

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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7 December 2007

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 14 DECEMBER 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 20 September 2007 (Pages 1 - 4)
4. **AUDITED ACCOUNTS 2006/2007 AND EXTERNAL AUDIT REPORT**
Report by Head of Strategic Finance (Pages 5 - 90)
5. **AUDIT INTERIM MANAGEMENT REPORT 2006-2007**
Report by External Auditors (Pages 91 - 108)
6. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2007-2008**
Report by Internal Audit Manager (Pages 109 - 112)
7. **EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2007-2008**
Report by Internal Audit Manager (Pages 113 - 132)
8. **RISK MANAGEMENT REPORT**
Report by Governance and Risk Manager (Pages 133 - 134)
9. **SUMMARY OF QUARTERLY PERFORMANCE REPORTS**
Report by Chief Executive's Unit (Pages 135 - 138)

10. POST COMPLETION AUDIT REVIEWS

Report by Head of Strategic Finance (Pages 139 - 142)

11. BRIEFING NOTE ON PERFORMANCE OF STRATHCLYDE PENSION FUND - JUNE 2007

Report by Head of Strategic Finance (Pages 143 - 144)

12. LEGAL SERVICES UPDATE

Report by Head of Legal and Protective Services (to follow)

13. KPMG REPORT

Report by KPMG (Pages 145 - 146)

14. EXTERNAL AUDIT REPORT – BEST VALUE

Report by Head of Strategic Finance (Pages 147 - 160)

15. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2007-2008

(a) Report by Internal Audit Manager (Pages 161 - 164)

(b) Review of Creditors 2007-2008 (Pages 165 - 174)

(c) Review of Council Tax and Non-Domestic Rates (Pages 175 - 180)

(d) Review of Social Work Legislative Compliance (Pages 181 - 190)

(e) Review of Roads & Amenity Services – Waste Management Administration (Pages 191 - 200)

E1 (f) Payments to Voluntary Bodies (Public Pound) VisitScotland (Pages 201 - 214)

The Committee will be asked to pass a resolution in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public for items of business with an “E” on the grounds that it is likely to involve the disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 7a to the Local Government (Scotland) Act 1973.

The appropriate paragraph is:-

E1 **Paragraph 6** Information relating to the financial or business affairs of any particular person (other than the authority).

AUDIT COMMITTEE

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

Councillor Mary-Jean Devon
Councillor Roderick McCuish
Councillor Ron Simon

Contact: Fiona McCallum

Tel. No. 01546 604401

**MINUTES of MEETING of AUDIT COMMITTEE held in the MEMBERS' ROOM, KILMORY,
LOCHGILPHEAD
on THURSDAY, 20 SEPTEMBER 2007**

Present:

Mr Ian Ross (Chair)

Councillor Gordon Chalmers
Councillor Mary-Jean Devon
Councillor Roderick McCuish

Councillor Bruce Marshall
Councillor Ron Simon

Attending:

Bruce West, Head of Strategic Finance
Iain Jackson, Governance and Risk Manager
Moira Millar, Finance Manager – Corporate Accounting
Ian Nisbet, Internal Audit Manager
David Clements, Performance Manager
Lyndis Davidson, Performance Management Officer
Gary Devlin, Grant Thornton UK
Sarah Howarth, Grant Thornton UK
Steve Keightley, KPMG

Apologies:

Mr Christopher Valentine

1. MINUTES

The Minutes of the Audit Committee meeting held on 28 June 2007 were approved as a correct record.

Arising from item 7 (**Summary of Quarterly Performance Reports**) the Chair advised that the Head of Democratic Services and Governance had been unable to attend this meeting and therefore a presentation on the Political Management Arrangements would be continued to the next meeting.

Arising from item 13 (**Report on 2006-7 Internal Financial Control Statement (IFCS)**) it was noted that recommendation 2 had been considered by the Council's Executive on 16 August 2007. The Chair advised that in this case the decision was sufficiently broad to cover the Committee's desire but considered that recommendations from the Audit Committee should not be submitted to other Council Committees until the Minutes had been agreed (except in matters of urgency).

2. ANNUAL ACCOUNTS 2006-2007 - EXTERNAL AUDIT REPORT

A report from the External Auditors, Grant Thornton UK LLP, covering the key findings from the audit of the Council's financial statements audit in accordance with International Standard on Auditing 260 (ISA 260) was before the Committee for consideration. This auditing standard requires external auditors to communicate matters relating to the audit of the financial statements to those charged with governance of the Council (in this case the Audit Committee) in sufficient time to enable appropriate action to be agreed prior to the finalisation of the Annual Accounts for 2006/2007.

Decision

To note and agree the contents of the report.

(Reference: Report by Internal Audit Manager dated 30 August 2007, submitted).

3. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2007-2008

An interim progress report advising Members of the progress against the Annual Audit Plan up to 23 August 2007 was considered.

Decision

1. To approve progress made with the Annual Audit Plan for 2007/2008.
2. To agree the change in audit focus from HMle to Disclosure Scotland.
3. To note that this was the final year of the Audit Plan and that work on the new plan would be commencing. A report on this should be ready to present to the Audit Committee meeting in March 2008.

(Reference: Report by Internal Audit Manager dated 27 August 2007, submitted).

4. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2007-2008

The Committee considered a report detailing the results from a review preformed by Internal Audit for recommendations due to be implemented by 30 June 2007.

Decision

1. To note the contents of the report and that they will be followed up by Internal Audit.
2. To agree that item 3 of action plan A (Review of Capital Contracts) should be removed from the list as matters had now moved in such a way that it was not relevant for the Audit Committee to monitor.

(Reference: Report by Internal Audit Manager dated 31 August 2007, submitted).

5. RISK MANAGEMENT REPORT

A report outlining progress with the implementation of the Risk Management and business continuity planning processes was considered.

Decision

To note the contents of the report.

(Reference: Report by Head of Democratic Services and Governance, submitted).

6. SUMMARY OF QUARTERLY PERFORMANCE REPORTS

A report providing a summary of the Service quarterly reports for the period April-June 2007 consisting of the exceptional performance sections only was considered.

Decision

To note the Service performance in the report.

(Reference: Report by Chief Executive Unit, submitted).

The Committee resolved in terms of section 50(A)(3) of the Local Government (Scotland) Act 1973 to exclude the public for the following item of business on the grounds that it was likely to involve the disclosure of confidential information.

7. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2007-2008

A report detailing Executive summaries and action plans (where applicable) for finalised audit work was before the Committee for consideration.

Decision

1. To note the contents of the report and that these will be followed up by Internal Audit.
2. To note the concerns of the Committee that Statutory Performance Indicators were not being used positively as a management tool.

(Reference: Report by Internal Audit Manager dated 30 August 2007, submitted).

8. POST COMPLETION REVIEWS

The Chair advised that the Head of Strategic Finance had been tasked with identifying a mechanism for post completion audits. He requested that a report on this be brought to the next Audit Committee meeting.

9. APPOINTMENT OF CONSULTANTS: LEGAL AND PROTECTIVE SERVICES SERVICE REVIEW

The Governance and Risk Manager advised the Committee that Consultants had now been appointed to conduct the review, a timescale for implementation of the project plan was scheduled for mid December and a report would be forthcoming in due course.

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AUDITED ACCOUNTS 2006/2007 AND EXTERNAL AUDIT REPORT

1 INTRODUCTION

- 1.1 The external auditors, Grant Thornton UK LLP, have completed their audit of the Council's accounts for the year to 31 March 2007. The audited accounts incorporating the audit certificate and the external audit report for 2006-2007 are attached. The audit certificate contains no qualifications. The external audit report highlights key issues for attention of members.

2 RECOMMENDATION

- 2.1 The audited accounts, the terms of the audit certificate and the external audit report are noted.
- 2.2 To note the Audit Committee will monitor the action plans agreed in response to individual audit reports that have been issued during the year.

3. DETAILS

- 3.1 The audited accounts including the audit certificate and the external audit report for the 2006-07 audit are attached.
- 3.2 The accounts were completed and submitted by the statutory date of 30 June 2007. The audit has been completed within the timescale of 30 September 2007, set by Audit Scotland.
- 3.3 The audit certificate on the Council's accounts for the year ended 31 March 2007 contains no qualification. External audit are able to conclude that the Council's accounts present fairly its financial position as at 31 March 2007.
- 3.4 The audit certificate notes that the Council has failed to comply with the statutory requirement that the income from trading operations is not less than expenditure over a three-year period. This is in respect of the Leisure Trading Account, the Catering and Cleaning Trading Account and Building Maintenance Trading Account. The report to the Council of 20 June 2007 regarding the unaudited accounts drew members attention to the failure to achieve the breakeven position for the above trading accounts.
- 3.5 It was also reported to the Council on 20 June 2007 that in respect of Leisure and Building Maintenance these would no longer be classified as trading accounts. The report recognised the need for the Council to demonstrate that services no longer classified as trading accounts delivered best value and that where trading accounts had failed to achieve a breakeven position it would be necessary to review the cost and price base and charging regime in addition to being able to demonstrate best

value was being achieved.

3.6 The external audit report outlines the scope of the audit and identifies the key issues that require to be brought to members attention. No action plan is attached to the report as all of the points raised have been drawn from individual audit reports issued during the year and action plans have been prepared for each of these to address the matters raised by external audit.

3.7 A summary of the key points identified by external audit in the audit report on the 2006-07 has been attached as Appendix 2. Included with this are details of the action the Council has already agreed to take in relation to each point.

3.8 The external audit report provides comments on the following:

- Financial Statements
- Governance
- Performance

3.9 Appendix 1 is a schedule of the significant changes to the accounts. The 2 most significant adjustments to the accounts arise from housing stock transfer:

- The first is merely a change in presentation of the transfer of the housing stock, its value and the redemption of debt on our behalf by the Scottish Executive. This has no impact on the Council's General Fund Balance but the off setting adjustments against net cost of services, gain/loss on disposal of assets and loans fund principal repayments are in the order of £38m.
- The second relates to land the Council is committed to purchase and transfer at nil cost to ACHA as part of the transfer agreement. These transactions were not concluded during 2006-07 and as a result the estimated cost of £1.040m has been moved from expenditure and is referred to as a contingent liability in the notes to the accounts.

3.10 The table below reconciles the changes from unaudited accounts to audited accounts for surplus/ (deficit) on the Income and Expenditure Account on the General Fund Balance.

| | Surplus (Deficit) £000 | General Fund Balance £000 |
|------------------------------------------------------------------|---------------------------------------|------------------------------------------|
| Unaudited Accounts | (686) | 24,957 |
| Increased provision for single status based on revised offer | (468) | (468) |
| Corrections to renewal & repair fund contributions | (230) | |
| Reversal of accrual for private sector housing grant expenditure | 200 | 200 |

| | | |
|---------------------------------------------------------------------------------------|------------|------------|
| Classify commitment to purchase land and transfer to ACHA as contingent liability. | 1040 | |
| Corrections to leasing charges from processing both leasing payments and depreciation | 363 | |
| Other | <u>166</u> | <u>109</u> |
| Audited Accounts | <u>385</u> | 24,798 |

3.11 The committed funds within the General Fund Balance were £20.283m per the unaudited accounts. Following the audit the committed funds stand at £20.547m. This leaves a free General Fund Balance of £4.351m. From this the Council has already approved the supplementary estimates to be funded from General Fund Balance of £271,000. The resulting net balance is £3.980m. This compares to £3.999m being the agreed 1.9% contingency level approved as part of the 2007-08 budget. The level of General Fund Balance and contingency will require to be considered during the annual budget process.

3.12 The full text of the external audit report is attached as Appendix 3.

4. IMPLICATIONS

- | | | |
|-----|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1 | Policy | The completion of the accounts and the audit within set timescales complies with the Council's objectives on providing timeous and accurate information to the public. |
| 4.2 | Financial | The external auditor's independent examination of the Councils financial records had resulted in a clear audit certificate. The level of free General Fund Balance is close to the 1.9% contingency level and will require to be considered during the budget process. |
| 4.3 | Legal | The Accounts have been completed in accordance withal legislative and Code of Practice requirements. |
| 4.4 | Personnel | None |
| 4.5 | Equal Opportunities | None |

Bruce West
 Head of Strategic Finance
 22 November 2007

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APPENDIX 1 - SUMMARY OF MAIN CHANGES TO FINANCIAL STATEMENTS ARISING FROM AUDIT

| Section of Accounts Changed | Audited Accounts £000s | Unaudited Accounts £000s | Change £000s | Comment/Explanation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|--------------------------|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income & Expenditure Account (Page 13) | | | | |
| Net Cost of Services | 185,073 | 147,247 | 37,826 | Reduce HRA Income by moving amounts paid by the Scottish Executive in respect the housing stock transfer from income to capital contributions: Increase net cost by £37,769,000. The provision for the costs of implementing single status for 2006-07 was updated to take account of the Council's revised offer to employees: Increase net cost by £468,000. Corrections to repairs and renewal fund contributions: Increase net cost by £230,000. Reversal of an accrual for private sector housing renewal expenditure: Decrease net cost by £200,000. Correction to leasing charges both lease payment and depreciation processed initially: Decrease net cost by £363,000. |
| Net (Gain)/Loss on Disposal of Fixed Assets | 4,998 | 43,809 | (38,811) | Removal of amounts paid by the Scottish Executive in respect the housing stock transfer from income to capital contributions. Removal of land valued at £1,040,000 that the Council has committed to purchase and transfer at nil cost to ACHA from the Council's fixed assets and treat as a contingent liability. |
| Surplus/(Deficit) for the year | 385 | (686) | 1,071 | Mainly due to the net impact of the above. |
| Changes were also made to the Income and Expenditure Account to attribute expenditure and income previously shown as Other Operating Income and Expenditure to individual services as required by BVACOP. This was simply a reallocation and did not affect the overall net cost of services or surplus/(deficit) for the year. | | | | |
| Statement of Movement on the General Fund Balance (Pages 14-15) | | | | |
| Surplus/(Deficit) for the year | 385 | (686) | 1,071 | See Income and Expenditure Account above. |
| Net Gain or Loss on Sale of Assets | 4,903 | 43,704 | (38,801) | Removal of amounts paid by the Scottish Executive in respect the housing stock transfer from income to capital contributions. Removal of land valued at £1,040,000 that the Council has committed to purchase and transfer at nil cost to |

| | | | | |
|------------------------------------------|----------|----------|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | (17,279) | (55,062) | 37,783 | ACHA from the Council's fixed assets and treat as a contingent liability. |
| Loans Fund Principal Repayments | | | | Change in treatment of loans repaid as a result of housing stock transfer as a consequence of removing amounts paid by the Scottish Executive in respect the housing stock transfer from income to capital contributions. |
| Balance on General Fund Carried Forward | 24,798 | 24,957 | (159) | Mainly due to the net impact of the various changes to the Income and Expenditure Account. The housing stock transfer adjustments have no impact on the General Fund Balance. |
| Balance Sheet (Page 17) | | | | |
| Surplus Assets held for Disposal | 4,947 | 5,400 | (453) | Mainly due to downward revaluation of Ardentinny Outdoor Centre. |
| Creditors | (31,033) | (32,160) | 1,127 | Removal of land valued at £1,040,000 that the Council has committed to purchase and transfer at nil cost to ACHA from the Council's fixed assets and treat as a contingent liability. |
| Provisions | (4,026) | (3,581) | (445) | The provision for the costs of implementing single status for 2006-07 was updated to take account of the Council's revised offer to employees. |
| Fixed Asset Restatement Account | 38,261 | 37,674 | 587 | Consequence of other changes identified above. |
| Capital Financing Account | 36,988 | 37,059 | (71) | Consequence of other changes identified above. |
| General Fund Balance | 24,798 | 24,957 | (159) | Consequence of other changes identified above. |
| Cash Flow Statement (Pages 18-19) | | | | |
| Other Operating Cash Payments | 94,938 | 132,737 | (37,799) | Change in treatment of loans repaid as a result of housing stock transfer as a consequence of removing amounts paid by the Scottish Executive in respect the housing stock transfer from income to capital contributions. |
| Other Operating Cash Receipts | 18,683 | 56,240 | (37,557) | Reduce HRA Income by moving amounts paid by the Scottish Executive in respect the housing stock transfer from income to capital contributions. |

| APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2006-2007 AND ACTION BEING TAKEN BY THE COUNCIL | |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ref | Matter Identified By External Audit |
| 1 | Financial statements - To provide an opinion on the Council's financial statements for the year ending 31 March 2007. |
| 1.1 | We gave an unqualified opinion on the Council's 2006-07 financial statements on 28 September 2007. |
| 1.2 | Our audit opinion, however, draws attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. |
| 1.3 | The Council is forecasting a £32 million funding gap over the next 5 years. This presents a significant challenge to develop a sustainable medium term financial strategy that delivers a balanced budget. |
| 1.4 | Develop a sustainable medium term financial strategy, aligned to corporate priorities, that explicitly incorporates anticipated efficiency savings and delivers a balanced budget. |
| 1.5 | Establish clear and transparent plans for using all reserves. |
| 1.6 | The Council's finance team prepared well for implementing the 2006 Statement of Recommended Practice (SORP) and the standard of accounts and supporting working papers were good, |
| | Action Being Taken By Council |
| | Noted. |
| | The Council acknowledged this at its meeting in June and the requirement to address deficits and to demonstrate services continue to deliver best value. The Head of Facility Services will carry on reviews to establish whether these services still deliver best value and the action required to address the deficits and also demonstrate best value. The major contributing factors to the deficits are equal pay and single status. |
| | The figures quoted are from the Financial Strategy Baseline Regulations as reported to Council in September. The next stage of the Financial Strategy in terms of addressing the funding gap will be developed during the budget process. |
| | Agreed and included in action plan for external audit report on Best Value. Budget for 2008-09 will address these issues. |
| | The Council reviews its reserves each year when setting its budget and this recommendation will be addressed during the budget process. |
| | Noted. |

