiality.

The Council's internal audit manual outlines the code of ethics for internal auditors including requirements for auditors in respect of integrity, objectivity, competence and confidentiality. In addition, those auditors who are members of professional accountancy bodies are obliged to adhere to the ethical standards required by their Institutes.

Conflicts of interest are officially recorded on the department's register of interests. Known conflicts are taken into account when allocating the audit work within the audit plan. The internal audit manager is aware of the need to strike a balance between rotating staff and allowing staff to build up knowledge of Council systems, although it is recognised that this is difficult given the size of the department.

Conclusion

The internal audit department meets the Code's ethical standards.

5 Audit Committee

The Code sets out recommendations for how internal audit should interact with the audit committee. The Council should ensure that:

- internal audit are represented at the audit committee;
- the audit committee reviews and formally approves the annual audit plan;
- outcomes from internal audit work are reported to the audit committee; and
- the progress of the annual audit plan is reported.

The internal audit manager attends all audit committees. In addition, there are regular informal meetings with the chair of the committee to ensure that key issues and findings are raised and discussed on a more regular basis.

The internal audit manager presents a progress update against the audit plan and a summary of all audit recommendations that should have been implemented, but remain outstanding to each audit committee. Officers are routinely required to attend the audit committee to explain why recommendations have not been implemented. These procedures represent good practice.

The Code requires the outcomes from internal audit work to be reported to the audit committee in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address. The findings from internal audit work are currently not reported to the audit committee and this is not Code compliant.

Action plan point 4

The committee does not currently prepare an annual report to Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.

Action plan point 5

Conclusion

The Council does not fully meet Code requirements in relation to the operation of its audit committee as the work of internal audit is not routinely reported to the committee.

6 Relationships

Internal audit will be involved a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence. The Council should ensure that:

- internal audit work is co-ordinated with other parties to increase the efficiency of the audit process;
- good relations exist between internal audit and elected members and other Council officers; and
- good relations exist between internal audit, other inspectors and external audit.

It is important that the plans and activities of internal audit are co-ordinated with other parties to ensure optimal use of audit resource. Internal audit consult with external audit in the production of their annual audit plans. This represents good practice as both parties can plan and establish any areas where duplication can be avoided, and agree on areas to be subject to audit coverage.

The department's relationship with management is enhanced through the audit agreement document, which outlines the work to be performed, the dates for fieldwork and reporting audit findings. Both internal audit and each service under review sign the document. This approach also represents good practice in effective relationship management.

Internal audit has established dialogue with other regulators where appropriate, for example, providing support to HM Inspector of Education.

Conclusion

The internal audit department meets Code requirements in managing its internal and external relationships.

7 Staffing, Training and Continuing Professional Development

In order for internal audit to effectively deliver its plan, the Council should ensure that:

- the internal audit department is appropriately resourced to meet its objectives;
- there is an appropriate mix of qualified and non-qualified audit staff;
- skills and competencies are defined for each level of auditor; and
- all auditors are undertaking a programme of continuing professional development.

The internal audit department is staffed by three full-time auditors: two managers and one senior audit assistant. In addition, the partnership arrangement with KPMG provides audit resources for IT audit and management support.

There are currently three vacancies in the department due to auditors being seconded to other sections within Strategic Finance. The Council has appointed some part-time contractors to help fill the shortfall, however, internal audit is currently not fully resourced to meet its objectives.

Action plan point 6

The Council operates a Performance Development Review system for its employees which requires an annual appraisal. Internal audit staff do not, however, receive performance assessments. In addition, the skills and competencies required of each auditor grade are not defined and performance objectives are not made explicit. As a result, the future training and staff development needs of the internal audit department are not linked to a systematic needs assessment.

Action plan point 7

Conclusion

The internal audit department is not currently Code compliant as it is not fully staffed to meet its objectives and internal audit staff have not been subject to formal annual appraisals.

8 Audit Strategy and Planning

The Council has to consider how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities. The Council should:

- produce an audit strategy detailing how the internal audit service will be delivered; and
- prepare a risk based audit plan designed to implement the strategy.

The Council has produced a three year strategy document which was approved by the audit committee in February 2005. The strategy sets out objectives and outcomes, how internal audit will provide their opinion on the control environment, how internal audit will address the significant local risks and how the service will be provided.

Internal audit work is prioritised on a risk basis and work is separately identified between core financial and non-financial reviews. These arrangements are Code compliant and in line with good practice.

The total audit days allocated to the 2006-07 audit plan included 555 days expected to be met by the three auditors who are on secondment and were unavailable for audit work at the time the plan was prepared. The Council appointed part-time contractors to cover the vacancies, however, a shortfall remained between the level of days provided by contractors and the agreed days contained in the plan. There is a risk that the audit plan cannot be delivered if the resource allocation is not based on a realistic assessment of the actual resources available.

Action plan point 8

Conclusion

Internal audit has good strategic planning processes and adopts a risk based audit approach in line with Code requirements. A resource plan was prepared for the 2006-07 audit, but it did not fully reflect actual resource availability.

9 Undertaking Audit Work

Internal audit are required to complete their work in line with the requirements of the Code. This includes:

- preparing a plan for each audit undertaken summarising objectives, scope and requirements;
- ensuring that all audit work is subject to an appropriate internal quality review process;
- ensuring that all audit work is supported by relevant evidence;
- ensuring that internal audit review their findings with senior management;
- specifying the required standard of internal audit documentation; and
- establishing standards and retention requirements for all audit documentation.

An audit briefing agreement is produced, discussed and agreed between internal audit and the relevant managers of the service for each audit undertaken. The audit brief summarises the objectives, scope and requirements of the audit. Our review found that the briefing agreements were being completed for each audit and were prepared in line with the Code objectives.

We reviewed work completed on the Council's core financial systems from the 2006-07 audit plan against the standards required in the Code. Our review found that audit files are set out in a standard fashion using the approved working papers and reporting templates disclosed in the Council's internal audit manual. We found a logical flow to the evidence on the audit files and issued reports. Files were subject to a detailed review either by one of the internal audit managers or KPMG in their management support role.

As a result of these findings, we are able to place reliance on the work of internal audit for the purposes of our audit.

For core financial system work, internal audit prepare detailed system notes detailing the stages in the relevant process and the associated controls. However, we noted that there is no walkthrough test performed to confirm that each stage of the process has been documented.

Action plan point 9

An 'access policy' is in place for all audit files and documentation, which requires individuals to sign and date a control sheet upon obtaining any audit file from the department. The internal audit manual specifies procedures for filing and retention of all audit documentation, both paper and electronic, and these are adhered to.

Conclusion

Internal audit meet Code requirements in undertaking audit work.