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| | ensuring statutory deadlines were met and few audit adjustments required. | |
| 1.7 | Prepare early to ensure full compliance with the requirements of the 2007 SORP in the preparation of the Council's 2007-08 annual accounts. | The SORP guidance notes will be available in December and as with previous years the Council will identify action required following receipt of detailed guidance notes. The good preparation for 2006 SORP has been recognised by external audit. |
| 2 | Governance - To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position. | |
| 2.1 | We have concluded that the Council's systems of internal financial control are operating adequately and governance arrangements are well developed. | Noted. |
| 2.2 | The Council prepared well for the elections in May 2007 and good arrangements are place for member training and induction. | Noted. |
| 2.3 | Further work is required to develop a framework to support the inclusion of a Statement on Internal Control in the Council's 2007-08 accounts. | The Council has previously prepared a Statement on Internal Finance Controls. The move to a broader statement on internal controls was agreed by the Executive Committee in August. |
| 2.4 | Ensure an appropriate assurance framework is developed to support the inclusion of a Statement on Internal Control in the Council's 2007-08 annual accounts. This framework should include effective risk management arrangements, an extension of the role of internal audit to provide assurances on the operation of non-financial systems, and arrangements to enable Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control. | Currently being progressed by Internal Audit |
| 2.5 | Plan to evaluate the effectiveness of existing political governance | The response to the external audit interim follow up report on Best |

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| | arrangements when these arrangements have had time to mature. | Value agreed by the Executive Committee on 18 October 2007 committed the Council to undertaking such a review by August 2009. |
| 2.6 | The Council has not sufficiently prioritised participation in the National Fraud Initiative to improve arrangements to prevent and detect fraud and corruption. | This is being addressed by Internal Audit and Head of ICT & Financial Services. |
| 3 | Performance - To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators. | |
| 3.1 | The Council responded positively to Audit Scotland's Best Value report published in February 2006. The progress made by the Council provides a sound basis from which to take forward the improvement agenda. The Council must now focus on turning strategies into action to embed best value principles throughout the organisation. | Noted. The outcome of the external auditors interim report on Best Value was reported to the October Executive Committee. This included an action plan to address the various matters raised in the report. |
| 3.2 | The Council has recently introduced a performance management system which offers significant potential to act as a key driver for improving economy, efficiency and effectiveness. The system needs to be rolled out across departments as a matter of priority and there remains significant scope for further improvement in the Council's overall framework for performance management. | An accelerated timescale for implementation of the performance management system has been agreed with additional resources seconded from departments. |
| 3.3 | The Council's risk management arrangements are insufficiently developed as an effective operational management tool. | The action plan to the external audit report on Best Value indicated how it was proposed to address this issue. |
| 3.4 | A number of the Council's assets, are now either surplus to requirements, not fully utilised or no longer fit for purpose. In particular, nearly three quarters of the Council's 80 primary schools have occupancy rates of less than 60%. | A review of surplus assets is underway and proposals on modernisation of the school estate are under development. |

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| | <p>3.5 Focus on implementing the strategies and plans developed in response to Audit Scotland's Best Value report to embed a culture of performance and continuous improvement across its services. In particular, the Council's framework for performance management should be further developed and implemented across all service as a matter of priority.</p> | <p>The Council has identified what is required. Reports on capacity and business improvement were made to the October Executive Committee and an accelerated timescale for implementing the performance management system has been agreed and resourced.</p> |
| <p>3.6</p> | <p>Bring forward plans to review how efficiently the Council manages its property portfolio to ensure the Council's property estate supports the achievement of corporate objectives, usage of buildings is optimised and surplus assets identified to reduce costs, improve efficiency and generate capital receipts.</p> | <p>A review of surplus assets is already underway, a review of non operational assets is also being undertaken and a framework for developing asset management reporting has been agreed.</p> |

Argyll and Bute Council

Report on the 2006-07 Audit

31 October 2007

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1. Executive Summary

Introduction

Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor of Argyll and Bute Council (the Council) for the five year period commencing 2006-07. Matters arising from our audit have been summarised in reports issued during the year (Appendix A). This report summarises the key elements of our audit and key messages for members.

We planned and performed our 2006-07 audit in accordance with our Audit Plan issued in January 2007. In accordance with the Code of Audit Practice, we have the following audit objectives:

| Area | Key Findings |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Financial statements</p> <p>To provide an opinion on the Council's financial statements for the year ending 31 March 2007.</p> | <ul style="list-style-type: none"> We gave an unqualified opinion on the Council's 2006-07 financial statements on 28 September 2007. Our audit opinion, however, draws attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. The Council is forecasting a £32 million funding gap over the next 5 years. This presents a significant challenge to develop a sustainable medium term financial strategy that delivers a balanced budget. The Council's finance team prepared well for implementing the 2006 Statement of Recommended Practice (SORP) and the standard of accounts and supporting working papers were good, ensuring statutory deadlines were met and few audit adjustments required. |
| <p>Governance</p> <p>To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.</p> | <ul style="list-style-type: none"> We have concluded that the Council's systems of internal financial control are operating adequately and governance arrangements are well developed. The Council prepared well for the elections in May 2007 and good arrangements are place for member training and induction. Further work is required to develop a framework to support the inclusion of a Statement on Internal Control in the Council's 2007-08 accounts. The Council has not sufficiently prioritised participation in the National Fraud Initiative to improve arrangements to prevent and detect fraud and corruption. |
| <p>Performance</p> <p>To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators.</p> | <ul style="list-style-type: none"> The Council responded positively to Audit Scotland's Best Value report published in February 2006. The progress made by the Council provides a sound basis from which to take forward the improvement agenda. The Council must now focus on turning strategies into action to embed best value principles throughout the organisation. The Council has recently introduced a performance management system which offers significant potential to act as a key driver for improving economy, efficiency and effectiveness. The system needs to be rolled out across departments as a matter of priority and there remains significant scope for further improvement in the Council's overall framework for performance management. The Council's risk management arrangements are insufficiently developed as an effective operational management tool. A number of the Council's assets, are now either surplus to requirements, not fully utilised or no longer fit for purpose. In particular, nearly three quarters of the Council's 80 primary schools have occupancy rates of less than 60%. |

Action Needed by the Council

Our audit identified the following key actions for the Council in the coming year. The Council should:

- develop a sustainable medium term financial strategy, aligned to corporate priorities, that explicitly incorporates anticipated efficiency savings and delivers a balanced budget;
- take action to address the significant deficits reported by some of its trading operations and ensure they continue to deliver best value;
- prepare early to ensure full compliance with the requirements of the 2007 SORP in the preparation of the Council's 2007-08 annual accounts;
- ensure an appropriate assurance framework is developed to support the inclusion of a Statement on Internal Control in the Council's 2007-08 annual accounts. This framework should include effective risk management arrangements, an extension of the role of internal audit to provide assurances on the operation of non-financial systems, and arrangements to enable Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control;
- prioritise implementing the strategies and plans developed in response to Audit Scotland's Best Value recommendations, including accelerating the adoption of a performance management framework across all Council services; and
- bring forward plans to review how efficiently the Council manages its property portfolio to ensure the Council's property estate supports the achievement of corporate objectives, usage of buildings is optimised and surplus assets identified to reduce costs, improve efficiency and generate capital receipts.

Action plans have been agreed with the Council and included in our audit reports issued during the year (Appendix A).

Status of our Report

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP and is not, therefore, intended to cover every matter that 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 upon it.

Acknowledgements

We would like to take this opportunity to thank the Chief Executive, the Head of Strategic Finance, and other officers who have been involved in the 2006-07 audit for their assistance and co-operation.

Grant Thornton UK LLP

31 October 2007

2. Financial Statements

Introduction

We have audited the Council's 2006-07 accounts in accordance with our Audit Plan issued in January 2007. The key messages arising from our financial statements audit are contained in our report issued in September 2007, and summarised below.

Audit Opinion

We gave an unqualified opinion on the Council's 2006-07 financial statements on 28 September 2007 that included an explanatory paragraph referring to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis.

The Council's finance team prepared well for implementing the 2006 SORP and the standard of accounts and supporting working papers were good, ensuring statutory deadlines were met and few audit adjustments required. The adjustments that were made to the accounts following our audit amended the reported deficit in the draft accounts from £0.686 million to show a surplus of £0.385 million in the published accounts.

Implementation of the 2006 and 2007 SORP

The Council's accounts are prepared in accordance with the requirements of the 2006 Statement of Recommended Practice (the SORP). The 2006 SORP contained a number of significant changes to improve the presentation of local government accounts, including replacing the Consolidated Revenue Account with an Income and Expenditure account that reports actual financial performance for the year.

In preparing the 2006-07 accounts in accordance with the new SORP, the Council restated the 2005-06 accounts, resulting in the reported deficit for that year increasing from £0.367 million to £5.050 million. Statutory adjustments ensure there is no overall impact on the Council's general fund position.

The 2007 SORP will introduce further changes to the presentation of the Councils accounts and the Council will again have to plan well in advance to ensure it is adequately prepared to implement the new requirements. The key changes for 2007-08 accounts include:

- replacement of the fixed asset restatement reserve and capital financing reserve by a revaluation reserve and capital adjustment account;
- implementation of Financial Reporting Standards 25, 26 and 29 which introduce changes to accounting for financial instruments. This may impact on how the Council accounts for premiums from debt rescheduling; and
- an additional note to the group accounts disclosing the value of assets and liabilities and gross income and expenditure of charitable funds.

2. Financial Statements

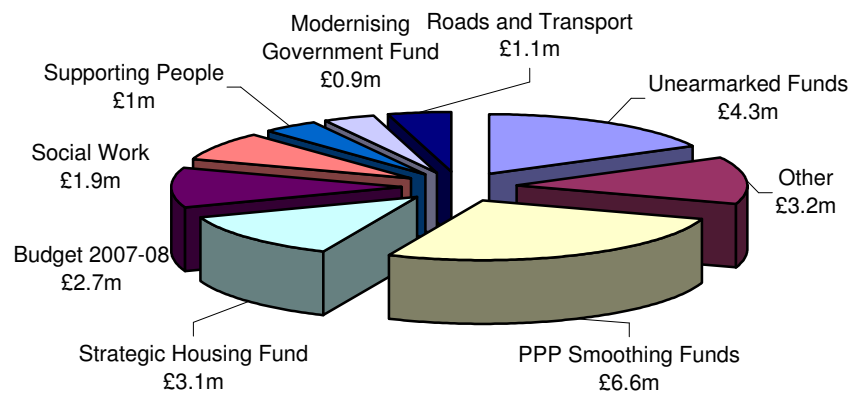
Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting practice. In 2006-07 Grant Thornton provided a training event for the Council's finance staff on issues emerging from the 2006 SORP that helped the Council prepare for its introduction. We have agreed to provide a similar training event on the 2007 SORP to support the Council's preparations for its implementation.

Financial position

At the financial year end, the Council held usable reserves of £29.9 million (£18.2 million 2005-06), representing 14% of net operating expenditure. The Council held a balance of £24.8 million in its General Fund at 31 March 2007. The Council's reserves policy is to retain unearmarked reserves of at least 2% of its net operating expenditure. At 31 March 2007 the Council's unearmarked reserves totalled £4.3 million, representing 2.2% of net operating expenditure, in line with the Council's reserves policy.

A more detailed analysis of the Council's £24.8 million reserves balance is contained in Figure 1 below:

Figure 1 - Analysis of 2006-07 General Reserves



The Council continues to face significant financial pressures and is currently forecasting a £7 million funding gap by 2008-09, which is in excess of its existing unearmarked reserves balance of £4.3 million. This annual funding gap will be recurring, unless the Council takes action to reduce costs or increase efficiency, and recent forecasts project a £32 million funding gap over the next 5 years. The projected funding gap emerges from a range of financial pressures including:

- additional costs from single status and equal pay agreements that are estimated to increase staff costs by up to 9%;
- significant backlog maintenance costs for existing buildings and the Council's roads network;
- additional costs associated with a growing elderly community; and
- existing long term financial commitments to fund the waste management PPP scheme and the Schools NPDO.

2. Financial Statements

The projected funding gap presents the Council with a significant challenge to develop a sustainable five year financial strategy that delivers a balanced budget. In order to achieve this, the Council must review all aspects of its operations and seek cost reductions through the achievement of efficiency savings and reductions in service volumes or provision where appropriate, in accordance with corporate priorities.

In order to develop medium term financial planning, and to better support the efficiency and improvement agenda, the Council should:

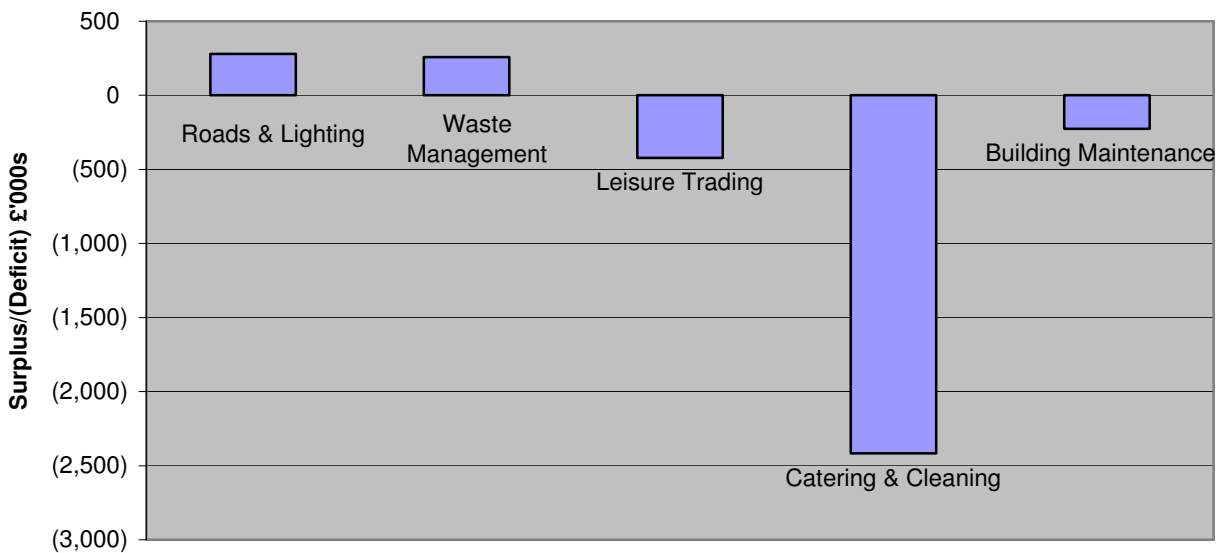
- more clearly align its budget to corporate priorities;
- develop clearer plans for the use of all earmarked reserves;
- improve the linkage between financial and performance management, including use of benchmarking and development of unit costs information; and
- build planned efficiency savings into its budget management, monitoring and reporting arrangements.

The Council has already developed a set of financial strategy baseline projections to identify the funding gap and has committed in its action plan for the interim report on Best Value to address the above issue.

Trading Accounts

Three of the Council's five trading accounts reported deficits for 2006-07 and have not met their financial performance target to break even over a three year period as shown in the Figure 2 below:

Figure 2 - Trading Accounts - Analysis of 3-Year Financial Performance



The Council undertook a review of its trading accounts in December 2006, and will reclassify Leisure Trading and Waste Management as non-trading activities from 2007-08 onwards. In addition, the Building Maintenance trading account has closed following the transfer of the Council's housing stock to the Argyll Community Housing Association (ACHA).

2. Financial Statements

The Council has a duty to demonstrate best value and competitiveness from its operations and acknowledged, when considering the unaudited accounts, that it will require to demonstrate best value and competitiveness for these services. It has outlined a timescale for bringing forward reviews in the action plan related to our interim audit report issued in October 2007.

We note that the significant deficits recorded by the catering and cleaning trading account result partly from the impact of equal pay settlements and the outcomes from the single status agreement. However, this trading account is unlikely to meet its financial break-even target for the foreseeable future and the Council should take action to address these significant deficits and consider whether it continues to deliver best value.

The Council agreed to address these matters in its action plan response to our interim report issued in October 2007.

Housing Stock Transfer

The Council transferred its housing stock with a net book value of some £44.8 million to ACHA on 21 November 2006 under a large scale voluntary transfer arrangement. As part of this arrangement, the Scottish Executive repaid the Council's outstanding housing loan debt of £36.5 million, together with a further £1.3 million to cover early repayment costs and the existing premium incurred when the Council re-scheduled its HRA debt some years ago. The Scottish Executive also met 'breakage costs' of £9.5 million charged by the Public Works Loans Board in respect of the early repayment of debt.

Following the stock transfer, the Council retains overall strategic responsibility for housing and will be required to work closely with ACHA and other housing associations to ensure the continued delivery of high quality housing for its residents. Figure 1 above shows that the Council has set aside some £3.1 million of its reserves for strategic housing purposes. The Council has also set up a Strategic Housing and Communities Forum as part of its community planning arrangements. A strategy and framework for use of the £3.1m of reserves for strategic housing purposes has been agreed. However spending is dependent upon proposals being brought forward.

Single Status and Equal Pay

The Council has recognised that its current pay structure is not consistent with the requirements of the Equal Pay Act 1970 and this is reflected in compromise payments of £4.2 million to some categories of female employees in February 2006. The Council has made a provision of £2.6 million in its accounts for costs associated with the implementation of the Single Status Agreement (Red Book) which contains national conditions of service for local government employees.

The Council has not yet implemented a new pay and grading model but has made a final offer to employees following its meeting on 20 June 2007. The Council estimates that implementation of this model will add £6.2 million (8.6%) to its annual wage bill from 2008-09, assuming the model is implemented before the end of the 2007-08 financial year. The Council intends to 'fund' this additional cost by removing 136 whole-time equivalent staff (2.5% of establishment) from its workforce, largely through natural wastage and limiting future recruitment.

It is important that the Council formalise its agreements on single status and equal pay issues with employees in the near future, to establish financial certainty over the likely costs associated with implementing the new agreements, to resolve existing claims for compensation, and to limit the potential for future claims to emerge.

Key actions going forward

In summary, the key recommendations arising from our audit of the financial statements are that the Council should:

- develop a medium term financial strategy that delivers a sustainable and balanced budget in line with corporate priorities;
- establish clear and transparent plans for using all reserves;
- take action to address the significant deficits reported by some of its trading operations and consider how they will continue to deliver best value; and
- take early action to prepare for the implementation of the 2007 SORP.

3. Governance

Introduction

In accordance with the 2006-07 Audit Plan we have reviewed key aspects of the Council's governance arrangements during 2006-07. The detailed recommendations from our governance review are contained in our interim report issued in October 2007 and our key findings summarised below.

Overview of arrangements in 2006-07

We have concluded that the Council's systems of internal financial control and governance arrangements are operating adequately. Key findings from our review included:

- the Council has not undertaken a fundamental (zero-based) review of service needs and relative priorities in preparing its budget estimates for some time and there is no clear link between the Council's budget and the priorities contained in the corporate plan;
- the Council currently operates six separate payroll runs for its staff and pays some workers monthly and others fortnightly. There is scope to rationalise the number and frequency of payroll runs to improve operational efficiency.

The Head of Strategic Finance's Statement on the Systems of Internal Financial Control (SIFC) is included within the annual accounts and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems.

Prevention and detection of fraud and corruption

At a corporate level, the Council has adequate arrangements in place to prevent and detect fraud and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined remits for relevant regulatory committees. Our review identified some scope for improvement in overall arrangements, in particular:

- there is currently no requirement for members and officers to evidence that they have read and understood the code of conduct; and
- there is no central register of staff interests and hospitality that is updated regularly.

The Council is participating in the National Fraud Initiative (NFI) which is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI was a major success in its first year identifying £15.1 million of fraud, overpayments and forward savings nationally.

We found that the Council had not sufficiently prioritised participation in the NFI during 2006-07 and more needs to be done to develop arrangements for future participation and to improve arrangements to prevent and detect fraud and corruption.

Governance Framework

The Council has taken steps to improve arrangements for scrutiny of performance by both members and officers following the recent elections. Improvements include the development of member led Policy Performance Groups (PPG) with a specific performance scrutiny and improvement remit, the appointment of an independent chair to the Audit Committee, and more corporate working and performance focus at Senior Management Team meetings.

We identified a number of areas for further development, including:

- the Policy Development Group, in its February 2007 report, recommended that the Council create a 'Council Executive' comprising a maximum of nine members as its main decision making body. The Council accepted this main recommendation, but has appointed sixteen members to the 'Council Executive' and may not, therefore, fully achieve the benefits anticipated from streamlined decision making; and
- the role of area committees, their lines of accountability and scrutiny arrangements are not sufficiently clear. The agendas of area committees are largely dominated by planning decisions, the majority of which are minor in nature, and this is unlikely to make best use of area committee resources. Recent changes in planning law are likely to require less member involvement in considering more minor planning applications.

We will continue to monitor the effectiveness of the Council's political governance arrangements as they develop and, as an interim measure, we intend to undertake a review of the operation of the Council's Audit Committee against existing good practice standards as part of our 2007-08 audit.

The Council's Audit Committee has recommended that the Council prepare an annual Statement on Internal Control (SIC) to replace the SIFC in its financial statements. This approach, which has been agreed by the Executive Committee, will ensure the Council meets best practice in governance and the presentation of its financial statements going forward. The SIC provides assurance on the adequacy and effectiveness of all of the Council's systems (including those covering risk and performance) and is not restricted to financial systems only. The Council should ensure it has an appropriate assurance framework in place to support such a statement, including assurances from internal audit on the operation of non-financial systems.

We reviewed the Council's internal audit department against the eleven standards set out in the Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA and issued our draft report in May 2007.

Overall, we found that the Council has made significant progress in meeting Code requirements since Audit Scotland's national review of internal audit in 2001 and is fully compliant with eight of the Code's eleven standards and partially compliant with the remaining 3 standards. Following our review, we were able to formally place reliance on the work of internal audit to support our audit of both the Council's financial statements and statutory performance indicators.

The key finding from our review was that internal audit needs to be sufficiently resourced to deliver its audit plan effectively. Our report contained a number of other recommendations and an action plan has been agreed with the Head of Strategic Finance to address the issues raised.

Member and Staff Development

The Council prepared well for the elections in May 2007 and had good arrangements in place for member training and induction including the development of a "Councillor Training and Development" policy together with a programme for member induction and training. The Council has provided a range of induction training to members in line with its policy, but has yet to fully evaluate the outcomes from this training or consider how it should continue to support member training and development going forward.

The Scottish Local Authorities Remuneration Committee has recommended that all councils develop role profiles and competency frameworks for all members. Although the Council already has a role profile for members, there is no outcome based competency framework and no ongoing training and development programme. The Council intends to develop such a framework following completion of a national review by the Improvement Service.

The existence of a comprehensive performance management system is a key component in workforce planning. Such a scheme should cover the performance of all employees in the Council during the year, and assess their individual training and development needs.

We found, however, that completion of performance development reviews for staff are not being completed consistently across all Council services. In addition, the personnel department does not formally monitor or report performance in completing staff performance appraisals. In its response to our interim audit report the council has confirmed its HR system can record details of PDR completion and will report progress with PDRs.

Key actions going forward

In summary, the key recommendations arising from our governance audit are that the Council should:

- ensure it has an appropriate assurance framework in place to support the inclusion of a Statement on Internal Control in its 2007-08 annual accounts. This will require:
 - the operation of effective risk management arrangements across all council services;
 - internal audit to be sufficiently resourced to provide the required assurance on the adequacy of operational and financial systems, risk and performance management arrangements and governance; and
 - service Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control.
- plan to evaluate the effectiveness of existing political governance arrangements when these arrangements have had time to mature; and
- prioritise participation in the National Fraud Initiative to improve arrangements to prevent and detect fraud and corruption.

4. Performance

Introduction

In accordance with the 2006-07 Audit Plan we have reviewed key aspects of the Council's performance arrangements during 2006-07. The detailed recommendations arising from our performance review are contained in our Best Value Follow Up report issued in August 2007 and our Interim Report issued in October 2007. The key findings from our audit of the Council's performance arrangements are summarised below.

Best Value

The Council received a full best value audit in 2005, with the report published in February 2006. In May 2006 the Council published an 'Implementation and Development Plan' outlining how it would seek to improve its best value performance.

As part of our 2006-07 audit, we followed up the Council's progress in addressing the issues raised by Audit Scotland and issued our report in August 2007. We assessed the adequacy of the Council's arrangements for performance management and the achievement of Best Value by:

- working with Audit Scotland, to follow up the Council's progress in addressing the key findings emerging from the recent Best Value report;
- reviewing the Council's arrangements for identifying, measuring and reporting efficiency savings under the efficient government agenda;
- assessing the Council's progress in implementing an effective performance management system; and
- evaluating the effectiveness of management arrangements for reporting performance through statutory performance indicators.

We found that the Council has responded positively to the Best Value report and, with few exceptions, has completed all of the improvement actions contained in the Best Value Implementation and Development Plan prepared in response to the report. In particular, the Council has made significant progress in revising its corporate planning and strategic management arrangements.

The progress made by the Council provides a sound basis from which to take forward the best value and improvement agenda, and the Council must now focus on turning strategies into action and embedding best value principles throughout the organisation to better demonstrate continuous improvement. The key recommendations from our report are highlighted below:

- the Council should explore ways of ensuring that sufficient corporate responsibility is taken for delivering cross cutting themes such as efficiency, performance and risk management, and ensuring priority is given within individual departments to delivering key corporate initiatives;
- there is an immediate need to create additional corporate resource to ensure recently developed improvement plans and strategies, including performance management, are implemented;

4. Performance

- the Council's plan to roll out the performance management system across all Council services should be implemented in a shorter timescale than currently envisaged;
- risk management arrangements should be developed as an effective operational management tool;
- the Council faces a significant challenge to rationalise its property portfolio, release efficiency savings and develop its existing estate to improve the provision of Council services to the public; and
- the Council has developed its strategy for efficient government but has not yet agreed a programme of efficiency savings required to meet central government targets and expectations. In addition, the Council does not yet have a systematic process in place for identifying, measuring, monitoring and reporting on efficiency.

An action plan has been agreed with the Chief Executive to address the issues raised. Audit Scotland has informed the Council of its intention to undertake a further interim Best Value review during the 2007-08 financial year and our report will inform that review. The Council should prioritise action to address the issues raised in our report to prepare for the Audit Scotland review later in the year.

Community Planning and Partnership Working

Community planning is the process through which public sector organisations work together and with local communities, the business and voluntary sectors, to identify and solve local problems, improve services and share resources. The Local Government Scotland Act 2003 provides the statutory basis for community planning. It requires councils to initiate and facilitate the community planning process, and NHS boards, the enterprise companies, the police and the fire and rescue service to participate.

Our review considered the progress the Council has made in implementing a comprehensive community plan and implementing the recommendations made in Audit Scotland's national report on community planning.

The Council has improved its community planning processes and has prepared a Community Plan for the period 2007-2012 and this has been published on its website. This Plan sets out the Council's approach to community planning and partnership working, and includes an action plan setting out the key priorities and how they will be achieved.

The Council has yet to implement some of the recommendations in Audit Scotland's national report on community planning. The report recommended that schemes of delegation and joint risk registers be established between the Council and its partners.

Performance Indicators

The Council is required to prepare statutory performance indicators (SPIs) in accordance with a direction issued annually by the Accounts Commission. We audit these indicators to ensure they are prepared in accordance with the guidance. SPIs represent the main source of performance information for the Council.

We classified one indicator relating to asset management as unreliable as the total floor area used to calculate the indicator did not agree back to the conditions surveys undertaken by the Council. The Council had also not carried out any formal suitability surveys in 2006-07 (or the preceding 5 years) as required by the guidance. The Council has agreed to take action to obtain this information for the 2008 indicators as part of its overall arrangements to improve asset management information.

4. Performance

The Council performs at the extreme end of the range across a small number of indicators as highlighted below:

- the Council processes 99.6% of all housing benefit claims accurately and ranks second of all councils in Scotland on this indicator of performance;
- the number of new probationers seen within one week by a supervising officer has declined to 77.7% in 2006-07 from 93.9% in 2005-06. In addition, the proportion of social enquiry reports submitted to the court by the due date has declined to 90.2% in 2006-07 from 98.9% in 2005-06;
- it costs the Council £128.91 to dispose of refuse for each premises in its area, and this is the highest average cost of any Scottish Council. This high cost is linked to the Council's geography and the high initial costs associated with the development of the Waste Management PPP Scheme; and
- 57 of the Council's 80 primary schools (72%) have occupancy rates of less than 60% with only one other council in Scotland reporting a lower occupancy rate. In addition, the schools estate requires extensive modernisation which is estimated to cost up to £227 million, with £86 million of this sum being invested through the NPDO project. The Council has yet to determine how it will address the need to modernise and rationalise its school estate within existing financial constraints.

The Council has recently introduced the 'Pyramid' performance information system and currently produces information on over 4,000 measures of performance covering all Council services. Our Best Value report identified that the Council is, however, at the early stages in developing its performance management framework and much work needs to be done in this area, including:

- development of performance targets that are better aligned to corporate priorities;
- improved arrangements for monitoring performance against targets, benchmarks and over time;
- more focus on key performance information requirements, including information on service quality and volume, and rationalisation of existing performance measures;
- further development of performance management reporting arrangements, including the frequency and format of reports for all levels of management; and
- clearer arrangements for identifying and tackling poor performance.

The Council undertook to address these issues in its response to our follow-up report on Best Value issued in August 2007.

Efficient Government

The efficient government initiative is a central part of the government's programme of investment, reform and modernisation. The Efficient Government Plan (EGP) sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It anticipated that Argyll and Bute Council's contribution to the top-sliced target of £168.3 million will be £3.2 million over three years, equating to around £1 million for 2006-07.

The Council has developed an efficient government strategy and has agreed to take action to build anticipated efficiency gains into future budgets and its programme of best value reviews. The Council is also required to submit an annual 'efficiency statement' to the Scottish Government outlining savings achieved during the year.

4. Performance

The Council estimates that it achieved cash releasing savings of £3.3 million (representing 2% of its net cost of services) for 2006-07, exceeding the Government target. The Council forecasts that additional savings of £7.5 million will be required for the 2007-08 financial year to address the significant financial constraints referred to earlier in this report.

The Scottish Government has indicated its intention to revise the EGP and require 1.5% (now 2%) efficiency savings from existing budgets annually from 2008-09. In order to claim an efficiency, councils need to demonstrate that service outcomes have been maintained or improved and this can only be achieved through a robust performance management system that captures information and baseline data covering both cost, quality and volume aspects of service provision. As noted above, the Council recognises that it is at the early stages of introducing such a system.

Key actions going forward

In summary, the key recommendations arising from our performance audit are that the Council should:

- focus on implementing the strategies and plans developed in response to Audit Scotland's Best Value report to embed a culture of performance and continuous improvement across its services. In particular, the Council's framework for performance management should be further developed and implemented across all Council services as a matter of priority;
- further develop risk management arrangements as an effective operational management tool;
- develop plans to rationalise its property portfolio, release efficiency savings and develop its existing estate to better meet corporate priorities; and
- agree a programme of efficiency savings, as part of a medium term financial strategy, required to meet central government targets and expectations and develop a systematic process for identifying, measuring, monitoring and reporting on efficiency.

Appendix A - 2006-07 Audit Reports Issued

| Report Title | Key Topic | Month Issued |
|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Annual Audit Plan | Summary of the 2006-07 planned audit work, demonstrating how we will discharge our responsibilities under Audit Scotland's Code of Audit Practice. | January 2007 |
| Review of Internal Audit | Assessment of Internal Audit against the CIPFA Code of Practice. | July 2007 |
| Follow Up Review of Best Value | Assessment of the Council's progress in addressing the recommendations made by Audit Scotland following publication of the Best Value report in February 2006. | August 2007 |
| Interim Report | Review of the operation of the Council's key financial systems and governance arrangements. | October 2007 |
| ISA260 - Communication of Audit Matter to those Charged with Governance | Summary of key issues emerging from the audit of the Council's financial statements. | September 2007 |
| Annual Report to Members | Summary of the key issues emerging from the 2006-07 audit. | October 2007 |

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**ACCOUNTS FOR THE PERIOD
1 APRIL 2006 TO 31 MARCH 2007**



If you would like this document in another language or format, or if you require the services of an interpreter, please contact us.

Ma tha sibh ag iarraidh an sgrìobhainn seo ann an cànan no riochd eile, no ma tha sibh a' feumachdainn seirbheis eadar, feuch gun leig sibh fios thugainn.

本文件可以翻譯為另一語文版本，或製作成另一格式，如有此需要，或需要傳譯員的協助，請與我們聯絡。

यह दस्तावेज़ यदि आपको किसी अन्य भाषा या अन्य रूप में चाहिये, या आपको अनुवाद-सेवाओं की आवश्यकता हो तो हमसे संपर्क करें

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ਜੇ ਇਹ ਦਸਤਾਵੇਜ਼ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਜਾਂ ਜੇ ਤੁਹਾਨੂੰ ਗੱਲਬਾਤ ਸਮਝਾਉਣ ਲਈ ਕਿਸੇ ਇੰਟਰਪ੍ਰੈਟਰ ਦੀ ਲੋੜ ਹੈ, ਤਾਂ ਤੁਸੀਂ ਸਾਨੂੰ ਦੱਸੋ।

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو برائے مہربانی ہم سے رابطہ کیجئے۔

Jeżeli chcieliby Państwo otrzymać ten dokument w innym języku lub w innym formacie albo jeżeli potrzebna jest pomoc tłumacza, to prosimy o kontakt z nami.

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Tel: 01546 604220



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INTRODUCTION

This foreword is intended as a comment on Argyll and Bute Council's financial position as presented within the Statement of Accounts for the financial year 2006/2007.

ACCOUNTING POLICIES

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared and explains the accounting treatment of both general and specific items. The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). The annual accounts for 2006/2007 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (SORP). The format of the Income and Expenditure Account reflects the requirements of the Best Value Accounting Code of Practice 2006 - Scotland (BVACOP).

THE CORE SINGLE ENTITY FINANCIAL STATEMENTS

The following statements are grouped together to give the 'core' single entity financial statements for the local authority:

The Income and Expenditure Account reports the net cost for the year of all the functions for which the authority is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

The Statement of Movement on the General Fund Balance shows the amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are by statute and non-statutory proper practices charged or credited to the General Fund in determining the movement on the General Fund for the year.