10 Due Professional Care

The Code describes due professional care as working with competence and diligence, using audit skills, knowledge and judgement based on appropriate experience, training (including CPD), ability, integrity and objectivity; and respecting and understanding confidentiality. The Council should:

- ensure internal audit complies with principles of due professional care;
- define the responsibilities of individual auditors in maintaining the principles of due professional care; and
- define the responsibilities of the Head of Internal Audit in maintaining the principles of due professional care.

The internal audit manual covers the principles of due professional care that all members of internal audit are expected to be adhere to. These include:

- maintaining confidentiality;
- declaring conflicts of interest;
- not accepting gifts, hospitality or inducements;
- being alert to any possible wrongdoing or fraud; and
- using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions and recommendations.

Our review found that internal audit comply with these aspects of its manual in its operations. Good practice areas included the maintenance of a 'register of interests' for internal audit staff.

Conclusion

Internal audit meet Code requirements in applying due professional care in their work.

11 Reporting

The Code describes the primary purpose of internal audit as being to communicate to management information that provides an independent and objective opinion on the control environment and risk exposure and to prompt management to implement agreed actions. This requires the Council to:

- establish procedures for internal audit to report their findings;
- establish procedures for internal audit to follow up previously issued audit reports; and
- provide an annual internal audit report to those charged with governance to support the statement on internal control.

The Code requires internal audit reports to be accurate, clear, concise and constructive. We performed a review of internal audit reports against the requirements of reporting outlined in the Code. We found that internal audit reports generally meet Code requirements.

We noted that, whilst reports prompt management to implement agreed actions and provided a formal record of points arising from the audit, there is no explicit commentary within the report conclusions regarding the assurance awarded to the adequacy and operation of the system controls or area under review.

Internal audit provide management with an annual report summarising its work, key findings for the year and opinion on the effectiveness of the Council's internal financial control arrangements. There is scope to link this opinion more clearly to the overall assurance conclusion provided for each audit review.

Action plan point 10

Internal audit reports contain 'a summary of overall conclusions' section. The section assesses audit findings against the specific audit objectives and uses a system of 'ticks' graded from 1 to 5 in order to demonstrate how adequately arrangements are operating.

In some of the audit reports reviewed, the grading awarded in relation to controls assurance did not appear to correspond to the detailed findings within the audit report and the recommendations contained in the action plan. For example, the review of the Council's arrangements for leasing assets highlighted some significant internal control weaknesses in relation to compliance with accounting standards (for recording transactions) and standing orders (for the procurement process). However, the leasing system received a high rating which indicates that sound controls are operated.

Action plan point 11

Internal audit also prepare an annual audit report to 'those charged with governance' which is fully Code compliant.

Services are required to complete a questionnaire at the conclusion of each audit. The questionnaire includes five questions in relation to the format, style and accuracy of the audit report. Feedback indicated that Services are currently satisfied with the presentation of audit findings.

Conclusion

Internal audit comply with Code requirements in their reporting arrangements. We found many areas of good practice, however, we also found some examples of inconsistency between audit findings and the overall assessment of arrangements.

12 Performance, Quality and Effectiveness

The Council should ensure that the performance, quality and effectiveness of internal audit is regularly reviewed, including:

- drafting an internal audit manual in line with Code principles;
- establishing performance management procedures; and
- ensuring adequate supervision of staff.

The Council has an internal audit manual in place and provides guidance covering a number of areas including:

- responsibilities of internal audit and the code of ethics for internal auditors;
- relationships with clients and external audit;
- audit planning, audit programmes and quality management;
- value for money and best value audits; and
- working paper, file structure and reporting templates.

The internal audit manual was last updated in November 2003, following the introduction of the last Code. The responsibility for updating the manual is assigned to KPMG as part of the partnership agreement.

Action plan point 12

Internal audit operate good quality assurance systems by ensuring staff at all levels are appropriately supervised and working papers are subject to a detailed review.

Current procedures for performance management include seeking user feedback for individual audits via audit questionnaires and calculating performance against 11 performance indicator measurements. In line with the Code requirements, the results of the performance management programme are communicated in the annual audit report to the audit committee.

The Code requires that an overall quality review should be undertaken periodically to ensure that work complies with the Code and the manual. KPMG, under the terms of the partnership service agreement, provide an overall review of quality and report their findings annually.

Conclusion

Internal audit meet Code requirements in their approach to performance, quality and effectiveness. However, the internal audit manual should be updated following revisions to the Code.

Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Responsible Officer	Implementation date
Scope of Internal Audit						
1	The Council's procedures for the prevention of fraud and corruption are detailed within the Financial and Security Regulations and include guidance for staff reporting suspected fraud. The guidance does not specifically detail the role of internal audit in fraud investigations.	Medium	The Council should update its 'guidance for staff reporting suspected fraud' to include specific reference to the role of internal audit.	The Council Constitution will be amended to recognise the role of internal audit in the investigation of suspected frauds.	Head of Democratic Services & Governance	April 2008
Independence						
2	Secondments from internal audit may compromise the independence of auditors should their return to the department not be effectively managed at the end of their secondment.	Medium	Wherever possible, the Council should ensure that internal auditors do not have any operational duties. Internal audit should develop a policy for managing staff returning from secondment to ensure the effective working and independence of the department is not compromised.	Internal audit still do not undertake operational duties. However, it is beneficial to allow internal audit staff to gain a broader understanding of the Council where they apply and are successful in securing secondments. Internal audit will produce a policy whereby seconded staff will not cover areas in which they have been involved for the next 2 years.	Head of Strategic Finance	July 2007

No	Finding	Risk	Recommendation	Management Response	Responsible Officer	Implementation date
3	The Council does not operate with a single head of internal audit position. This does not comply with the Code which recommends the appointment of a 'head of internal audit'.	Medium	The Council should formally designate a head of internal audit post. This would raise the profile of internal audit and would help clarify reporting lines and responsibilities within the department.	This situation will be reviewed at the end of the internal audit partnership.	Head of Strategic Finance	April 2008
Audit Committee						
4	The findings from internal audit work are currently not reported to the audit committee.	High	Internal audit work should be reported to the audit committee in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.	A report will be submitted to the next audit committee outlining the options regarding the reporting of internal audit work. This will range from full copies and reports to executive summaries and action plans.	Head of Strategic Finance	July 2007
5	The audit committee does not prepare an annual report to Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.	Medium	The audit committee should consider preparing an annual report to the Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.	This will be put to the first audit committee with a view to submitting a report to the Council in April 2008.	Chairman HOSF	April 2008
6	There are currently 3 vacancies in the internal audit department. The Council has appointed some part-time contractors to help fill the shortfall, however, internal audit is currently not fully resourced to meet its objectives.	High	The Council should ensure internal audit are fully resourced to meet objectives.	The recruitment process will commence in the next few weeks with a view to staff being in place by September 2007.	Head of Strategic Finance	September 2007

No	Finding	Risk	Recommendation	Management Response	Responsible Officer	Implementation date
Staffing, Training and Continuing Professional Development						
7	Internal audit staff do not receive annual performance assessments in line with Council policy. The skills and competencies required of each auditor grade are not defined and performance objectives are not made explicit. As a result, the future training and staff development needs of the internal audit department are not linked to a systematic needs assessment.	High	The Council should ensure that all staff receive an annual appraisal in line the requirements of the Performance Development Review (PDR) and define the skills and competencies required of each level of auditor. The annual appraisal process should act as a prompt for future training needs and aid staff development.	PDRs will be reintroduced for all members of staff within internal audit.	Internal Audit Manager	July 2007
Audit Strategy and Planning						
8	The total audit days allocated to the 2006-07 audit plan included 555 days expected to be met by the three auditors who were on secondment and unavailable for audit work at the time the plan was prepared. There is a risk that the audit plan cannot be delivered if the resource allocation is not based on the actual resources available.	High	The resource requirement calculation for audit planning should reflect the actual audit days available based on the current capacity of the department.	The annual audit plan for 2007/08 stated that there were vacancies and that they would be covered by contract staff. There will be a continuous review and reporting of the situation to the audit committee.	Internal Audit Manager	Done
Undertaking Audit Work						
9	Our review of internal audit's work on core financial systems found that detailed system notes were produced for each audit undertaken. We noted that there was no walk through test performed to confirm that the system was operating as documented.	Low	Audit documentation should include a walk through test to confirm that controls are operating as per the systems notes and flowcharts on file.	This will be done in 2007/08.	Internal Audit Manager	Immediate

No	Finding	Risk	Recommendation	Management Response	Responsible Officer	Implementation date
Reporting						
10	Internal audit provide management with an annual report summarising its work, key findings for the year and opinion on the effectiveness of the Council's internal financial control arrangements. There is scope to link this opinion more clearly to the overall assurance conclusions reported for each audit assignment.	Low	Internal audit's conclusion on the effectiveness of the Council's internal financial control arrangements should be more clearly supported by the overall assurance conclusions reported for each audit assignment.	This is done in the 'overall conclusion and assessment against objectives' section. This gives assessment of 1-5 ticks.	Internal Audit Manager	Done
11	In some of the audit reports, the grading awarded in relation to controls assurance did not appear to correspond to the detailed findings within the audit report and the recommendations contained in the action plan.	Medium	The Council should ensure that the rationale for awarding a high controls assurance grading is clearly reflected within supporting working papers.	This will be covered in the Audit Manager review of the working papers file. Auditees responses are also taken into consideration.	Internal Audit Manager	Immediate
12	The internal audit manual was last updated in November 2003. The responsibility for updating the manual is assigned to KPMG as part of the partnership agreement.	Medium	It is recommended that the Manual is updated to reflect the requirements of the 2006 Code of Practice. The Manual should be reviewed following each revision to the Code.	This will be done in conjunction with KPMG.	Internal Audit Manager	July 2007

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INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE

1 INTRODUCTION

- 1.1 The Council's external auditor has identified that the current arrangements for reporting the outcome of internal audit work do not fully comply with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom (The Code). This report outlines how the Council might comply with this requirement.

2 RECOMMENDATION

- 2.1 To agree that a summary and action plan covering material and fundamental weaknesses for each internal audit be reported to the Audit Committee.

3 DETAIL

- 3.1 The Code requires the outcome from internal audit work to be reported to the audit committee in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.
- 3.2 Internal audit reports are not currently reported in full to the Audit Committee. Where agreed actions are not being implemented in accordance with the timescale laid out in action plans then this is reported as part of the audit follow up to the Audit Committee. This allows the Audit Committee to take a view on the adequacy of the internal control system in that where weaknesses are not being addressed this is flagged up to it.
- 3.3 Submitting each internal audit report to the Audit Committee could increase the amount of paper for each meeting by around 100/150 pages. If each internal audit report is to be submitted to the Audit Committee a balance needs to be struck between providing information to allow the Audit Committee to reach a view on the adequacy of the control framework and overloading it with paper.
- 3.4 The following proposal is recommended to address this matter:
- A brief summary will be completed for each internal audit report outlining the scope of the audit, the overall assessment of the controls in place and the material and fundamental weaknesses.
 - An action plan will be prepared and agreed for each audit covering the material and fundamental weaknesses.
 - The summary and action plan for each audit will be submitted to the Audit Committee. The role of the Committee is not to approve

or edit reports but to reach a view on the overall effectiveness of the control framework and identify any issues of concern to it.

- Minor weaknesses will be identified and reported to management by memo out with the formal audit report. An action plan for these will still be required and implementation of these will still be reviewed through the follow up procedures.

3.5 The external auditor has been consulted on the terms of this report and is content that the course of action recommended would meet the requirements of the Code.

4 CONCLUSION

4.1 Submission of a summary and action plan identifying material and fundamental issues to the Audit Committee for each internal audit will ensure the Council fully meets the terms of the Code.

IMPLICATIONS

Policy	Ensures compliance with the Code of Practice for Internal Audit in local Government in the United Kingdom.
Personnel	None
Legal	Ensures compliance with the Code of Practice for Internal Audit in local Government in the United Kingdom.
Financial	None
Equal Opportunities	None

For further information please contact Bruce West, Head of Strategic Finance:
01546-604151

Bruce West
Head of Strategic Finance
6 June 2007

AUDIT COMMITTEE ANNUAL REPORT

1 INTRODUCTION

- 1.1 The Council's external auditor has identified that preparation of an annual report by the Audit Committee to the Council is necessary to fully meet the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom (The Code). This report outlines how the Council might comply with this requirement.

2 RECOMMENDATION

- 2.1 To agree that the Audit Committee will prepare an annual report to the Council with the first report covering the financial year ended 31 March 2008.

3 DETAIL

- 3.1 The Audit Committee does not currently prepare an annual report to the Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements. The external auditor believes such a report is required to fully meet the requirements of the Code.
- 3.2 It is recommended that the Audit Committee will prepare an annual report to the Council with the first report covering the financial year ended 31 March 2008. This should not be an onerous task for the Audit Committee. Much of the information required is already available from the annual report by Internal Audit, the internal financial control statement and the agenda and minutes of the Audit Committee. Internal Audit could draft the initial report, in conjunction with the Chairman, for consideration by the Audit Committee.
- 3.3 The external auditor has been consulted on the terms of this report and is content that the course of action recommended would meet the requirements of the Code.