The Statement of Total Recognised Gains and Losses (STRGL) shows all gains and losses experienced by a local authority, not just those that are reflected in the Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the financial result for the period.

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

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties on both day to day revenue transactions and on capital activities. Cash is defined for the purposes of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

The Notes to the Core Financial Statements give further information on the local authority's core financial statements.

THE SUPPLEMENTARY SINGLE ENTITY FINANCIAL STATEMENTS

The following statements make up the 'supplementary' single entity financial statements for the local authority:

The Housing Revenue Account Statements reflect the statutory requirement to separately account for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The HRA statement has three parts:

- HRA Income and Expenditure Account – which shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account.
- Statement of Movement on the Housing Revenue Account Balance – which shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.
- Notes to the Housing Revenue Account – which gives additional information on the HRA.

The Council Tax Income Account shows the net income raised from council taxes under the Local Government Finance Act 1992.

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

THE GROUP ACCOUNTS

The following statements make up the 'Group Accounts' for the local authority:

The Group Income and Expenditure Account combines the Income and Expenditure Account figures for the Council as a whole with those of entities in which the Council has a controlling interest in or where significant influence is exerted.

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit – the main reconciling items here are:

- Deduction of subsidiary and associate dividend income and other distributions.
- Addition of the surplus / deficits attributable to subsidiaries, associated and joint ventures.

The Group Statement of Total Recognised Gains and Losses shows all gains and losses experienced by the group as a whole, not just those that are reflected in the Group Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the Group's financial result for the period.

The Group Balance Sheet brings together all the assets and liabilities of the Group. It is the statement of the resources of the Group and the means by which they have been financed.

Notes to the Group Accounts give further information on the local authority's Group Accounts.



STATEMENT OF RESPONSIBILITIES

This statement sets out the respective financial responsibilities of the authority and the chief financial officer for the accounts. In Argyll and Bute Council the chief financial officer is the Head of Strategic Finance.

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

GOING CONCERN

The accounts have been prepared on a going concern basis. Further information regarding this matter can be found in note 6 to the group accounts on pages 52 to 54.

MAJOR CHANGES IN ACCOUNTING PRACTICE

The 2006 SORP introduced the following changes to the statement of accounts:

- Removal of the capital financing charge and replacement of the Consolidated Revenue Account (CRA) with an Income and Expenditure Account and Statement of Movement on the General Fund Balance. The new Income and Expenditure account now reflects the requirements of UK Generally Accepted Accounting Practices (GAAP), whilst the Statement of Movement on the General Fund Balance shows the amount that would, in accordance with the 2005 SORP, have been reported as the surplus or deficit on the CRA for the year.
- Not all the gains and losses experienced by an authority should be reflected in the Income and Expenditure Account. The 2006 SORP requires that in accordance with FRS 3 - Reporting Financial Performance, all gains and losses should be included in a Statement of Total Recognised Gains and Losses (STRGL). This new statement includes gains on revaluations of fixed assets and pension actuarial gains and losses.
- The format of the Housing Revenue Account has been changed in the light of the replacement of the CRA with an Income and Expenditure Account to give a Housing Revenue Income and Expenditure Account and a Statement of Movement on the Housing Revenue Account Balance.
- Finally, the 'core' single entity financial statements have now been grouped together (i.e. Income and Expenditure Account, Statement of Movement on the General Fund Balance, STRGL, Balance Sheet and Cash Flow Statement) followed by notes to the core statements followed by the 'supplementary' statements (i.e. Housing Revenue Account Statements and Notes, Council Tax Income Account and Notes and the Non-Domestic Rate Income Account and Notes).

In preparing the 2006/07 accounts in accordance with the new SORP, the Council also restated its 2005/06 accounts resulting in the Council's reported deficit for the year increasing from £0.367m to £5.050m. The increase in the deficit is the result of the implementation of the 2006 SORP; however, statutory adjustments ensure that there is no overall impact on the Council's General Fund position.

INCOME AND EXPENDITURE ACCOUNT

The following key issues have affected the Income and Expenditure Account during 2006/07. The Council transferred its housing stock with a net book value of £44.766m to Argyll Community Housing Association (ACHA) on 21 November 2006 under a large scale voluntary transfer agreement. As part of this arrangement, the Scottish Executive repaid the Council's outstanding house loan debt of £36.451m, together with a further £1.327m to cover the existing premium incurred when the Council rescheduled its debt some years ago. The Scottish Executive also met 'breakage' costs of £9.483m charges by the Public Works Loans Board in respect of early repayment of debt. This is the main reason for

- Housing Services (HRA) showing a net income of £10.828m (includes grant received from Scottish Executive for 'breakage costs'),
- Net Loss on Disposal of Fixed Assets standing at £4.998m (£36.451m received from Scottish Executive taken as proceeds of disposal for Council House stock) and
- Interest Payable and Similar Charges being £9.7m higher than 2005/06 (reflects the early redemption premium paid on loans repaid prematurely by the Scottish Executive and associated 'breakage costs').

Another comment to make at this stage in respect of the Income and Expenditure Account relates to Housing Services (Non HRA) where the 2005/06 provision of £1.577m for a creditor to pay over council tax from second homes to registered social landlords has been transferred to the General Fund Balance and held there as an earmarked balance. This accounts for the net income on that service of £929,000. A further £1.6m of income from council tax on second homes was collected in 2006/07 to give a balance of £3.177m held awaiting distribution.

Finally, the Council accounted for unspent Scottish Executive grants as creditors in 2005/06. In 2006/07, unspent grants are included in the Income and Expenditure Account as income and then earmarked within the General Fund. The result of this is to increase grant funding by £2.991m in 2006/07.



EXPLANATION OF MOVEMENT IN GENERAL FUND

The following table summarises the movement in the General Fund for 2006/07. The "real savings" against budget amount to £1.566m. The remainder of the movements of £8.479m relate to timing differences between actual and budgeted income and expenditure.

| | £'m |
|----------------------------------------------------------------------------|---------------|
| Savings in Loan Charges | 0.400 |
| Additional Interest Earned | 0.460 |
| Additional Council Tax Income | 1.437 |
| Provision for Single Status in excess of budget | (0.996) |
| Departmental underspends against budget after adjusting for earmarking | 0.265 |
| Outturn against budget | 1.566 |
| Second home council tax income held pending allocation to housing projects | 3.173 |
| Unspent grant monies carried forward to 2007-08 | 2.991 |
| Contribution received but unspent 2006-07 budget | 0.927 |
| Proposed earmarking of unspent 2006-07 budget | 1.962 |
| Savings identified during budget for carry forward to 2007-08 | 0.098 |
| Sub-Total | 10.717 |
| Earmarked sums transferred to budget during 2006-07 | (1.144) |
| Budgeted transfer to PPP Smoothing Funds | 2.400 |
| Budgeted transfer from General Fund Balance 2006-07 | (1.928) |
| Movement on General Fund Balance 2006-07 | 10.045 |

The "free" General Fund Balance stands at £0.231m at 31 March 2007. There are a range of balances earmarked within the General Fund Balance. The statement below summarises these.

| | £'m |
|----------------------------------------------------------------|---------------|
| 1.9% Basic Contingency | 4.020 |
| PPP Smoothing Funds | 6.587 |
| Council tax on second homes held pending redistribution | 3.173 |
| Agreed contribution to balance 2007-08 budget | 1.928 |
| Savings carried forward from 2006-07 to balance budget 2007-08 | 0.098 |
| Unspent grant income carried from 2006-07 to 2007-08 | 2.991 |
| Unspent contributions carried from 2006-07 to 2007-08 | 0.927 |
| Budget carried forward from 2006-07 to 2007-08 | 1.962 |
| Projects transferred from Capital | 0.741 |
| Earmarking from 2006-07 carried forward to 2007-08 | 2.140 |
| Total Commitments | 24.567 |
| Total General Fund Balance | 24.798 |
| Movement on General Fund Balance 2006-07 | 0.231 |

SIGNIFICANT TRADING ORGANISATIONS

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 3 of the Notes to the Core Financial Statements. During 2006/2007 the Roads and Lighting trading account and the Waste Management trading account achieved a surplus. The Leisure, Catering & Cleaning and Building Maintenance trading accounts all returned deficits for the year and failed to achieve a breakeven position over the rolling three year period. Any surplus or deficit is treated as part of the General Fund.

HOUSING REVENUE ACCOUNT

The HRA balance stands at £0.255m at 31 March 2007 and is a decrease of £1.501m from the 31 March 2006 balance of £1.756m. The reduction in the HRA balance during 2006/07 can largely be attributed to the write down of the HRA proportion of early redemption premium of £1.3m previously carried on the balance sheet but charged to the HRA on stock transfer. The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006. The Housing Revenue Account has now been closed and the residual balances transferred to the General Fund. These balances have been earmarked as part of the Strategic Housing Fund.

The Council transferred its housing stock at nil value to ACHA. The Scottish Executive repaid on the Council's behalf the outstanding loan debt related to the HRA of £36.4m, a further repayment equivalent to the HRA share of early redemption premium of £1.3m and loan breakage costs of £9.5m.

CAPITAL EXPENDITURE AND BORROWING

Local authority capital expenditure and borrowing is regulated by the Prudential Code, a regime of self regulation. Under the Prudential Code of Practice the Council must ensure that:



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

The Council approved a set of prudential indicators for 2006/2007 and managed capital expenditure and borrowing within these approved limits.

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

| | £'m |
|-------------------------------------------|---------------|
| Gross Capital Expenditure | 37.072 |
| Less: | |
| Capital Receipts | 0.687 |
| Government Grants and Other Contributions | 10.276 |
| Revenue Contributions | 0.347 |
| Net Capital Expenditure | 25.762 |

The external borrowing of the Council at 31 March 2007 amounted to £157.841m. The majority of this was financed by the Public Works Loan Board (£131.344m), with the remainder coming mainly from the money market. During the year the Council completed £35.7m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also prematurely repaid loans of £37.4m.

PROPERTY VALUATIONS

In accordance with the 2006 Statement of Recommended Practice (SORP) all properties are required to be formally revalued at intervals of not more than five years. The current five year rolling programme of revaluation of all land and buildings, started in 2004/2005, was continued during 2006/2007.

PENSIONS LIABILITY

Pension costs have been recognised in accordance with FRS17. As a result of this a liability of £34.782m is recorded in the Council's balance sheet. This represents the Council's share of the deficit on Strathclyde Pension Fund. This liability is offset by a Pensions Fund reserve of an equivalent amount.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2007. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17, issued by the Institute and the Faculty of Actuaries.

Local Government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Argyll and Bute Council has additional liabilities arising from the pension deficits of:

- Strathclyde Police Board
- Strathclyde Fire Board
- Dunbartonshire and Argyll & Bute Valuation Board

Further information regarding these deficits can be found in Note 6 to the Group Accounts on pages 52 to 54.

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

In overall terms the Council has an adequate and effective system of internal financial control. There are however some areas where improvements are required and these are noted in the Statement on the System of Internal Financial Control on page 8.

**OTHER SIGNIFICANT MATTERS**

The most significant transaction to occur during 2006/07 was the transfer of the Council's housing stock to ACHA on 21 November 2006. The key financial matters arising from that are outlined above.

The Council signed off financial close on stage 2 of its non profit distributing organisation (NPDO) variant of a public private partnership (PPP) for schools. Work on all schools is well underway. Schools will become fully available to the Council during 2007 with all schools being completed by early 2008.

The Council is progressing implementation of the single status agenda. The job evaluation exercise has been concluded and a pay and grading model and terms and conditions have been issued for consultation. The Council is presently considering the response to the consultation exercise.

CONCLUSION

The Council ends the 2006/07 financial year on a relatively stable footing with a small excess beyond its basic 1.9% General Fund Contingency and a sound basis of financial control.

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

Bruce West
Head of Strategic Finance
28 September 2007



THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the authority as at 31 March 2007 and its income and expenditure for the year ended on that date.

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

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

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

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

Bruce West
Head of Strategic Finance
28 September 2007



This statement is given in respect of the statement of accounts for Argyll and Bute Council for the financial year ended 31 March 2007. The statement covers also the other bodies whose activities are incorporated into our Group Accounts, i.e.

- Strathclyde Joint Police board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership

With respect to Argyll & Bute Council and the above named bodies I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

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

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

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

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

- the work of Directors and managers within the Council;
- the work of internal auditors as described above;
- the external auditors in their annual audit letter and other reports; and
- the Statements of Internal Control provided by the above named bodies.

The following areas have been identified for further development by the Council:

- The approach to asset management including consideration of funding the investment requirements for schools, roads and other assets and embed 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 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.
- The risk management framework will continue to be developed and embedded within the Council.
- There will be ongoing development to achieving full compliance with the Code of Practice – Following the Public Pound.
- Implementation of the Single Status agreement.

In summary, the year-end outturn has resulted in a generally satisfactory position and Internal Audit's Annual Report and the Assurance Statements received from the named bodies, allow me to take comfort that, other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.

Bruce West
 Head of Strategic Finance
 28 September 2007



1. GENERAL PRINCIPLES

The statement of accounts summarises the Council's transactions for the 2006/2007 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies and services are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or expenditure.

3. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006 – Scotland (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation; and
- Non Distributed costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Income and Expenditure, as part of Net Cost of Services.

4. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

5. RETIREMENT BENEFITS

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

5.1 Teachers

This is an unfunded scheme administered by the Scottish Executive. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Executive in the year.

5.2 Local Government Pension Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This pension scheme is accounted for as a defined benefits scheme:

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.4% (based on the indicative rate of return on high quality corporate bonds (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years))
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted securities – mid market value
 - Unquoted securities – professional estimate
 - Unitised securities – average of the bid and offer rates
 - Property – market value
- The change in the net pensions liability is analysed into seven components:



- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated to the revenue accounts of services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
- Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council Pension Fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

5.3 *Discretionary Benefits*

The Council also has restricted powers to make discretionary awards of retirements benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

6. **INTANGIBLE FIXED ASSETS**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

7. **TANGIBLE FIXED ASSETS**

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

7.1 *Recognition*

Expenditure on the acquisition, creation, or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

7.2 *Measurement*

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- Dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

7.3 *Impairment*

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against the Fixed Asset Restatement Account.



7.4 Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal).

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate accounting arrangements for capital financing. Amounts are appropriated to the Capital Financing Account from the Statement of Movement on the General Fund Balance.

7.5 Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

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

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

Where an asset has major components with different estimated useful lives, these are depreciated separately.

7.6 Grants and Contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets in the relevant service revenue account, in line with the depreciation policy applied to them.

8. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. These transactions are reversed out through the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

9. LEASES

9.1 Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

9.2 Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

10. REPURCHASE OF BORROWING

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight line basis over the term of the replacement loans.

11. STOCK AND WORK IN PROGRESS

Stocks are included on the balance sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

12. PROVISIONS

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.



Provisions are charged to the appropriate service revenue account when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required, the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

13. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above.

14. VALUE ADDED TAX (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

15. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

16. PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are generally charged to reflect the value of services received in each financial year.

16.1 Prepayments

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement in the General fund Balance to remove any impact on council tax or rents.

Dowry payments, made at the start of the contract, which result in lower unitary payments over the life of the contract are accounted for by setting up the contribution (dowry) as a prepayment for services receivable and writing the balance down to revenue over the life of the contract as services are received to reflect their real cost.

16.2 Reversionary Interests

The council has passed control of certain land and buildings over to the PFI contractor, but this property will return to the council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the council's balance sheet.

As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the council.

16.3 Residual Interests

Where assets created or enhanced under the PFI scheme are to pass to the council at the end of the scheme at a cost less than the fair value (including nil or residual interests), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long term debtor over the contract life by reducing the amount of the unitary payment charged to revenue.