4 CONCLUSION

- 4.1 Preparation of an annual report by the Audit Committee will ensure the Council is fully compliant with the Code.

IMPLICATIONS

Policy	Ensures compliance with the Code of Practice for Internal Audit in local Government in the United Kingdom.
Personnel	None
Legal	Ensures compliance with the Code of Practice for Internal Audit in local Government in the United Kingdom.
Financial	None
Equal Opportunities	None

For further information please contact Bruce West, Head of Strategic Finance:
01546-604151

Bruce West
Head of Strategic Finance
6 June 2007

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
28 June 2007

KPMG work plan for Internal Audit partnering contract

1. SUMMARY

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

2. RECOMMENDATIONS

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

3. DETAILS

- 3.1 KPMG have been assisting the internal audit section at Argyll and Bute Council since February 2002, providing advice with regard to good internal audit practice and also providing specialist Information Technology (IT) audit resource. The current contract terminates on 31st March 2008. This report advises the Audit Committee of the activities to be undertaken by KPMG in 2007-2008.

- 3.2 KPMG are contracted to provide 25 days of IT audit resource and 28 days of internal audit management support.

- 3.3 It has been agreed with the audit team that our support time is utilised as follows:-

Payroll Audit	15 days
Member Training	2 days
IA quality review	3 days
Audit Manual update	3 days
Ad-hoc advice	10 days
Performance Management for internal audit	5 days
Other systems review	15 days (Focus still to be agreed)

4. IMPLICATIONS

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

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

Steve Keightley
Manager KPMG LLP
1 June 2007

KPMGworkplan2007

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE**
28 June 2007

ADAPTING TO THE FUTURE

1. INTRODUCTION

- 1.1 Audit Scotland's report Adapting to the Future issued during August 2004 resulted in 22 recommendations being made subject to the following headings:
- Person Centred Services;
 - How are services organised;
 - Planning and performance monitoring; and
 - Managing risks.
- 1.2 These recommendations are being progressed in partnership with the NHS, now NHS Highland, via the Joint Implementation Group (JIG) and thereafter to the Joint Health and Care Partnership. It should be noted that a full review of service delivery by AGE Ltd was commissioned by the JIG during October 2005 in order to progress the agenda. The initial draft of the report was presented to the JIG on 27th April 2006.
- 1.3 The Audit Committee of 30th March 2007 noted the report of the 6th March and requested that the following issues be the subject of a report presented to the Audit Committee of June 2007.
1. In review of the redundancies associated with the Single Status Exercise, could a project manager not be appointed from within existing staffing levels to minimise costs on the basis that the service is under funded ?
 2. What are the costs associated with the areas of progress identified within paragraphs 3.1 to 3.4 of the submitted report ?
 3. Will NHS also be contributing to the roll out to other areas identified within the report as was the case in Oban?

2. **RESPONSE TO QUESTIONS NOTED IN 1.3.**

2.1

Question1:

The costs of the Project Manager were progressed as part of a part funded proposal presented to the Scottish Executive in relation to the progress of three specific items:

- Part funding of further development of Telecare services.
- Part funding of further development of Telehealth agenda within the Community Health Partnership.
- Part funding of appointment of Project Manager for Occupational Therapy and Rehabilitation services.

The funding secured from the Executive was £70,976 and an equivalent was found within the Joint Health and Social Care Strategic Partnership with both partners providing £35,488.25.

The council contribution of £35,388.25 was provided via non recurring resource release funds and had no impact on recurring service delivery issues. Therefore total funding obtained is approximately £177,341.

The decision to fund the Project Manager in this way was a joint decision approved by the Health and Care Partnership which recognised that the skills required for the post were not available within the existing staff Occupational Therapy staff group and that existing managers did not have the work capacity required to develop the agenda appropriately. The latter has been an issue of concern for a considerable period of time and is a significant factor in explaining our lack of progress in this area of work.

Question2:

Additional non recurring spend as part of the Delayed Discharge agenda:

Mid Argyll, Kintyre & Islay: £8,489.50

Oban, Lorn & Isles: £3559.24

Cowal & Bute: £14,611.53

Helensburgh & Lomond: £13,655.43

Total: £40,315.70

Note Oban etc expenditure is low as it benefits from having an appropriate cleaning and re-cycling scheme thus reducing the requirement to purchase new equipment when required urgently

Additional Spend relating to storage:

Mid Argyll, Kintyre & Islay: £45k invested in new storage in Campbeltown from council's capital budget. Ongoing revenue costs will be met by NHS.

Oban, Lorn & Isles: £16k per annum to provide cleaning (includes staff costs). Revenue costs are met by Resource Release funds and as service is located within the general hospital and consequently fuel costs are met by NHS.

Cowal: £11,500 to provide storage and technician. Revenue costs are met by Resource Release funds.

Question 3:

As can be seen from the figures above, the NHS already contribute to costs directly via the provision of accommodation and/or services are funded via Resource Release from the NHS.

All service proposal relating to adult care services, including Occupational Therapy, are jointly planned and funded within the Joint Health and Care Partnership framework. It is envisaged that during 2007/08 the Occupational Therapy services will be fully integrated with the NHS and that the Community Health Partnership will be delegated full management responsibility for the service.

James Robb
Head of Service, Adult Care

7th June 2007

Tel: 01546-604323

Jim.robbs@argyll-bute.gov.uk

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ARGYLL AND BUTE COUNCIL
CHIEF EXECUTIVE'S UNIT

AUDIT COMMITTEE
28 JUNE 2007

SUMMARY OF QUARTERLY PERFORMANCE REPORTS

1 SUMMARY

This paper provides a summary of the Service quarterly reports for the period January to March 2007, 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

Service Plans include a level of detail for each Priority, such that service performance and financial information are linked in quarterly reports. Where a Priority is reported as performing above or below the planned level, this performance may be evaluated as exceptional.

The selection of performance included as 'exceptional' relies on the report provided by Services. It is this exceptional performance that is included here.

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 Jan-Mar 2007

This paper draws together all the exception reports from the quarterly Service performance reports for the fourth 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

Communications

✗ Delays in several areas - website accessibility, publications guidance, marketing strategy, consultation diary.

Personnel Services - no exception reports

Policy and Strategy

✗ Proactive work slowed markedly due to pressures on the small team.

Strategic Finance

✓ Improved borrowing and loan rates.

✗ Reduced audits completed due to staff shortages.

Community Services

Adult Social Work

- Much of the performance information has no planned or target level of performance, therefore the stated level of service cannot be assessed.
- ✓ Delayed Discharge targets largely being met.

Community Regeneration

- ✓ The homelessness service reports a decrease in the number of families in B&B accommodation in excess of 14 days with a resulting reduction in costs. It was planned to reduce from 9 households in this position to none by 31/03/07, but costs still run at £193K quarterly. Trend is deteriorating.
- ✗ There is a reduction in service to older people being supported at home by Telecare and other services.
- ✓ The Rent deposit Scheme has seen an increase in take-up as part of a positive trend.
- ✗ Delays in progressing upgrading residential units for the elderly and support for children.

Planning and Performance - no exception reports

Community Support - no exception reports

Children and Families

- In the previous quarter, performance was reported as "A small proportion (14%) of Social Enquiry Reports were submitted late to Court - planned 100%, actual 86% by due date." The Audit Committee asked for details of the number of reports - 176 SERs were submitted of which 155 (87%) were submitted on time (the difference from the previous report is due to the original data changing after the reporting date). This performance has improved to over 92% being submitted by the due date.
- A number of performance measures have no target or forecast figures, therefore it is not possible to evaluate performance accurately. This includes e.g. (i) number of children on Child Protection Register, (ii) percentage of reports reporting on time to Children's Hearing system, (iii)

number of children affected by disability receiving community support services.

Education

- ✗ 11 teacher vacancies unfilled out of 21, due to a lack of suitable applicants, including two Gaelic Medium posts which attracted no applicants.
- ✓ Two Scottish Qualification for Headship awards made in March.

Corporate Services

ICT and Financial Services

- ✗ Some delays with Contact Centre implementation due to delays in approval of the Business Case and late delivery of telephony components.
- No performance reported against some measures - network availability and fault fixing timescales.
- ✓ Council Tax collections ahead of schedule.
- ✓ A range of Exchequer Services show cost and efficiency improvements.

Legal and Protective Services

- ✗ Underperformance against targets in high risk and medium risk premises inspections due to understaffing early in the period.
- No performance data provided against Animal Health and Welfare.

Democratic Services and Governance

- ✗ Young Scot Cards and website programmes behind planned delivery.
- No report on progress of Contact Centre, Children's Services Plan and Children's Panels.
- No targets or planned level of service for a number of performance measures, therefore performance cannot be evaluated - e.g. Support and Archive Services, Area Corporate and Registration Services, Governance and Risk Management, Management and Committee Services.

Development Services

Transportation and Infrastructure - no exception reports

Planning

- ✗ Response to Planning Applications slower than planned due to the introduction of the new Comino system with no additional resources for the additional work. An additional staff member is in place in Oban.

Operational Services

Roads and Amenity Services - no exception reports

- Due to active involvement in the implementation of the new performance management system, Pyramid, this Service is undergoing a major review of performance information. Service has not been affected by this additional work.

Facility Services

- The Facility Services quarterly report contains a great deal of detail across this very operational service. There is considerable variation in performance, much of which is due to customer demand. There is insufficient resource in the Policy and Strategy team to undertake a detailed analysis and report the exceptional performance.

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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 Appendix 1 sets out the current position as at the 8th of June 2007. With regard to recommendation 1, the Audit Committee at the last meeting received a copy of the annual report covering the condition of roads and maintenance backlog presented to the Strategic Policy Committee on the 14th of December 2006. A further report will be provided to the Executive Committee in November 2007.

3.2 In respect of recommendation 3, Roads & Amenity Services received notice from the Scottish Executive that the 32 Council Society of Chief Officers of Transportation in Scotland (SCOTS) EGF funding bid had been unsuccessful. The section is awaiting a further proposal regarding future funding options.

3.3 With regard to recommendations 7 and 8, management have reported continued progress with the Roads Maintenance Management System (RMMS) roll out. It was intended that after RMMS was established it would be linked to other Councils and the Councils own financial system. Implementation was to be complete by February 2007. However, with the loss of the SCOTS EGF funding the link to the financial system and other Councils will not be made at this time. At this time management are awaiting a further proposal on funding.

3.4 In response to recommendation 6, management have reported that the options appraisal has been incorporated into the Operational Services Options Appraisal which is looking at the whole of Operational Services and is due to report in August 2007. Once this review is complete the Audit Committee will receive a copy of the report for its review.

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 on 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 14th June 2007.
14Junefinalreport14June

Maintaining Scotland's Roads 2005 – 2007 Action Plan

No.	Recommendations	Current Position	Proposed Action	Timescale	Progress update as at 8th of June 2007
1	Report on the condition of roads and maintenance backlog.	Information being collected.	Continue to report on annual basis.	Report to Executive Committee Nov 2007	Information being collected for the report.
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) working on an overall Scotland approach was seeking funding from Efficient Government Fund (EGF). However this bid was unsuccessful. Further proposals are presently being considered.	The Council is part of the Scotland Wide process.	Ongoing	The Council has now received notification of the 32 Council SCOTS EGF funding bid from the Scottish Executive. The bid was unsuccessful and the Roads & Amenity Services are now awaiting a further proposal from SCOTS. Proposals for continuing joint working are currently being finalised.
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.	August 2007	Options appraisal has been incorporated into the Operational Services Options Appraisal which is looking at all of Operational Services and is due to report in August 2007.

APPENDIX 1

7	<p>Improve inventory information on the roads assets.</p>	<p>Work ongoing.</p>	<p>Complete inventory.</p>	<p>Work ongoing. The section is now awaiting a further proposal on funding.</p>	<p>The Roads Maintenance Management System (RMMS) is now fully operational within Street Lighting and Bridge Structures. It was reported that it was yet to become fully operational in Roads. This is now almost complete. It was previously reported that implementation would be complete by February 2007. Funding was awaited from the SCOTS EGF bid to aid this process and to allow a physical link to the systems of other Councils. As reported in 3 above this bid has been unsuccessful and the section is now awaiting a further proposal from SCOTS. Additional time will be needed due to lack of resources to carry out this work. Work ongoing</p>
8	<p>Use asset management system linked to GIS and financial system.</p>	<p>Progress is being made.</p>	<p>Introduce a Roads Maintenance Management System.</p>	<p>The section is now awaiting a further proposal on funding.</p>	<p>Roads Engineers have now started to receive their ICT training in order to operate the RMMS system. It was intended that after RMMS was established then it could be linked to the financial system. It was thought that this would have been achieved by February 2007. However, the link to the financial system will not be made at this time due to the loss of the SCOTS EGF funding. The section is now awaiting a further proposal on funding.</p>

ARGYLL AND BUTE COUNCIL
CORPORATE SERVICES

AUDIT COMMITTEE
28 JUNE 2007

RISK MANAGEMENT FRAMEWORK

1. BACKGROUND

The Risk Management Group (RMG) has to report on a quarterly basis to the Audit Committee on the progress being made with the implementation of the risk management framework and business continuity planning process. Set out below is a report on the progress since the last report on 30 March 2007.