2006-2007 ANNUAL ACCOUNTS
INCOME AND EXPENDITURE ACCOUNT for the year ended 31 March 2007

This account summarises the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

| 2005/06 Net Expenditure £'000 | Note | 2006/07 | | | |
|----------------------------------------|-------------------------------------------------------------|-------------------------------|--------------------------|-----------------------------|----------|
| | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | |
| | Council Services: | | | | |
| 87,944 | Education Services | 111,572 | 18,764 | 92,808 | |
| 2,517 | Housing Services (Non-HRA) | 38,197 | 39,126 | (929) | |
| (1,775) | Housing Services (HRA) - Discontinuing Operation | 1 | 8,320 | 19,148 | (10,828) |
| 7,839 | Cultural and Related Services | 9,796 | 902 | 8,894 | |
| 13,060 | Environmental Services | 18,895 | 3,707 | 15,188 | |
| 16,897 | Roads and Transport Services | 22,434 | 6,928 | 15,506 | |
| 934 | Trading Services | 3,815 | 2,679 | 1,136 | |
| 3,333 | Planning and Development Services | 8,261 | 5,098 | 3,163 | |
| 40,665 | Social Work | 53,557 | 13,207 | 40,350 | |
| | Central Services: | | | | |
| 3,571 | - Corporate and Democratic Core | 4,575 | 479 | 4,096 | |
| 1,168 | - Non Distributed Costs | 2,007 | 4,989 | (2,982) | |
| 2,011 | - Central Services to the Public | 3,317 | 1,094 | 2,223 | |
| 2,153 | - Other Operating Income and Expenditure | 2 | 1,250 | - | 1,250 |
| 9,514 | Strathclyde Police Joint Board | 9,883 | - | 9,883 | |
| 5,239 | Strathclyde Fire and Rescue Joint Board | 5,315 | - | 5,315 | |
| 195,070 | Net Cost of Services | 301,194 | 116,121 | 185,073 | |
| (2,888) | Net (Gain)/loss on Disposal of Fixed Assets | | | 4,998 | |
| 15,018 | Interest Payable and Similar charges | | | 24,728 | |
| (886) | Interest and Investment Income | | | (1,600) | |
| 605 | Pension Interest Cost and Expected Return on Pension Assets | | | (2,740) | |
| 206,919 | Net Operating Expenditure | | | 210,459 | |
| | Income from Taxation and General Government Grants: | | | | |
| 124,555 | General Government Grants | | | 131,957 | |
| 34,249 | Non-domestic rates Redistribution | | | 33,828 | |
| 43,065 | Council Tax Income | | | 45,059 | |
| (5,050) | Surplus / (Deficit) for the Year | | | 385 | |



2006-2007 ANNUAL ACCOUNTS
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE
 for the year ended 31 March 2007

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------|------------------|
| (5,050) | Surplus/(Deficit) for the Year on the Income and Expenditure Account | 385 |
| 4,683 | Net Additional amount required by statute or non-statutory proper practice to be debited or credited to the General Fund for the year | 9,660 |
| | <i>See Supplement</i> | |
| (367) | Increase/(Decrease) in General Fund Balance for the Year | 10,045 |
| 15,120 | Balance on General Fund Brought Forward | 14,753 |
| 14,753 | Balance on General Fund Carried Forward | 24,798 |



2006-2007 ANNUAL ACCOUNTS
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE
 for the year ended 31 March 2007

SUPPLEMENT NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| 2005/06 £'000 | | 2006/07 £'000 | £'000 |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------|
| | <i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</i> | | |
| 7 | Amortisation of Intangible Fixed Assets | 18 | |
| 22,843 | Depreciation and Impairment of Fixed Assets | 27,039 | |
| (1,238) | Amortisation of Deferred Government Grants | (1,586) | |
| - | Capital Element of Finance Lease Payments | (363) | |
| (2,888) | Net Gain or Loss on Sale of Assets | 4,903 | |
| 2,286 | Net Charges made for retirement benefits in accordance with FRS 17 | (3,539) | |
| 21,010 | | | 26,472 |
| | <i>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General fund Balance for the year</i> | | |
| (15,232) | Loans fund principal repayments | (17,279) | |
| (572) | Capital expenditure charged in year to the General Fund Balance | (346) | |
| (15,804) | | | (17,625) |
| | <i>Transfers to or from the General fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i> | | |
| (696) | Transfer to/from HRA Balance | 1,501 | |
| 173 | Transfer to/from Other Funds | (688) | |
| (523) | | | 813 |
| 4,683 | Net Additional amount required to be credited to the General Fund Balance for the year | | 9,660 |



This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|-------------------------------------------------------------------------------|------------------|
| (5,050) | Surplus / (Deficit) on the Income and Expenditure Account for the Year | 385 |
| (16,152) | Deficit Arising on Revaluation of Fixed Assets | (2,121) |
| 17,029 | Actuarial Gain on Pension Assets and Liabilities | 27,360 |
| (4,173) | Total Recognised Gains / (Losses) for the Year | 25,624 |



2006-2007 ANNUAL ACCOUNTS
BALANCE SHEET as at 31 March 2007

| 2005/06 £'000 | | Note | | 2006/07 £'000 |
|------------------|------------------------------------------------------------|------|-----------|------------------|
| | Fixed Assets | | | |
| 49 | <i>Intangible Assets</i> | 13 | | 155 |
| | <i>Tangible Fixed Assets</i> | | | |
| | Operational Assets | 14.1 | | |
| 44,091 | - Council Dwellings | | | - |
| 173,161 | - Other Land and Buildings | | | 173,023 |
| 6,588 | - Vehicles, Plant, Furniture and Equipment | | | 7,250 |
| 90,138 | - Infrastructure Assets | | | 97,717 |
| 1,783 | - Community Assets | | | 1,912 |
| | Non-operational Assets | 14.2 | | |
| 6,624 | - Investment Property | | | 6,704 |
| 19,288 | - Assets Under Construction | | | 21,624 |
| 8,300 | - Surplus Assets, held for Disposal | | | 4,947 |
| 350,022 | Total Fixed Assets | | | 313,332 |
| 1,229 | Long-Term Debtors | 17 | | 1,079 |
| 9,104 | Deferred Premiums on Early Repayment of Debt | 18 | | 7,235 |
| 360,355 | Total Long Term Assets | | | 321,646 |
| | Current Assets | | | |
| 609 | Stocks and Work in Progress | | 253 | |
| 18,681 | Debtors | 19 | 16,604 | |
| 24,635 | Cash and Bank | | 6,215 | 23,072 |
| 404,280 | Total Assets | | | 344,718 |
| | Current Liabilities | | | |
| (551) | Borrowing Repayable on Demand or within 12 Months | 21 | (539) | |
| (36,540) | Creditors | 20 | (31,033) | |
| (2,885) | Bank Overdraft | | (6,480) | (38,052) |
| 364,304 | Total Assets less Current Liabilities | | | 306,666 |
| (222,565) | Borrowing Repayable within a Period in Excess of 12 Months | 21 | (157,302) | |
| (30,001) | Government Grants - Deferred | 22 | (38,691) | |
| (465) | Deferred Liabilities | 16.3 | (1,470) | |
| (821) | Provisions | 23 | (4,026) | |
| (65,681) | Liability related to Defined Benefit Pension Schemes | 27.6 | (34,782) | (236,271) |
| 44,771 | Total Assets less Liabilities | | | 70,395 |
| | <i>Financed by:</i> | | | |
| 86,283 | Fixed Asset Restatement Account | 29.1 | | 38,261 |
| 6,012 | Capital Financing Account | 29.2 | | 36,988 |
| - | Useable Capital Receipts Reserve | 29.3 | | 2,539 |
| (65,681) | Pensions Reserve | 29.4 | | (34,782) |
| 1,648 | Repairs and Renewals Funds | 29.5 | | 2,336 |
| 1,756 | Housing Revenue Account Balance | | | 255 |
| 14,753 | General Fund Balance | 30 | | 24,798 |
| 44,771 | Total Net Worth | | | 70,395 |

Bruce West
Head of Strategic Finance
28 September 2007



2006-2007 ANNUAL ACCOUNTS
CASH FLOW STATEMENT for the year ended 31 March 2007

| 2005/06 Actual £'000 | | Note | 2006/07 Actual £'000 |
|----------------------------|------------------------------------------------------|------|----------------------------|
| | REVENUE ACTIVITIES | | |
| | <i>Cash outflows</i> | | |
| 126,222 | Cash Paid for and on Behalf of Employees | | 123,729 |
| 130,107 | Other Operating Cash Payments | | 94,938 |
| 8,703 | Housing Benefit Paid Out | | 11,247 |
| 676 | National Non-domestic Rate Payments to National Pool | | - |
| 265,708 | Total Cash Outflows | | 229,914 |
| | <i>Cash inflows</i> | | |
| 7,542 | Rents (after rebates) | | 4,921 |
| 37,146 | Council Tax Income | | 39,116 |
| 33,781 | Non-domestic Rate Receipts | | 34,388 |
| 33 | Community Charge | | 25 |
| 122,726 | Revenue Support Grant | | 130,518 |
| 21,667 | DWP Grants for Benefits | | 22,285 |
| 26,312 | Other Government Grants | 31 | 30,270 |
| 24,601 | Cash Received for Goods and Services | | 22,183 |
| 9,206 | Other Operating Cash Receipts | | 18,683 |
| 283,014 | Total Cash Inflows | | 302,389 |
| 17,306 | Net Cash Inflow From Revenue Activities | 32 | 72,475 |
| | SERVICING OF FINANCE | | |
| | <i>Cash outflows</i> | | |
| 13,419 | Interest paid | | 13,859 |
| 45 | Interest element of finance lease | | (35) |
| 13,464 | Total Cash Outflows | | 13,824 |
| | <i>Cash inflows</i> | | |
| 883 | Interest received | | 1,048 |
| 883 | Total Cash Inflows | | 1,048 |
| (12,581) | Net Cash (Outflow) From Servicing of Finance | | (12,776) |
| | CAPITAL ACTIVITIES | | |
| | <i>Cash outflows</i> | | |
| 30,445 | Purchase of Fixed Assets | | 29,653 |
| - | Other Capital Cash Payments | | 30 |
| 30,445 | Total Cash Outflows | | 29,683 |
| | <i>Cash inflows</i> | | |
| 5,071 | Sale of Fixed Assets | | 3,226 |
| 8,119 | Capital Grants Received | | 10,276 |
| 276 | Other Capital Cash Receipts | | 57 |
| 13,466 | Total Cash Inflows | | 13,559 |
| (16,979) | Cash (Outflow) From Capital | | (16,124) |



Continued from previous page.

| 2005/06 Actual £'000 | Note | 2006/07 Actual £'000 |
|----------------------------|-----------------------------------------------------|----------------------------|
| <u>(12,254)</u> | Net Cash Inflow / (Outflow) Before Financing | <u>43,575</u> |
| | FINANCING | |
| | Cash outflows | |
| 19,174 | Repayments of Amounts Borrowed | 100,942 |
| <u>102</u> | Capital element of Finance Lease Rental Payments | <u>315</u> |
| 19,276 | Total Cash Outflows | 101,257 |
| | Cash inflows | |
| <u>44,002</u> | New Loans Raised | <u>35,667</u> |
| 44,002 | Total Cash Inflows | 35,667 |
| <u>24,726</u> | Net Cash Inflow / (Outflow) From Financing | <u>(65,590)</u> |
| <u>12,472</u> | Net Increase / (Decrease) in Cash | <u>(22,015)</u> |

1. DISCONTINUED OPERATIONS

The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006. The Council's Housing Revenue Account has been closed from the commencement of the new financial year and all retained balances transferred to the General Fund. Further information on the Housing Stock Transfer can be found in the notes to the Housing Revenue Account on page 43.

2. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.250m shown in the Other Operating Income and Expenditure line on the Income and Expenditure Account consists entirely of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board.

3. SIGNIFICANT TRADING ORGANISATIONS

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

3.1 Roads and Lighting Trading Account

The Council runs its Roads and Lighting Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service maintains the road network throughout Argyll and Bute excluding Trunk Roads (which are the responsibility of the Scottish Executive). The trading objective is to break-even over a three year period.

| | 2004/05 | 2005/06 | 2006/07 | 3 Year Actual |
|----------------|-----------|-----------|------------|---------------|
| | Actual | Actual | Actual | Performance |
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | 11,241 | 11,664 | 11,621 | 34,526 |
| Expenditure | 11,224 | 11,594 | 11,413 | 34,231 |
| Surplus | 17 | 70 | 208 | 295 |

3.2 Waste Management Trading Account

The Council runs its Waste Management Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service includes Waste Collection, Street Sweeping and Skip Services. The trading objective is to break-even over a three year period. Trading Account status was reviewed in the course of 2006/07 with a report going to Council in February 2007. As a result, Trading Account status has been removed from 2007/08 onwards.

| | 2004/05 | 2005/06 | 2006/07 | 3 Year Actual |
|----------------|-----------|------------|------------|---------------|
| | Actual | Actual | Actual | Performance |
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | 5,266 | 4,839 | 5,279 | 15,384 |
| Expenditure | 5,255 | 4,580 | 5,050 | 14,885 |
| Surplus | 11 | 259 | 229 | 499 |

3.3 Leisure Trading Account

The Council runs its Leisure Trading Service on the basis of an agreement concluded between the Service Managers and the Community Services Department. The Service is responsible for the running of all Council owned Swimming Pools, Halls and Sport Centres. The trading objective is to break-even over a three year period. Trading Account status was reviewed in the course of 2006/07 with a report going to Council in January 2007. As a result, responsibility for Leisure Facilities budgets has been transferred to Operational Services from Community Services and Trading Account status has been removed from 2007/08 onwards. Deficits have occurred in 2005/06 and 2006/07 as a result of equal pay settlements and single status provisions which were budgeted for centrally rather than against each cost centre.

| | 2004/05 | 2005/06 | 2006/07 | 3 Year Actual |
|------------------|-------------|--------------|--------------|---------------|
| | Actual | Actual | Actual | Performance |
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | 2,742 | 3,390 | 3,747 | 9,879 |
| Expenditure | 2,769 | 3,547 | 4,030 | 10,346 |
| (Deficit) | (27) | (157) | (283) | (467) |



3.4 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning Service to external clients such as Police Stations and Outdoor Centres. The trading objective is to break-even over a three year period. Deficits have occurred in 2005/06 and 2006/07 as a result of equal pay settlements and single status provisions which were budgeted for centrally rather than against each cost centre.

| | 2004/05 | 2005/06 | 2006/07 | 3 Year Actual |
|--------------------------|----------|----------------|----------------|----------------|
| | Actual | Actual | Actual | Performance |
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | 7,479 | 7,185 | 7,106 | 21,770 |
| Expenditure | 7,478 | 8,761 | 8,165 | 24,404 |
| Surplus/(Deficit) | 1 | (1,576) | (1,059) | (2,634) |

3.5 Building Maintenance Trading Account

The Council runs its Building Maintenance Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Building Maintenance to all Council owned buildings as well as providing a service to external clients such as the Fire Brigade. The trading objective is to break-even over a three year period. During the course of 2006/07 the Building Maintenance Service was disbanded in November 2006, with the majority of staff being transferred to the new Registered Social Landlord (ACHA) under TUPE regulations. A small team of 9 remained who will form a new Building Maintenance Team under the direct control of Property Services. As a result the Trading Account has ceased.

| | 2004/05 | 2005/06 | 2006/07 | 3 Year Actual |
|--------------------------|----------|-----------|--------------|---------------|
| | Actual | Actual | Actual | Performance |
| | £'000 | £'000 | £'000 | £'000 |
| Turnover | 2,695 | 2,496 | 1,494 | 6,685 |
| Expenditure | 2,692 | 2,467 | 1,752 | 6,911 |
| Surplus/(Deficit) | 3 | 29 | (258) | (226) |

4. LOCAL GOVERNMENT ACT 1986 – SEPARATE PUBLICITY ACCOUNT

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.557m was incurred during 2006/07 and is included within service expenditure as follows:

| 2005/06 | | 2006/07 |
|------------|---------------------------|------------|
| £'000 | | £'000 |
| 307 | Staff Advertising | 273 |
| 29 | Leaflets and publications | 16 |
| 119 | Statutory notices | 136 |
| 162 | Other | 132 |
| 617 | Total | 557 |

5. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2006/07 income from this agreement amounted to £0.229m.

| 2005/06 | | 2006/07 |
|------------|----------------------|------------|
| £'000 | | £'000 |
| 225 | Scottish Water | 229 |
| 225 | Agency Income | 229 |



6. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £1.065m and the related expenditure was £1.035m. The goods and services provided during the year were as follows:

| Name of Body | Purpose of Work | Income | Expenditure |
|-----------------------------|-----------------------------------------------|--------------|--------------|
| | | £'000 | £'000 |
| North Lanarkshire Council | Cleaning and Catering - Kilbowie OC | 169 | 155 |
| Strathclyde Police | Cleaning of Police Stations | 109 | 62 |
| Strathclyde Fire and Rescue | Maintenance of Fire Stations | 398 | 338 |
| Various Public Bodies | Grounds Maintenance | 9 | 8 |
| Various Councils | Provision of Health Packs | 3 | - |
| Various Councils | Provision of SEN Assistant Support | 19 | 19 |
| NHS Highland | Provision of Care for the Elderly | 113 | 127 |
| Various Councils | Provision of Care for the Elderly | 81 | 132 |
| West Dunbartonshire Council | Section 23 Payments - Out of Authority Pupils | 156 | 186 |
| West Dunbartonshire Council | Pupil Transport | 8 | 8 |
| | | 1,065 | 1,035 |

7. COMMUNITY CARE HEALTH (SCOTLAND) ACT 2002

The Council has a joint working arrangement with NHS Highland whereby it provides certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2006/07 income from this source amounted to £4.153m and the related expenditure was £5.370m. These sums can be analysed as follows:

| Purpose of Services | Income | Expenditure |
|-------------------------------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Care of the Elderly | 1,495 | 1,811 |
| Provision of Services for People with Learning Disabilities | 2,054 | 2,958 |
| Provision of Services for People with Mental Health Needs | 604 | 601 |
| | 4,153 | 5,370 |

8. MEMBERS' ALLOWANCES

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

| 2005/06 | | 2006/07 |
|------------|----------------------------------|------------|
| £'000 | | £'000 |
| 220 | Basic Allowance | 220 |
| 240 | Special Responsibility Allowance | 267 |
| 460 | Total Allowances | 487 |

9. OFFICERS' EMOLUMENTS

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was:

| 2005/06 | | 2006/07 |
|---------|-------------------|---------|
| No. | | No. |
| 24 | £50,000 - £59,999 | 23 |
| 2 | £60,000 - £69,999 | 2 |
| 4 | £70,000 - £79,999 | 5 |
| - | £80,000 - £89,999 | 1 |
| 1 | £90,000 - £99,999 | 1 |



10. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

The Council has paid a service charge of £4.471m which represents the value of the service provided from 1 April 2006 to 31 March 2007. Under the agreement the Council is committed to paying the following sums:

| Period | £'000 |
|-------------------------|----------------|
| 2007/12 | 25,184 |
| 2012/17 | 28,265 |
| 2017/22 | 31,396 |
| 2022/27 | 29,980 |
| Total Allowances | 114,825 |

This equates to £5.741m per annum over the life of the contract.

11. FEES PAYABLE TO AUDIT SCOTLAND

In 2006/07 the following fees relating to external audit and inspection were incurred:

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|------------------------------------------------------------------------------------------------------------|------------------|
| 272 | Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor | 286 |
| <u>272</u> | | <u>286</u> |



12. RELATED PARTY TRANSACTIONS

During the year transactions with related parties arose as follows:

| | | Income | |
|-------------------------------------------------------------|--------------------------------------------------------------------------------|----------------|--------------------|
| | | £'000 | |
| Central Government and Agencies | | | |
| Revenue Grants: | Revenue Support Grant | 131,957 | |
| | Non-Domestic Rates | 33,828 | |
| | Housing Benefits/Support Grant | 16,156 | |
| | Council Tax Benefit Subsidy | 5,639 | |
| | Other Government Grants | 28,629 | |
| | | <u>216,209</u> | |
| Capital Grants: | European Grants | 1,977 | |
| | Sportscotland / Lottery | 890 | |
| | AIE - Argyll Air Services | 1,493 | |
| | School Fund | 2,717 | |
| | Other Government Capital Grants | 3,131 | |
| | | <u>10,208</u> | |
| | | Income | Expenditure |
| | | £'000 | £'000 |
| Related Bodies: | Transactions with related bodies during the year totalled | 666 | 20,707 |
| Of these, transactions with the following exceeded £10,000: | | | |
| | Joint Boards | | 16,475 |
| | Strathclyde Partnership for Transport | | 629 |
| | Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board | | 179 |
| | Bute Council on Alcohol | | 56 |
| | Bute Youth Project | | 10 |
| | Convention of Scottish Local Authorities (COSLA) | | 80 |
| | Cowal Council on Alcohol and Drugs | | 110 |
| | Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership | 666 | 674 |
| | Dunoon and Cowal Youth Project | | 18 |
| | Helensburgh Addiction Rehabilitation Team | | 38 |
| | Islay and Jura Community Enterprise | | 83 |
| | Kintyre Alcohol and Drugs Advisory Service | | 36 |
| | Mid Argyll Community Enterprises | | 44 |
| | Nadair Trust | | 17 |
| | NHS | | 1,833 |
| | Oban Addiction Support and Information Services (OASIS) | | 43 |
| | Oban and Lorn Enterprises - Atlantis Leisure | | 373 |
| | Oban Youth and Community Association | | 15 |

Other Related Party Transactions:

Transactions in which Members have a significant interest

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

This was as follows:

| | £'000 |
|---------------|--------------|
| Trident Taxis | 94 |



13. MOVEMENT IN INTANGIBLE FIXED ASSETS

| | Purchased Software Licences £'000 |
|-----------------------------------|--------------------------------------------|
| Original Cost at 31/03/06 | 56 |
| Accumulated Depreciation | (7) |
| Net Book Value at 31/03/06 | 49 |
| <i>Movement in 2006/07</i> | |
| Expenditure in Year | 97 |
| Transfers from Under Construction | 27 |
| Depreciation | (18) |
| Net Book Value at 31/03/07 | 155 |

14. FIXED ASSETS

14.1 Movement in Operational Fixed Assets

| | Council Dwellings £'000 | Other Land & Buildings £'000 | Vehicles Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Total 2006/07 £'000 | Total 2005/06 £'000 |
|------------------------------------------|-------------------------------|------------------------------------|----------------------------------------|-----------------------------------|------------------------------|---------------------------|---------------------------|
| Certified Valuation at 31/03/06 | 44,091 | 216,512 | | | | | |
| Accumulated Depreciation | | (43,351) | | | | | |
| Net Book Value at 31/03/06 | 44,091 | 173,161 | 6,588 | 90,138 | 1,783 | 315,761 | 328,811 |
| <i>Movement in 2006/07</i> | | | | | | | |
| Expenditure in Year | 2,131 | 9,054 | 1,589 | 7,830 | 34 | 20,638 | 24,061 |
| Assets Acquired Under Finance Leases | | | 791 | | | 791 | - |
| Adjustment Finance Leases | | | 529 | | | 529 | - |
| Disposals | (45,280) | (4) | (483) | | | (45,767) | (2,243) |
| Revaluations | | 1,034 | | | | 1,034 | (16,997) |
| Transfers from Non Operational Assets | | 9,685 | 348 | 3,827 | 95 | 13,955 | 5,075 |
| Depreciation | (942) | (19,907) | (2,112) | (4,078) | | (27,039) | (22,946) |
| Net Book Value at 31/03/07 | - | 173,023 | 7,250 | 97,717 | 1,912 | 279,902 | 315,761 |

The adjustment for Finance Leases relates to vehicles included in the 2005-06 accounts as operating leases, subsequently they were discovered to be finance leases and an adjustment made to include them as assets within the Vehicles, Plant and Equipment category.

14.2 Movement in Non-Operational Fixed Assets

| | Investment Properties £'000 | Assets Under Construction £'000 | Surplus Assets Held for Disposal £'000 | Total 2006/07 £'000 | Total 2005/06 £'000 |
|------------------------------------------|-----------------------------------|---------------------------------------|-------------------------------------------------|---------------------------|---------------------------|
| Certified Valuation at 31/03/06 | 6,624 | | 9,006 | | |
| Accumulated Depreciation | | | (706) | | |
| Net Book Value at 31/03/06 | 6,624 | 19,288 | 8,300 | 34,212 | 28,997 |
| <i>Movement in 2006/07</i> | | | | | |
| Expenditure in Year | | 16,337 | | 16,337 | 9,539 |
| Disposals | (94) | | (40) | (134) | (94) |
| Revaluations | 158 | | (3,313) | (3,155) | 845 |
| Transfers to Operational Assets | | (13,998) | | (13,998) | (5,075) |
| Transfers from Assets Under Construction | 16 | | | 16 | - |
| Write off to Revenue | | (3) | | (3) | - |
| Net Book Value at 31/03/07 | 6,704 | 21,624 | 4,947 | 33,275 | 34,212 |

14.3 Valuation of Operational Fixed Assets

| | Other Land & Buildings £'000 | Vehicles Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Total 2006/07 £'000 |
|-----------------------------|------------------------------------|----------------------------------------|-----------------------------------|------------------------------|---------------------------|
| Valued at historical Cost | | 7,250 | 97,717 | 1,912 | 106,879 |
| Valued at Current Value in: | | | | | |
| 2006/2007 | 52,053 | | | | 52,053 |
| 2005/2006 | 36,627 | | | | 36,627 |
| 2004/2005 | 58,313 | | | | 58,313 |
| 2003/2004 | 15,024 | | | | 15,024 |
| 2002/2003 | 9,849 | | | | 9,849 |
| 2001/2002 | 48 | | | | 48 |
| 2000/2001 | 31 | | | | 31 |
| 1999/2000 | 1,045 | | | | 1,045 |
| Inherited Value | 33 | | | | 33 |
| Total | 173,023 | 7,250 | 97,717 | 1,912 | 279,902 |

14.4 Valuation of Non-Operational Fixed Assets

| | Investment Properties £'000 | Assets Under Construction £'000 | Surplus Assets Held for Disposal £'000 | Total 2006/07 £'000 |
|-----------------------------|-----------------------------------|---------------------------------------|-------------------------------------------------|---------------------------|
| Valued at historical Cost | | 21,624 | | 21,624 |
| Valued at Current Value in: | | | | |
| 2006/2007 | 2,490 | | 1,945 | 4,435 |
| 2005/2006 | 1,289 | | 763 | 2,052 |
| 2004/2005 | 631 | | 90 | 721 |
| 2003/2004 | 1,440 | | 1,659 | 3,099 |
| 2002/2003 | 540 | | 392 | 932 |
| 2001/2002 | 1 | | 0 | 1 |
| 2000/2001 | 45 | | 5 | 50 |
| 1999/2000 | 268 | | 93 | 361 |
| Total | 6,704 | 21,624 | 4,947 | 33,275 |

14.5 Fixed Assets Information on Assets Held on 31 March 2007

| | No. | | No. |
|-----------------------------------|-----|----------------------------------|-------|
| OPERATIONAL BUILDINGS | | OPERATIONAL EQUIPMENT | |
| Administrative Buildings | 55 | Vehicles and Heavy Plant | 298 |
| Depots | 33 | | |
| Social Work Homes for the Elderly | 7 | INFRASTRUCTURE ASSETS | |
| Social Work Children's Homes | 5 | Highways (miles) | 1,406 |
| Hostels | 6 | Bridges | 954 |
| Primary Schools | 79 | Car Parks | 138 |
| Secondary Schools | 10 | Vessels | 5 |
| Special Schools | 3 | | |
| Nursery Schools | 4 | COMMUNITY ASSETS | |
| Halls | 8 | Parks/Play Areas | 62 |
| Sports Centres | 1 | Civic Regalia (Provosts' Chains) | 4 |
| Swimming Pools | 5 | Civic Regalia (Bailies' Chains) | 1 |
| Museums and Libraries | 10 | Cemeteries | 125 |
| Community Centres | 8 | War Memorials | 54 |
| Crematoria | 1 | Works of Art | 299 |
| Public Conveniences | 78 | | |
| Travelling Persons Sites | 3 | COUNCIL DWELLINGS | - |
| Airports | 1 | | |



15. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

| | 31 March 2007 £'000 | 31 March 2006 £'000 |
|--------------------------------------------------------|------------------------|------------------------|
| Opening Capital Financing Requirement | 228,114 | 223,617 |
| Capital Investment: | | |
| Operational Assets - Expenditure | 20,638 | 24,061 |
| Operational Assets - Finance Leases | 1,320 | - |
| Non-Operational Assets | 16,337 | 9,539 |
| Intangible Assets | 97 | 28 |
| Total Capital Investment | 38,392 | 33,628 |
| Sources of Finance: | | |
| Capital Receipts | (41,070) | (5,225) |
| Government Grants | (10,276) | (7,358) |
| Capital Financed from Current Revenue | (346) | (572) |
| Repayment of External Loans | (17,279) | (15,232) |
| Capital Element of Finance Lease Payments | (363) | (103) |
| Capital Receipts from Useable Capital Receipts Reserve | 2,539 | (467) |
| Other | 10 | (174) |
| Total Funding | (66,785) | (29,131) |
| Closing Capital Financing Requirement | 199,721 | 228,114 |

16. FINANCE AND OPERATING LEASES

16.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.280m.

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|--------------|------------------|
| 147 | Vehicles | 280 |
| 147 | Total | 280 |

16.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2006/07 were as follows:

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|---------------------|------------------|
| 172 | Land and Buildings | 175 |
| 1,153 | Vehicles | 1,338 |
| 185 | Plant and Equipment | 183 |
| 1,510 | | 1,696 |



16.3 Assets Held Under Finance Leases

The following values of assets are held under finance leases by the Authority, accounted for as part of tangible fixed assets.

| | Vehicles, Plant and Equipment |
|-------------------------------|------------------------------------------|
| | £'000 |
| Value at 1 April 2006 | 465 |
| Additions | 791 |
| Depreciation | (315) |
| Adjustment for 2005-06 | 529 |
| Value at 31 March 2007 | 1,470 |

Outstanding obligations to make payments under these finance lease (excluding finance costs) as at 31 March 2007, accounted for as part of long-term liabilities are as follows:

| | Vehicles, Plant and Equipment |
|-------------------------------------------|------------------------------------------|
| | £'000 |
| Obligations payable within 1 year | 419 |
| Obligations payable between 1 and 5 years | 1,051 |
| Total Liabilities at 31 March 2007 | 1,470 |

16.4 Assets Held Under Operating Leases

The authority was committed at 31 March 2007 to making payments of £1.696m under operating leases in 2007/08 comprising the following elements:

| | Other Land and Buildings | Vehicles, Plant and Equipment |
|---------------------------------------|-------------------------------------|------------------------------------------|
| | £'000 | £'000 |
| Leases expiring within 1 year | 21 | 265 |
| Leases expiring between 1 and 5 years | 25 | 1,238 |
| Leases expiring after 5 years | 129 | 18 |
| Value at 31 March 2007 | 175 | 1,521 |

17. LONG TERM DEBTORS

| | 31 March 2007 | 31 March 2006 |
|-------------------------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| House Loans | 329 | 388 |
| Waste PPP Historic Contamination Fund | 750 | 841 |
| Total Long Term Debtors at 31 March 2007 | 1,079 | 1,229 |

**18. DEFERRED PREMIUMS / DISCOUNTS**

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

| | |
|-------------------------------------------|--------------|
| | £'000 |
| Balance at 1 April 2006 | 9,104 |
| New Premiums / (Discounts) | (382) |
| (Debit) to Income and Expenditure Account | (1,487) |
| Balance at 31 March 2007 | 7,235 |

19. DEBTORS

| | 31 March 2007 | | 31 March 2006 | |
|-------------------------------|----------------------|---------------|----------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Arrears of Local Taxation | | | | |
| Council Tax | 13,035 | | 12,774 | |
| Less: Provision for Bad Debts | (10,375) | | (10,301) | |
| | | 2,660 | | 2,473 |
| Community Charge | 7,572 | | 7,601 | |
| Less: Provision for Bad Debts | (7,572) | | (7,601) | |
| | | - | | - |
| Non-Domestic Rates | 1,350 | | 2,055 | |
| Less: Provision for Bad Debts | (735) | | (934) | |
| | | 615 | | 1,121 |
| Housing Benefits Overpayments | 886 | | 811 | |
| Less: Provision for Bad Debts | (693) | | (637) | |
| | | 193 | | 174 |
| Debtor Accounts | 3,063 | | 3,183 | |
| Less: Provision for Bad Debts | (566) | | (385) | |
| | | 2,497 | | 2,798 |
| VAT Recoverable | | 2,114 | | 2,223 |
| Other Debtors | | 8,525 | | 9,892 |
| Total Debtors | | 16,604 | | 18,681 |

**20. CREDITORS**

| | 31 March 2007 | 31 March 2006 |
|---------------------------------------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Loans Fund Interest | 1,520 | 2,464 |
| Accrued Payrolls and Superannuation | 5,088 | 5,066 |
| Accrued Employer's National Insurance Contributions and PAYE | 2,502 | 2,432 |
| Payables Liability | 7,902 | 6,712 |
| Registered Social Landlord Creditor - now within Earmarked Reserves | - | 1,518 |
| Deferred Grants - now within Earmarked Reserves | - | 2,141 |
| Accrued Expenditure | 8,772 | 10,217 |
| Other Creditors | 5,249 | 5,990 |
| Total Creditors | 31,033 | 36,540 |

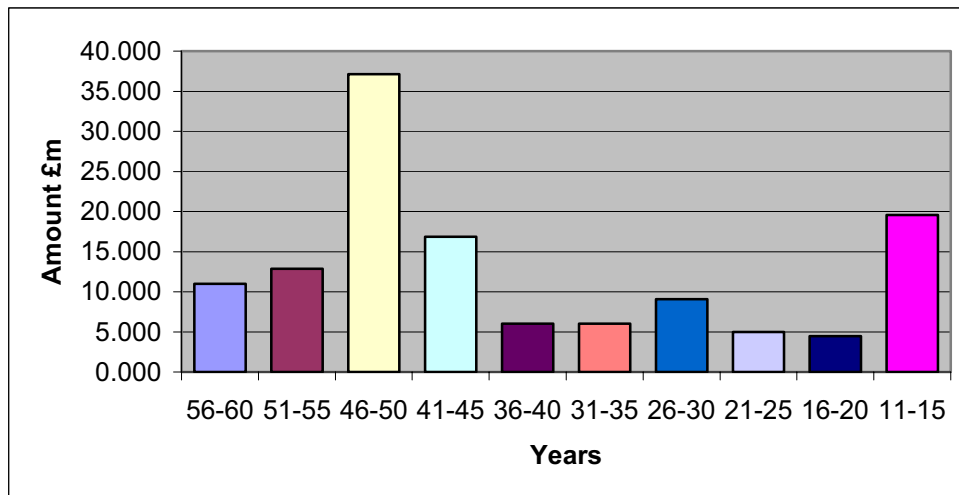
21. ANALYSIS OF BORROWING**21.1 Source of Loan**

| | 31 March 2007 | 31 March 2006 |
|--------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Public Work Loan Board | 131,344 | 196,560 |
| Money Market | 25,755 | 25,755 |
| EIB | 212 | 296 |
| Other Loans | 530 | 505 |
| Total Outstanding Loans | 157,841 | 223,116 |

21.2 MATURITY OF LOANS

| | 31 March 2007 | 31 March 2006 |
|-----------------------------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Borrowings Repayable on Demand or within 12 Months | 539 | 551 |
| Borrowings Repayable on Demand or within 12 Months | 539 | 551 |
| 1 - 2 years | 107 | 87 |
| 2 - 5 years | 1,819 | 9,083 |
| 6 - 10 years | 27,360 | 32,823 |
| Over 10 years (see graph) | 128,016 | 180,572 |
| Total Outstanding Loans | 157,302 | 222,565 |
| Total Outstanding Loans | 157,841 | 223,116 |

The following graph shows an additional analysis of how the £128.016m of long term loans over 10 years, shown in the table above, is repayable.



22. DEFERRED GOVERNMENT GRANTS

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets.

| | £'000 |
|-------------------------------------------------------------|---------------|
| Balance at 1 April 2006 | 30,001 |
| Grants Received During the Year to Finance Capital Projects | 10,276 |
| Credit to Revenue Account During the Year | (1,586) |
| Balance at 31 March 2007 | 38,691 |

23. PROVISIONS

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.060m. Full provision for this amount has been made.