2. DETAIL

2.1 The Strategic Risk Register has been approved by the SMT. The RMG in conjunction with the services Loss Control Groups will require to review and update this over the next six months. Consideration is being given to proposed amendments in the format of the register to make it similar to the Corporate Health and Safety Plan and a meeting to progress this has been arranged for the end of June.

2.2 Each Service now has a Loss Control Group in place and will meet on an agreed basis. Each Loss Control Group has strong representation from all the departments within the service and has had at least one meeting. They are aware of their remit and are functioning effectively in line with the previously approved risk management framework. Each Loss Control Group reports to their DMT on an agreed basis.

2.3 To ensure continuity of attendance at the Risk Management Group, each service has nominated representatives from their respective Loss Control Group. These are as follows:

1. CE Unit – Logie Collins, Carol Keeley, Alex Colligan
2. Community Services – Ernie Brown
3. Operational Services – Terry Markwick
4. Development Services – Dave Tomlinson
5. Corporate Services – Iain Jackson, Douglas Bailey

It has been agreed that Alex Marr, Risk Management Partners should be a member of the Risk Management Group. Each Loss Control Group will send other members to the Risk Management Group when a subject requiring input from that person is to be discussed.

- 2.4** Business Continuity Plans based on a template approved by the Risk Management Group are being prepared by each service for the loss due to flood or fire of their area of Kilmory. A full plan for the loss of Kilmory will be prepared by the end of January 2008.
- 2.5** Business Continuity Plans have already been prepared for the loss of other buildings, eg, the Clydesdale Bank Buildings, Lochgilphead and the Loss Control Groups have responsibility for rolling out this process to departments within each Service in order that they can prepare Business Continuity Plans for each building occupied by the Council. It is intended that this process will be completed by January 2008.
- 2.6** The recently installed performance management system has a risk management package and its use will be developed by the Governance and Risk Manager and Policy and Strategy over the next year.

Iain Jackson
Governance and Risk Manager
12 June 2007

ARGYLL & BUTE COUNCIL
COMMUNITY SERVICES

AUDIT COMMITTEE
28 JUNE 2007

COMMUNITY SERVICES – EDUCATION COMPUTER SERVICE REVIEW.

1. SUMMARY

The audit of the Education Network which was undertaken by Audit Scotland in 2004/2005. Items 2, 6 & 7 of the subsequent report highlighted the need for action in specific areas.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 The report by Audit Scotland highlighted several areas as “High” priority to be addressed by the ICT Development Manager.

3.2. Item 2 specified that staff other than the schools ICT Technician could, in theory, install software on schools PC’s As part of on-going development work the schools have more securely controlled Network Domains that limit the activities of any non-technical staff. This is in line with Corporate ICT Policies. Additionally, the report made reference to potential infringements of Software Licensing rules: The purchased Audit Software and the planned rollout of the software over the summer months will address this threat.

3.3 Item 6 specified that the existing configuration of the Schools Networks was open to potential breaches. This issue is being addressed with the deployment of Virtual Local Area Network (VLAN). This will be rolled out prior to the new academic year.

3.4 Item 7 specified that a small number of staff were unaware of the need for strong passwords. This issue has been discussed by the ICT Steering Group and the ICT & Financial Services’ Server Team has been instructed to deploy stronger password controls for the new academic year.

4. CONCLUSIONS

The issues identified as “HIGH Priority” in the report by Audit Scotland have now been addressed.

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 Paul Cairns, ICT Development Manager for Community Services on (01546 604053)

6th June 2007

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
28 June 2007

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 External Audit 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 April 2007.

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, 2005/06 and 2006/07 Internal Audit reports issued prior to March 2007. 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 April 2007. 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 External Audit report recommendations.
- 3.2 Appendix 1 is split into 2 documents 1a & 1b. The first document refers to all reports with recommendations due January to March 2007. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by the 31st December 2006 for the last Audit Committee. The same layout has been used for the reporting of External Audit 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 External Audit 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 Alex Colligan of Internal Audit on (01546 604271)

13 June 2007

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From January to April 2007

Audit	Report Number	Points to be actioned by 30 April 2007	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
<u>2004/05</u>					
Review of the Prudential Code	17 (May 2005)	1	0	1	J1
<u>2005/06</u>					
Review of Main Accounting System	22 (November 2006)	5	1	4	H2,6,7&10
<u>2006/07</u>					
Review of Treasury Management	8 (February 2007)	3	3	0	
Review of Asset Management/Office Rationalisation	12 (March 2007)	2	1	1	A4
Review of Capital Accounting	15 (May 2007)	1	1	0	
Review of Capital Contracts	14 (April 2007)	1	1	0	
Review of Car Allowances	13 (November 2006)	4	3	1	C5
Review of Contract Hire and Operating Leases	9 (February 2007)	2	0	2	E2&3
Review of Primary School funds - Lochgiphead & Park Primary Schools	10 (February 2007)	6	4	2	G1&8
Review of Risk Management Framework	5 (December 2006)	3	1	2	I5&9
Review of Year-end Stock Counts and Work-in-Progress	2 (June 2006)	1	1	0	
Total		29	16	13	

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Points Outstanding From Previous Audit Committee

Audit	Report Number	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 30 April 2007	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2004/05						
Significant Trading Operations	9 (December 2004)	1	1	1	0	
Review of the Prudential Code	17 (May 2005)	5	5	4	1	J15
2005/06						
Review of Contract Tendering & Vetting	12 (March 2006)	1	1	1	0	
Review of Capital Contracts	11 (February 2006)	1	1	0	1	B 3
Review of Debtors - Estate Rents	17 (March 2006)	2	2	1	1	F7
Best Value Review	19 (July 2006)	1	1	1	0	
Review of Risk Management Framework	5 (December 2006)	8	8	6	2	I11&12
Review of Cash & Income Banking, Hermitage Academy & Education Service	9 (February 2006)	4	4	4	0	
2006/07						
Review of Cash & Income Banking, School Fund Update	3 (July 2006)	4	4	2	2	D3&5
Total		27	27	20	7	

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Action Points Behind Schedule – Internal Audit

A – Review of Asset Management/Office Rationalisation

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
4	Formulae errors and some inconsistencies result in a lack of confidence in the integrity of the appraisal spreadsheets.	Finance Manager Development Services	The updating of the model will be carried out when the business case is being updated for the Helensburgh Office Rationalisation Project.	Fundamental	30 April 2007	30 June 2007

B – REVIEW OF CAPITAL CONTRACTS

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Contractor claims in the Campbelltown Community Project are potentially under estimated and the capital plan exposed. These variances should be investigated further by management and a satisfactory explanation must be obtained. Any problems with the cash machines or turnstiles must be rectified immediately.	Project Manager - Campbeltown Community Project	On the advice received from Brodies, the Council's Legal advisers it was decided to put the Contractual Claims issue on hold until responsibility for the tender failure issue has been established. The Building Research Establishment (BRE) have been asked to investigate this issue and have issued their final report on 30 th May. This report will be reviewed by the Council's technical staff.	Material	28 February 2006	

C – Review of Car Allowances

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	No policy in respect of; a) the use of pool cars/car sharing has not yet been issued b) the use of environmentally friendly vehicles/fuel has not yet been issued.	Head of Personnel Services	Operational Services has been requested to insert a statement in payslips. Priority given to Single Status work, and revised deadline policy is September 2007.	Material	31 January 2007	28 Sept 2007

D – Review of Cash and Income Banking - School Fund Update

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	The review of controls and procedures surrounding the administration of GPFs at Secondary Schools arising from the school visits revealed that an element of misinterpretation may have occurred regarding recorded responses to questions set in the questionnaire.	Head of Secondary Education, Head Teachers and School GPF Committees	This will be addressed at the next secondary head teachers' meeting on 21 June 2007.	Material	31 October 2006	21 June 2007
5	Some matters arose from the review which although not directly contravening standard Circular 1.10 require further consideration. - The management of surpluses. - The presence of open GPF bank accounts with in some cases substantial balances of which management were unaware.	Quality Standards Manager and Head Teachers	This will be addressed at the next secondary head teachers' meeting on 21 June 2007.	Material	31 December 2006	21 June 2007

E – Review of Contract Hire and Operating Leases

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	<p>After an Internal Audit in 2003/04, Strategic Finance undertook to issue comprehensive guidance to all departments on tendering for, monitoring, or terminating lease agreements. This guidance would include the need for Strategic Finance to be involved in all leases versus purchase decisions. Strategic Finance later decided that such guidance was not necessary. Since then, some departments have approached them for assistance. However, when the Council-wide photocopier contract came up for renewal Strategic Finance were not involved.</p>	<p>Head of Strategic Finance</p>	<p>The guidance is almost complete and will be issued by the end of June.</p>	<p>Material</p>		<p>June 2007</p>
3	<p>Strategic Finance tendered for a Council-wide lease advisory service, but has not issued guidance to services on the need to make use of the approved advisor.</p>	<p>Head of Strategic Finance</p>	<p>The guidance is almost complete and will be issued by the end of June.</p>	<p>Material</p>	<p>31 August 2006</p>	<p>June 2007</p>

APPENDIX 2

F – Review of Debtors - Estate Rents

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
7	There is no rolling programme of rent reviews	Head of Legal and Protective Services	Legal Services Estates team has recruited the IT Manger, Development Services to assist in implementing the required work.	Material	30 April 2006	31 August 2007

G – Review of Primary School funds - Lochgilphead & Park Primary Schools

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	A school fund constitution and committee are not in place.	Head Teacher in conjunction with Head of Pre-School and Primary Education	Park Primary School have a constitution and committee. Lochgilphead Primary School have a committee but have still to produce a constitution.	Material	30 April 2007	29 June 2007
8	The transfer of cash between staff is not always compliant with the Council's Constitution.	Head of Pre-Primary and Primary Education in discussion with the Head of Secondary Education & Quality Standards Manager	To be completed for the beginning of the new school session 2007-2008.	Material	30 April 2007	August 2007

H – Review of Main Accounting Systems 2005/2006

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Work needs to be done to identify and create parent values.	Corporate Finance Manager	Parent values are created in the system in order to produce either reports on a BVACOP basis or departmental basis. Parents have also been set up for the Council priorities. Work is ongoing to create discretionary level BVACOP parents and although this is not necessary for any current reporting, it would be beneficial to have this in place. This will be progressed over the next 6 months.	Minor	31 March 2007	31 December 2007
6	Standard forms not available for code requests	Corporate Finance Manager	Forms have been created, but not rolled out to departments yet – still presently receiving emails. This will be progressed over the next 6 months.	Minor	31 March 2007	31 December 2007
7	System administration documentation needs to be developed	Corporate Finance Manager	This task is ongoing – as an issue arises the System Administrator documents action/procedure. These documents need to be compiled into a more formal system administration manual and this will be progressed over the next 6 months.	Minor	31 March 2007	31 December 2007
10	Some procedures not fully documented in the User Manual e.g. interface control. No laid down procedure for updating the User Manual on a regular basis.	Corporate Finance Manager	Most Oracle users are familiar with how to use the system and would very rarely refer to their manual. If there is a particular issue, either an experienced Oracle user within their Department would provide training or Corporate Accounting would provide the necessary guidance. Having said that, it would be beneficial to update the manual for new starts and also to have an up-to-date set up instructions for reference purposes.	Minor	31 March 2007	31 December 2007

I – Review of Risk Management Framework

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	The RMG do not produce an action mandate following each meeting.	Head of Democratic Services and Governance	The Minutes of the meetings identify actions to be taken. Separate action list will be produced.	Material	31 January 2007	13 August 2007
9	Operational Risk Registers not prepared	Head of Democratic Services and Governance as Lead Officer on The Risk Management Group and Chair of LCGs	These are in place for most departments but will be reviewed as part of the ongoing review of the Risk Registers.	Fundamental	31 March 2007	31 December 2007
11	Currently no formal procedures in place to measure and report on any benefits obtained from the introduction of a risk management framework	Governance and Risk Manager	This process is ongoing and will be developed further in conjunction with the Risk Management Group.	Material	31 December 2006	31 December 2007
12	Use not currently being made of risk management processes used by other authorities	Governance and Risk Manager	The Governance and Risk Manager is now a member of the Association of Local Authority Risk Managers (ALARM) and takes an active part in meetings of the Scottish Regional Group and the Institute of Risk Managers (IRM).	Material	31 December 2006	31 December 2007

J – Review of the Prudential Code

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	The cost of the Campbelltown Community Project is significant and there would be benefit in carrying out a post completion review.	Head of Planning and Performance/ Internal Audit Manager	The building will have been fully operational for a year by mid June 2007 and Operational Services will be preparing a first annual performance report. In general terms the building has been very successful in meeting customer needs. The preparation of the final account is still ongoing and SPC were advised in an update report in February 2007 that benchmarking figures showed the project costs in a favourable light with similar UK projects.	Material	31 March 2007	2007/08
15	Existing strategy limitations restricts investment returns. There is an opportunity for increased returns at minimum risk	Finance Manager - Development Services	The Scottish Executive have not yet issued the revised Investment Regulations.	Material	30 June 2006	30 September 2007