A provision was created at the end of 2005/06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. During 2006/07, further settlements have been paid in full and the provision has, therefore, reduced in line with the staff that have not yet signed acceptance.

During 2006/07 the Council have developed a new Pay and Grading Model and also revised Terms and Conditions and this is out to employees and Trade Unions for Consultation. Where the proposed new grade results in an increase in pay, then this will be backdated to 1 April 2006. A provision has been created based on the pay and grading model issued for consultation and estimating the cost of backdating pay increase to 1 April 2006 for staff who will receive a pay increase.

The Council reduced the discount on council tax from second homes to 10% during 2005/06. The additional council tax income invoiced amounted to £1.710m, this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.050m.

As within previous years, Liabilities have also arisen in respect of employees who will be made redundant as a result of restructuring. In line with the SORP, the authority has raised valid expectations to those affected by announcing the features of the plan or actually starting to implement it. The increase to the provision within 2006/07 relates to staff changes as a result of the implementation of recommendations of the Social Work Scrutiny Review.

Operational Services have created a number of provisions during 2006/07. There are two main provisions that make up the large majority of the balance:

- Shanks do not have approval for their compost product from SEPA and if the composting was judged to be non-compliant, then Argyll and Bute Council would be required to pay a penalty for tonnage over the Biodegradable Municipal Waste limit.
- Shanks are progressing Pollution Prevention Control (PPC) Permit applications for Garbreck and Glengorm Landfill Sites and have advised that Argyll and Bute Council are potentially liable to meet the costs in relation to these applications.

These provisions comply with the requirements of Financial Reporting Standard 12 – "Provisions, Contingent Liabilities and Contingent Assets" and meets the following criteria:

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

| | Opening Balance | Movement in Year | Closing Balance |
|------------------------------------------------------------------------------------|--------------------|---------------------|--------------------|
| | £'000 | £'000 | £'000 |
| SRC Insurance Claims | (87) | 27 | (60) |
| Equal Pay Claims | (336) | 114 | (222) |
| Single Status Provision | - | (2,596) | (2,596) |
| Income due to Registered Social Landlords (Additional Council Tax on Second Homes) | (98) | 48 | (50) |
| Reorganisation Redundancy Costs | (300) | (134) | (434) |
| Operational Services - various provisions | - | (664) | (664) |
| Total Provisions | (821) | (3,205) | (4,026) |

24. CONTINGENT GAINS AND LIABILITIES

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

The Council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcomes of these applications are unknown at this time, although there is the possibility that the Council may lose at least some of these cases. There is also the potential for other equal pay claims whose costs may be met by the Council. No financial provision has been made in 2006/07 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

During the year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. A price has yet to be negotiated with the landowners and therefore a reliable estimate cannot be made of the obligation at this stage.



25. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2007, the Council had commitments on capital contracts of £16.471m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

| | |
|------------------------------|---------------|
| | £'000 |
| ICT and Financial Services | 232 |
| Community Services | 2,199 |
| Infrastructure and Transport | 12,393 |
| Operational Services | 1,647 |
| Total | 16,471 |

26. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

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

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

| | Income | Expenditure | Net Assets | Reserves |
|-------------------------------|---------------|--------------------|-------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Campbeltown Common Good Fund | 27 | 28 | 507 | 507 |
| Oban Common Good Fund | 54 | 147 | 804 | 804 |
| Inveraray Common Good Fund | - | - | 1 | 1 |
| Lochgilphead Common Good Fund | - | - | 6 | 6 |
| Dunoon Common Good Fund | - | - | 7 | 7 |
| Rothesay Common Good Fund | 8 | 6 | 133 | 133 |
| Argyll Education Trust | 20 | 7 | 261 | 261 |
| GM Duncan Trust | 4 | 1 | 83 | 83 |
| McDougall Trust | 25 | - | 544 | 544 |
| Various Other Trust Funds | 22 | 1 | 463 | 463 |
| Total Trust Funds | 160 | 190 | 2,809 | 2,809 |

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

27. PENSIONS ASSETS AND LIABILITIES – FRS17 DISCLOSURE

In accordance with Financial Reporting Standard 17 – "Retirement Benefits (FRS17)" the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. However, the Council is not required to record such information for the Teachers Pensions Scheme as the liability for payment of pensions rest ultimately with the Scottish Executive.

27.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2007. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2007. The amounts are as follows:

Local Government Pension Scheme – £1,033,782

Teachers' Scheme – £528,934



27.2 Summary of Transactions in Respect of the Local Government Pensions Scheme

The Local Government Pension Scheme is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level estimated to balance the pension's liabilities and investment assets. The Strathclyde Pension Fund Office oversees the operation of this scheme. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was 31 March 2005. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2007 remains substantially stable with new entrants replacing any leavers.

The following transactions have been made during the year in relation to the Local Government Pension Scheme.

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|---------------------------------------------------------------------------|------------------|
| | Net Cost of Services: | |
| 9,477 | Current Service Cost | 11,897 |
| 869 | Past Service Cost | (3,639) |
| 111 | Settlements and Curtailments | 408 |
| - | Provision for Teachers Premature Retirement Scheme | |
| | Net Operating Expenditure: | |
| 17,674 | Interest Cost | 18,428 |
| (17,069) | Expected Return on Employer Assets | (21,168) |
| | Amounts to be met from Government Grants and Local Taxation: | |
| (2,286) | Movement on Pension Reserve | 3,539 |
| | Actual Amount charged against Council Tax for pension in the year: | |
| <u>8,776</u> | Employer's Contributions Payable to the Scheme | <u>9,465</u> |

27.3 ACTUARIAL GAINS AND LOSSES ON THE PENSION RESERVE

The actuarial gains and losses identified as movements on the Pensions Reserve in 2006/07 have been analysed over the following categories, measures as absolute amounts and as a percentage of assets and liabilities at 31 March 2007. Comparatives figures for the previous year are also included.

| | 2006/07 | | 2005/06 | |
|-----------------------------------------------------------------------------------|---------------|-------|---------------|--------|
| | £'000 | % | £'000 | % |
| Differences Between the Expected and Actual Return on Assets | 256 | 0.08% | 48,981 | 15.84% |
| Differences Between Actuarial Assumptions about Liabilities and Actual Experience | 1,071 | 0.29% | 9,656 | 2.57% |
| Change in the Demographic and Financial Assumptions used to Estimate Liabilities | 26,033 | | (41,608) | |
| Actuarial Gain / (Loss) in Pension Plan | <u>27,360</u> | | <u>17,029</u> | |

27.4 FINANCIAL ASSUMPTIONS

The main assumptions used by Hymans Robertson in the calculations for the Local Government Pensions Scheme were as follows:

| | 31 March 2007 | 31 March 2006 |
|-------------------|---------------|---------------|
| | % per annum | % per annum |
| Price Increases | 3.2% | 3.1% |
| Salary Increases | 4.7% | 4.6% |
| Pension Increases | 3.2% | 3.1% |
| Discount Rate | 5.4% | 4.9% |



27.5 FAIR VALUE OF ASSETS

Assets in the Strathclyde Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories shown by the proportion of the total assets held by the fund.

| | Return within 2006/07 % per annum | Fund Value at 31 March 2007 £'000 | Expected Return 2007/08 % per annum |
|--------------------------------|-----------------------------------------|-----------------------------------------|-------------------------------------------|
| Assets (Employer Share) | | | |
| Equities | 7.4% | 244,955 | 7.8% |
| Bonds | 4.6% | 40,918 | 4.9% |
| Properties | 5.5% | 33,283 | 5.8% |
| Cash | 4.6% | 14,611 | 4.9% |
| Total | | 333,767 | |

27.6 NET PENSION ASSET/(LIABILITY)

The net pension asset / (liability) of Argyll and Bute Council as at 31 March 2007 is as follows:

| | 31 March 2007 £'000 | 31 March 2006 £'000 |
|---------------------------------------|------------------------|------------------------|
| Estimated Employer Assets | 333,767 | 309,318 |
| Present Value of Scheme Liabilities | 346,700 | 351,230 |
| Present Value of Unfunded Liabilities | 21,849 | 23,769 |
| Total Value of Liabilities | 368,549 | 374,999 |
| Net Pension (Liability) | (34,782) | (65,681) |

28. TEACHERS PENSIONS – ADMINISTERED BY SCOTTISH PUBLIC PENSIONS AGENCY

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

| 2005/06 | | 2006/07 |
|---------|------------------------------------------------------|---------|
| 4,077 | Amount Paid Over (£'000) | 4,170 |
| 12.50% | Rate of Contribution (%) | 12.50% |
| 624 | Amount of Added Years Awarded by the Council (£'000) | 476 |
| 13 | Discretionary Payments made by the Council | - |

29. DETAILS OF MOVEMENTS ON RESERVES

29.1 FIXED ASSET RESTATEMENT ACCOUNT

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

| | General Fund £'000 | HRA Balance £'000 | Total £'000 |
|-------------------------------------------|-----------------------|----------------------|----------------|
| Balance at 1 April 2006 | | | 86,283 |
| Surplus / (Deficit) on revaluations, etc. | (2,121) | - | (2,121) |
| Disposal of Fixed Assets | (621) | (45,280) | (45,901) |
| Balance at 31 March 2007 | | | 38,261 |



29.2 CAPITAL FINANCING ACCOUNT

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

| | General Fund £'000 | HRA Balance £'000 | Sub Total £'000 | Total £'000 |
|-------------------------------------------------------|-----------------------|----------------------|--------------------|----------------|
| Balance at 1 April 2006 | | | | 6,012 |
| Appropriations: Capital Financed from Current Revenue | 170 | 176 | 346 | |
| Repayment of External Loans | 16,024 | 1,255 | 17,279 | |
| Adjustment for 2005-06 Finance Lease Payments | 48 | - | 48 | |
| Capital Element of Finance Lease Payments | 315 | - | 315 | |
| Depreciation Write-off | (26,115) | (942) | (27,057) | |
| Deferred Government Grants Write-off | 1,586 | - | 1,586 | |
| | | | | (7,483) |
| Proceeds of Disposals | | | | 38,459 |
| Balance at 31 March 2007 | | | | 36,988 |

29.3 USEABLE CAPITAL RECEIPTS RESERVES

The movements in the Useable Capital Receipts Reserve during 2006/07 are as follows:

| | £'000 |
|---------------------------------|--------------|
| Balance at 1 April 2006 | - |
| Proceeds of Disposals | 2,539 |
| Balance at 31 March 2007 | 2,539 |

29.4 PENSIONS RESERVE

The movements in the Pensions Reserve during 2006/07 are as follows:

| | £'000 |
|-----------------------------------------|-----------------|
| Balance at 1 April 2006 | (65,681) |
| Transfer to Revenue | 3,539 |
| Actuarial Gain / (Loss) in Pension Plan | 27,360 |
| Balance at 31 March 2007 | (34,782) |

29.5 REPAIRS AND RENEWALS FUND

| | Balance at 31 March 2006 £'000 | Contribution from Revenue £'000 | Interest Earned £'000 | Appropriation to Revenue £'000 | Balance at 31 March 2007 £'000 |
|--------------------------------------------|--------------------------------------|---------------------------------------|--------------------------|--------------------------------------|--------------------------------------|
| Revenue Repairs and Renewals Funds: | | | | | |
| Education | 747 | 1,098 | 63 | (385) | 1,523 |
| Vehicles | 60 | | 3 | | 63 |
| Land Contamination | 841 | 24 | | (115) | 750 |
| Total | 1,648 | 1,122 | 66 | (500) | 2,336 |

**30. GENERAL FUND BALANCE CARRIED FORWARD**

The following committed sums are included within the General Fund balance carried forward of £24.798m:-

| | Total £'000 |
|-----------------------------------------------------|------------------------|
| Waste Management PPP | 4,038 |
| NPDO Affordability Funding | 2,549 |
| Revenue from Additional Council Tax on Second Homes | 3,173 |
| Reserve Committed for 2007/08 Budget | 1,928 |
| Savings agreed to be carried forward to 2007/08 | 98 |
| Unspent Grants | 2,991 |
| Contributions Carried Forward | 927 |
| Unspent Budget Carried Forward | 1,962 |
| Previous Earmarking | 2,140 |
| Projects transferred from Capital | 741 |
| Total Committed Funds | 20,547 |

31. ANALYSIS OF GOVERNMENT GRANTS SHOWN IN THE CASH FLOW STATEMENT

| 2005/06 £'000 | | 2006/07 £'000 |
|--------------------------|------------------------------------|--------------------------|
| 32 | Associated Schools Group | - |
| 341 | Community Regeneration Funding | 470 |
| 163 | Discipline Task Group | 327 |
| 882 | DWP Other Grants | 964 |
| 342 | Education Maintenance Allowance | 480 |
| 385 | Gaelic Education Grants | 418 |
| 554 | Housing Stock Transfer | 680 |
| 135 | Housing Support Grant | 87 |
| 1,570 | National Priorities Action Fund | 5,900 |
| 1,854 | Other Educational Grants | 3,044 |
| 1,052 | Other Grants (e.g. Civil Defence) | 1,690 |
| 412 | Other Social Work Grants | 830 |
| 45 | Pre-school Gaelic Education Grants | 94 |
| 5,398 | Private Sector Housing Grant | 1,997 |
| 524 | Public Transport Grant | 28 |
| 336 | Social Inclusion Partnership | - |
| 12,287 | Supporting People | 13,261 |
| 26,312 | Total | 30,270 |


32. NET CASH FLOW RECONCILIATION

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|---------------------------------------------|------------------|
| (367) | Surplus / (Deficit) for Year | 10,045 |
| 970 | Transfers to / (from) HRA Balance | (1,324) |
| 603 | | 8,721 |
| (172) | Movements in Reserves | 780 |
| 22,902 | Adjustments Not Involving Movement in Funds | 66,268 |
| 69 | (Increase) / Decrease in Stocks | 356 |
| (1,352) | (Increase) / Decrease in Debtors | 2,077 |
| (4,744) | Increase / (Decrease) in Creditors | (5,727) |
| 17,306 | Revenue Activities Net Cash Flow | 72,475 |

33. ANALYSIS OF NET DEBT

| | 31 March 2007 £'000 | 31 March 2006 £'000 | Cash Flow £'000 |
|----------------------------------------------------------------------------|------------------------|------------------------|--------------------|
| Cash at Bank and in Hand | 6,215 | 24,635 | (18,420) |
| Bank Overdraft | (6,480) | (2,885) | (3,595) |
| Net Increase / (Decrease) in Cash | (265) | 21,750 | (22,015) |
| Debt due within one year | (539) | (551) | 12 |
| Debt due after one year | (157,302) | (222,565) | 65,263 |
| (Increase) / Decrease in Debt Financing | (157,841) | (223,116) | 65,275 |
| Movement in Debt in Period | | | 43,260 |
| Capital Element of Finance Lease | | | 315 |
| Net Cash Inflow from Debt and the Capital Element of Finance Leases | | | 43,575 |

34. RECONCILIATION OF MOVEMENT IN CASH TO NET DEBT

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|-----------------------------------------|------------------|
| 12,472 | Increase / (Decrease) in Cash in Period | (22,015) |
| (24,828) | (Increase) / Decrease in Debt Financing | 65,275 |
| (12,356) | Movement in Debt in Period | 43,260 |
| (189,010) | Net Debt as at 1 April 2006 | (201,366) |
| (201,366) | Net Debt as at 1 April 2007 | (158,106) |



2006-2007 ANNUAL ACCOUNTS
HOUSING REVENUE ACCOUNT for the year ended 31 March 2007

| 2005/06 Actual £'000 | | 2006/07 Actual £'000 | £'000 |
|----------------------------|------------------------------------------------------------------------------|----------------------------|----------------|
| | Income | | |
| 13,344 | Dwelling Rents | 8,803 | |
| 79 | Non-dwelling Rents | 53 | |
| 135 | Housing Support Grant | 87 | |
| 1,285 | Any Other Income | 10,205 | |
| 14,843 | Total Income | | 19,148 |
| | Expenditure | | |
| (4,538) | Repairs and Maintenance | (2,933) | |
| (4,908) | Supervision and Management | (3,489) | |
| (2,279) | Depreciation | (942) | |
| (1,266) | Any Other Expenditure | (904) | |
| (12,991) | Total Expenditure | | (8,268) |
| 1,852 | Net Cost of HRA Services Per Authority Income and Expenditure Account | | 10,880 |
| (77) | HRA share of Corporate and Democratic Core | | (49) |
| 1,775 | Net Cost of HRA Services | | 10,831 |
| 2,355 | Gain or (loss) on sale of HRA fixed assets | | (6,146) |
| (2,208) | Interest payable and similar charges | | (10,759) |
| (84) | Amortisation of premiums and discounts | | (1,355) |
| 45 | Interest and Investment Income | | 268 |
| (26) | Pensions interest cost and expected return on pensions assets | | 71 |
| 1,857 | Surplus / (Deficit) for the Year on HRA Services | | (7,090) |



2006-2007 ANNUAL ACCOUNTS

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE
 for the year ended 31 March 2007

This statement brings together all the gains and losses of the Housing Revenue Account for the year and shows the aggregate increase in its net worth. In addition to the surplus / deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

| 2005/06 | | 2006/07 |
|----------------|-------------------------------------------------------------------------------------------------------|----------------|
| Actual | | Actual |
| £'000 | | £'000 |
| 1,857 | Surplus/(Deficit) on the HRA Income and Expenditure Account for the Year | (7,090) |
| (1,116) | Net additional amount required by statute to be (debited) or credited to the HRA Balance for the year | 5,589 |
| 741 | Increase or (decrease) in the Housing Revenue Account Balance | (1,501) |
| 1,015 | Housing Revenue Account surplus brought forward | 1,756 |
| 1,756 | Housing Revenue Account surplus carried forward | 255 |



2006-2007 ANNUAL ACCOUNTS
STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE
 for the year ended 31 March 2007

SUPPLEMENT NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

| 2005/06 £'000 | | 2006/07 £'000 | £'000 |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------|
| | <i>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year</i> | | |
| 2,279 | Depreciation and Impairment of Fixed Assets | 942 | |
| (2,355) | Net Gain or Loss on Sale of Assets | 6,051 | |
| 115 | Net Charges made for retirement benefits in accordance with FRS 17 | 27 | |
| <u>39</u> | | <u>7,020</u> | 7,020 |
| | <i>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</i> | | |
| (881) | Loans fund principal repayments | (1,255) | |
| (274) | Capital expenditure charged in year to the Housing Revenue Account Balance | (176) | |
| <u>(1,155)</u> | | <u>(1,431)</u> | (1,431) |
| | <i>Transfers to or from the General fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i> | | |
| - | Transfer to/from HRA Balance | | - |
| <u>(1,116)</u> | Net Additional amount required to be credited/(debited) to the General Fund Balance for the year | <u>5,589</u> | <u>5,589</u> |



1. GROSS RENT INCOME

This is the total rent income for the year. Average annual rent charges were £48.00 per week in 2006/07 (2005/06 - £45.59).