External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From January to April 2007

Audit	Points to be actioned by 30 April 2007	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
<u>2005/06</u>				
Financial Strategy	2	2	0	
Total	2	2	0	

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Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 30 April 2007	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2004/05					
Prudential Code	2	2	2	0	
2005/06					
Education Department - Computer Services Review	7	7	2	5	A 2,6,7,9 & 11
Financial Strategy	6	6	6	0	
Total	13	13	8	5	

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Action Points Behind Schedule - Audit Scotland Reports

A – EDUCATION DEPARTMENT - COMPUTER SERVICES REVIEW

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	<p>Currently many staff with the Education Department can install software on the schools networks.</p> <p>Risk - Allowing a lot of staff to install software on the schools computers can potentially result in poorly configured applications, badly performing applications and weak security. Staff who install the software may be unaware of the licensing restrictions which can potentially lead to legal action against the Council if software is installed against the licence arrangement or if illegal software is installed.</p>	ICT Development Manager	ICT Development Manager to submit report to June Audit Committee.	High	31 December 2006	29 June 2007
6	<p>In secondary schools, one network hosts both teaching and administrative computers. This is a potential security weakness, as in theory, it is possible for pupils to hack into the administrative computer.</p> <p>A review of the existing</p>	ICT Development Manager	ICT Development Manager to submit report to June Audit Committee.	High	31 December 2006	29 June 2007

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
7	<p>network should be undertaken at ascertain if improvements to security of the existing networks is feasible. Possibilities include separating the student and administrative computers into different segments of the network. This approach would help enforce better access controls to the respective computers. Closer monitoring of activities will be undertaken as part of implementation of IS Policy for Education.</p> <p>In general, most staff were aware of the need to use strong passwords. However, a small number were unaware of this requirement. Staff use easily guessable passwords, which could allow unauthorised and inappropriate access to the Education Department's computer facilities.</p> <p>All staff using computers within the Education Department should be reminded to use strong passwords. This exists on Corporate Network and will be implemented as part of IS Policy for Education</p>	ICT Development Manager	ICT Development Manager to submit report to June Audit Committee.	High	31 December 2006	29 June 2007

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
9	<p>We were unable to establish the existence of standard network procedures, security and data protection handbook. Network procedures describe how various networking administrative tasks are carried out. They are useful in training staff new to the task and in documenting tasks which are generally only undertaken once or twice during the product's lifetime. One of the tasks identified as necessary for the Council to meet BS7799 Information Security Management standard, was for the Education Department to develop a security and data protection handbook. Without such a document the department would find it difficult to comply with this standard.</p> <p>Develop the appropriate network procedures. Develop security and data protection. Network management procedures are being developed as part of the identified (IS) Policy for Education.</p>	ICT Development Manager	<p>The issue of an IS Policy for Education will be developed over the coming calendar year. The start of this process will commence with the negotiation of a new Acceptable Use Policy which will take place between now and the end of July. IS standard will be achievable once the new LAN equipment is rolled out across the Secondary School estate, in line with NPDO Project timescales</p>	Medium	31 December 2006	28 February 2008

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
11	<p>The aim of business continuity planning is to ensure that an adequate service level can be provided if an unforeseen incident occurs. The Progress Report on Argyll & Bute Council Education Information Security Implementation Plan dated February 2005 highlighted several outstanding actions in the area of business continuity planning. Incomplete business continuity plans will have an impact on the service provision provided by the Education Department should an unforeseen incident occur.</p> <p>Identify the resources required to complete this action. The Education Management Information System (SEEMIS) will be included in corporate Disaster Recovery Project which accommodates Business continuity plans.</p>	ICT Development Manager	Business Continuity Planning is in place for the SEEMIS application suite	Low	30 April 2006	30 September 2007

REPORT ON 2006 - 2007 INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

1. SUMMARY

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the Internal Financial Control System (IFCS) for the Head of Strategic Finance for 2006 – 2007 and this is provided in Appendix 1.

2. RECOMMENDATION

2.1 The contents of this report are noted.

3. DETAILS

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

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

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

- The work undertaken by internal audit during the audit year 2006 – 2007;
- The assessment of needs completed during the preparation of the strategic audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

3.3 The statement has 2 sections in which Internal Audit is required to give an opinion on the Council control environment. The first is on matters brought forward from the previous year. The second is new matters arising in 2006 - 2007. Directors internal financial control statements are being prepared to support the overall statement of control prepared by the Head of Strategic Finance for the Council.

3.4 The attached statement is in Draft format and maybe updated further until Audit Scotland completes their review of the Council's Annual Accounts for 2006 – 2007.

4. CONCLUSIONS

Except for the items listed in the IFCS in Appendix 1, it is the opinion of Internal Audit, based on the audit work carried out to date, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems in the financial year 2006 – 2007.

5. IMPLICATIONS

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

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

Ian Nisbet
Internal Audit Manager 14th June 2007.
14Junefinalreport14June

**DRAFT
INTERNAL FINANCIAL CONTROL STATEMENT
2006-2007**

To the Head of Strategic Finance

As Internal Audit Manager of Argyll & Bute Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Council for the year ended 31 March 2007.

Respective responsibilities of management and Internal Auditors in relation to internal control

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

Sound internal controls

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

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

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

The work of Internal Audit

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

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

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

Basis of Opinion

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

- The audit work undertaken by Internal Audit during the year to 31 March 2007;
- The assessment of needs completed during the preparation of the 3 year strategic audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

Opinion

Except for the following listed matters it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31 March 2007:-

Matters brought forward from previous year(s):-

- The approach to asset management including consideration of funding the investment requirements for schools, roads and other assets and further develop the revised approach to capital planning based around business cases and gateway reviews;
- Improve the approach to performance management through adoption of an improvement and development framework, implementation of its performance management system, refining the linkages between corporate and service and financial planning, and development of a financial strategy. The risk management framework will continue to be developed and embedded within the Council; and
- There will be ongoing development to achieving full compliance with the Code of Practice – Following the Public Pound.

New matters to be considered in 2007 – 2008:-

- The implementation of the action plans arising from both the Best Value review of Social Work and that of the Social Work Inspection Agency will be significant issues to be taken forward in 2007-08; and
- Implementation of the Single Status agreement.

Ian Nisbet, MBA MSc ACMA MIIA
Internal Audit Manager
HQ Kilmory
14 June 2007
internalcontrolstatementdraft