2. HOUSING STOCK

Prior to stock transfer, the Council's housing stock was made up of a mixture of houses and flats.

The movement in housing stock during the year was:-

| | No. |
|------------------------------------------------------------|--------------|
| Stock at 1 April 2006 | 5,530 |
| Disposals in 2006/07: Right to buy sales | (80) |
| Transferred to Argyll Community Housing Association (ACHA) | (5,450) |
| Stock at 31 March 2007 | - |

3. RENT ARREARS AND BAD DEBTS

Current Tenant Arrears were sold to Argyll Community Housing Association (ACHA).

Former Tenant Arrears debt was retained by Argyll and Bute Council and amounted to £247,957 on the date of transfer, this debt is now included within the overall debt of the council and has been fully provided for within the accounts.

4. LARGE SCALE VOLUNTARY TRANSFER

The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006.

5. HOUSING REVENUE ACCOUNT EXPENDITURE AND INCOME

A number of significant financial transactions are reflected in the 2006/07 Housing Revenue Account as a result of the stock transfer process and the main items can be summarised as follows:-

- At the date of stock transfer the Council had outstanding debt on its housing stock of £36.1m.
- The Scottish Executive repaid the outstanding debt of £36.4m along with a further £1.3m of debt which equated to the HRA's proportion of the early repayment premium.
- The Scottish Executive also met the 'breakage costs' of £9.5m charged by the Public Works Loans Board in respect of the early repayment of the outstanding debt.
- Each of the above transactions was processed through the 2006/07 HRA Income and Expenditure Account and Statement of Movement on the HRA balance resulting in the high capital financing costs and associated income reflected in the statements.
- As a result of income and expenditure relating to the pre-stock transfer period, and a number of residual post-transfer entries, the Housing Revenue Account returned a deficit of £1.501m for 2006-07.
- As at 31 March 2007, the Housing Revenue Account retained a balance of £0.255m. This amount will be transferred to the General Fund and earmarked as part of the Strategic Housing Fund.



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

| 2005/06 Actual £'000 | | 2006/07 Actual £'000 |
|----------------------------|------------------------------------------------------------------------------------------------|----------------------------|
| 48,995 | Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income | 51,059 |
| | Add Back: | |
| 1,518 | RSL Second Home Discount Additional Income | 1,611 |
| | Less: | |
| (6,852) | Other Discounts and Reductions | (7,185) |
| (1,267) | Provision for Bad and Doubtful Debts | (1,132) |
| 42,394 | Total for 2006/07 | 44,353 |
| 671 | Adjustment to Previous Years' Community Charge and Council Tax | 706 |
| 43,065 | Transfers to General Fund | 45,059 |



1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2005/06 was as follows:

| Band | Valuation Band | % Band D | £ per year |
|------|---------------------|----------|------------|
| A | Under £27,000 | 67% | 771 |
| B | £27,000 - £35,000 | 78% | 899 |
| C | £35,000 - £45,000 | 89% | 1,028 |
| D | £45,000 - £58,000 | 100% | 1,156 |
| E | £58,000 - £80,000 | 122% | 1,413 |
| F | £80,000 - £106,000 | 144% | 1,670 |
| G | £106,000 - £212,000 | 167% | 1,927 |
| H | Over £212,000 | 200% | 2,312 |

2. CALCULATION OF THE COUNCIL TAX BASE 2006/07

| Council Tax Base | A | B | C | D | E | F | G | H | Total |
|--------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|---------------|
| Total Number of Properties | 7,983 | 9,516 | 9,235 | 5,643 | 6,810 | 3,640 | 2,465 | 220 | 45,512 |
| Less - Exemptions / Deductions | 1,003 | 677 | 927 | 463 | 547 | 203 | 128 | 31 | 3,979 |
| - Adjustment for Single Chargepayers | 926 | 1,005 | 775 | 428 | 370 | 157 | 92 | 5 | 3,758 |
| Effective Number of Properties | 6,054 | 7,834 | 7,533 | 4,752 | 5,893 | 3,280 | 2,245 | 184 | 37,775 |
| Band D Equivalent Factor (ratio) | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | |
| Band D Equivalent Number of Properties | 4,036 | 6,093 | 6,696 | 4,752 | 7,203 | 4,738 | 3,742 | 368 | 37,628 |
| Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent) | | | | | | | | | 454 |
| Nominal Tax Yield | | | | | | | | | 38,082 |
| Less Provision for Non-Collection - 4.67% | | | | | | | | | 1,778 |
| Council Tax Base 2006/07 - Number of Band D equivalents | | | | | | | | | 36,304 |



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

| 2005/06 | | 2006/07 |
|----------------|-------------------------------------------------------------------------------|----------------|
| Actual | | Actual |
| £'000 | | £'000 |
| 32,208 | Gross rates levied | 31,358 |
| | Less: | |
| (5,276) | Reliefs and other deductions | (4,868) |
| (1) | Payment of Interest | (5) |
| (115) | Provision for Bad and Doubtful Debts | 14 |
| 26,816 | Net Non-Domestic Rate Income | 26,499 |
| 2 | Adjustment for years prior to introduction of national non-domestic rate pool | 2 |
| 7,431 | Contribution from national non-domestic rate pool | 7,327 |
| 34,249 | Transfers to General Fund | 33,828 |



1. ANALYSIS OF RATEABLE VALUES

| 2005/06 | | 2006/07 |
|-------------------|------------------------------------------------------------------------|-------------------|
| £ | | £ |
| 3,471,355 | Industrial and freight transport subjects | 3,486,735 |
| 36,762,797 | Miscellaneous including Telecomms, Rail, Gas and Electricity Companies | 39,008,662 |
| | Commercial subjects: | |
| 10,374,220 | Shops | 10,356,770 |
| 4,706,005 | Offices | 4,676,390 |
| 7,158,305 | Hotels, Boarding Houses etc. | 7,206,275 |
| 5,940,925 | Others | 5,953,545 |
| 13,746 | Formula valued subjects | 296,746 |
| <u>68,427,353</u> | Total Rateable Value | <u>70,985,123</u> |

2. NON-DOMESTIC RATE CHARGE

| 2005/06 | | 2006/07 |
|---------|----------------------------------------------------------|---------|
| Pence | | Pence |
| 46.1p | Rate Per Pound | 44.9p |
| 0.45p | Supplementary Rate Per Pound for Properties over £25,000 | 0.40p |

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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



| 2005/06 Net Expenditure £'000 | | 2006/07 | | |
|----------------------------------------|----------------------------------------------------------------------------------|-------------------------------|--------------------------|-----------------------------|
| | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| | Council Services | | | |
| 87,944 | Education Services | 111,572 | 18,764 | 92,808 |
| 13,060 | Environmental Services | 18,895 | 3,707 | 15,188 |
| 7,839 | Cultural and Related Services | 9,834 | 902 | 8,932 |
| 3,333 | Planning and Development Services | 8,261 | 5,098 | 3,163 |
| 40,665 | Social Work Services | 53,557 | 13,207 | 40,350 |
| 2,517 | Housing Services (Non-HRA) | 38,197 | 39,126 | (929) |
| (1,775) | Housing Services (HRA) | 8,320 | 19,148 | (10,828) |
| 16,897 | Roads and Transport Services | 22,434 | 6,928 | 15,506 |
| 934 | Trading Services | 3,893 | 2,679 | 1,214 |
| | Central Services | | | |
| 2,073 | - Central Services to the Public | 3,346 | 1,094 | 2,252 |
| 3,571 | - Corporate and Democratic Core | 4,575 | 479 | 4,096 |
| 1,168 | - Non-distributed Costs | 2,007 | 4,989 | (2,982) |
| 2,159 | - Other Operating Income and Expenditure | 1,257 | - | 1,257 |
| 9,514 | Strathclyde Police Joint Board | 9,883 | - | 9,883 |
| 5,239 | Strathclyde Fire Joint Board | 5,315 | - | 5,315 |
| 195,138 | Net Cost of General Fund Services | 301,346 | 116,121 | 185,225 |
| 699 | Share of Operating Results of Associates | | | 1,707 |
| 195,837 | Net Cost of Services | | | 186,932 |
| (2,888) | Net (Gain)/Loss on Disposal of Fixed Assets | | | 4,998 |
| (3) | Share of Associates (Gain)/Loss on Disposal of Fixed Assets | | | (12) |
| 15,018 | External Interest Payable | | | 24,719 |
| 407 | Share of Interest Payable by Associate | | | 326 |
| (960) | Interest and Investment Income | | | (1,702) |
| (248) | Share of Associate Interest and Investment Income | | | (242) |
| 605 | Pensions interest costs and expected return on pension assets | | | (2,740) |
| 8,003 | Share of Associate Pensions interest costs and expected return on pension assets | | | 8,419 |
| 215,771 | Net Operating Expenditure | | | 220,698 |
| 124,555 | General Government Grants | | | 131,957 |
| 43,065 | Income from Council Tax | | | 45,059 |
| 34,249 | Distribution from Non-domestic rate pool | | | 33,828 |
| (13,902) | Deficit for Year | | | (9,854) |


**RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP
SURPLUS OR DEFICIT for the year ended 31 March 2007**

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|--------------------------------------------------------------------|------------------|
| (5,050) | Surplus / (Deficit) on Income and Expenditure Account for the Year | 385 |
| | Add: | |
| (8,858) | (Deficit) attributable to Associates | (10,198) |
| 6 | Surplus / (Deficit) attributable to Common Good Funds | (41) |
| <u>(13,902)</u> | Group Account Deficit for the Year | <u>(9,854)</u> |



2006-2007 ANNUAL ACCOUNTS
GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
 for the year ended 31 March 2007

| 2005/06 | | 2006/07 |
|-----------------|--------------------------------------------------------|---------------|
| £'000 | | £'000 |
| (13,902) | Group Account Deficit for the Year | (9,854) |
| (16,886) | Deficit on Revaluation of Fixed Assets | (1,915) |
| 1,243 | Actuarial Gains on Pension Fund Assets and Liabilities | 41,277 |
| (77) | Other Gains or Losses to be Included in the STRGL | 51 |
| (29,622) | Total Recognised Gains and (Losses) | 29,559 |



2006-2007 ANNUAL ACCOUNTS
GROUP BALANCE SHEET as at 31 March 2007

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|-----------------------------------------------------|------------------|
| | Fixed Assets | |
| 49 | <i>Intangible Fixed Assets</i> | 155 |
| | <i>Tangible Fixed Assets</i> | |
| | Operational Assets | |
| 44,091 | - Council Dwellings | - |
| 173,161 | - Other Land and Buildings | 173,023 |
| 6,589 | - Vehicles, Plant and Equipment | 7,250 |
| 90,138 | - Infrastructure Assets | 97,717 |
| 1,833 | - Community Assets | 1,962 |
| | Non-operational Assets | |
| 6,624 | - Investment Property | 6,704 |
| 19,288 | - Assets Under Construction | 21,624 |
| 8,300 | - Surplus Assets held for Disposal | 4,947 |
| 350,073 | Total Fixed Assets | 313,382 |
| 1,189 | Other Long Term Investments | 1,230 |
| 1,229 | Long Term Debtors | 1,079 |
| 9,104 | Deferred Premiums on Early Repayment of Debt | 7,235 |
| 361,595 | Total Long Term Assets | 322,926 |
| | Current Assets | |
| 609 | Stock and Work in Progress | 253 |
| 18,698 | Debtors | 16,622 |
| 24,692 | Cash and Bank | 6,227 |
| 405,594 | Total Assets | 346,028 |
| | Current Liabilities | |
| (355) | Short Term Borrowing | (389) |
| (36,540) | Creditors | (31,034) |
| (2,885) | Bank Overdraft | (6,484) |
| 365,814 | Total Assets less Current Liabilities | 308,121 |
| (222,565) | Long Term Borrowing | (157,302) |
| (465) | Deferred Liability - Finance Leases | (1,470) |
| (30,001) | Government Grants - Deferred | (38,691) |
| (821) | Provisions | (4,026) |
| (167,632) | Investment in Associate | (163,642) |
| (65,681) | Liability Related to Defined Benefit Pension Scheme | (34,782) |
| (121,351) | Total Assets less Liabilities | (91,792) |
| | <i>Financed by:</i> | |
| 86,283 | Fixed Asset Restatement Account | 38,261 |
| 6,012 | Capital Financing Account | 36,988 |
| - | Useable Capital Receipts Reserve | 2,539 |
| (65,681) | Pensions Reserve | (34,782) |
| 14,753 | General Fund Balance | 24,798 |
| (167,632) | Group Reserves | (163,642) |
| 1,510 | Common Good Reserves | 1,455 |
| 1,756 | Housing Revenue Account Balance | 255 |
| 1,648 | Repairs and Renewals Funds | 2,336 |
| (121,351) | Total Net Worth | (91,792) |

Bruce West

Bruce West
Head of Strategic Finance
28 September 2007



1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the authority is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to "present fairly" the financial performance and position of the Council's Group. Comparative figures for the previous year have been included where relevant.

2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 9 to 12 with the exception of the following:

- The Strathclyde Partnership for Transport financial statements has been prepared under the historic cost convention. Therefore all land and buildings are reported at cost less accumulated depreciation.

3. COMBINING ENTITIES

The Council has an interest in a number of Associate Entities. For the purposes of consolidation and incorporation within the Group Accounts recognition has been made of the Council's significant influence over Joint Boards and other entities.

The Associates which have been incorporated are:

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Argyll, Bute and the Dunbartonshire's Criminal Justice Social Work Partnership

The accounting period for all entities is 31 March 2007.

4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in the Authorities Buying Consortium. The Authorities Buying Consortium is a Joint Committee of all councils in the West of Scotland. It is the largest non profit making purchasing agency in Scotland and serves the buying need of the public sector, charities and voluntary organisations.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well being; promote safety, social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

5. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. It is considered that the acquisition was based on an acquisition basis. However, as no consideration was given for this interest there is no goodwill involved in these instances.

6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to decrease both reserves and net worth by £162.187m. This gives an overall net liability for the Group of £91.792m. This net liability position is due to the FRS17 Pension Liability within the Associates' Single Entity Accounts. This can be summarised as follows:-



| | Pension Liability per Associates Accounts £'m | Argyll and Bute Council's Group Share £'m |
|----------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Strathclyde Joint Police Board | 3,459.450 | 137.340 |
| Strathclyde Fire and Rescue Joint Board | 912.071 | 35.662 |
| Strathclyde Partnership for Transport | 3.844 | 0.049 |
| Total Pension Liability of Associates | 4,375.365 | 173.051 |

The Police and Fire Schemes are unfunded with no attributable assets. However, the Scottish Executive effectively underwrites these liabilities through provision within the Revenue Support Grant System. This means that the financing of police and fire pensions is raised in the year the pensions are actually paid and offset by recognition within the revenue stream from the Scottish Executive.

All associates have prepared their accounts on a 'going concern' basis with the exception of the Argyll, Bute and the Dunbartonshire's Criminal Justice Social Work Partnership who have prepared their accounts on a non-going concern basis, the Partnership is no longer trading under this name from 1 April 2007 but has been formed into the North Strathclyde Criminal Justice Authority.

For the remaining Associates statutory arrangements in place with the Scottish Executive and constituent authorities for the funding of the deficit on Police and Fire pensions means that the financial position of the Boards remains assured. Similarly, for Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Executive and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

7. FURTHER DETAILS ON CONSOLIDATION

Due to the significant impact upon the reported figures of the Group Accounts further information in respect of the Associate Entities outlined above can be summarised as follows:-

Strathclyde Police Joint Board

Strathclyde Police Joint Board is the statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1975 and provides a comprehensive range of policing services on behalf of the 12 constituent local authorities in the West of Scotland. During 2006/07 the Council contributed £9.886m or 1.8% of the Board's estimated running costs and its share of the net liability on the balance sheet is £133.163m and is included in the Group Balance Sheet. The accounts of the Board are subject to independent audit and can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

Strathclyde Fire Joint Board

This is the statutory body responsible for supervising the activities of Strathclyde Fire and Rescue Service. Strathclyde Fire and Rescue provides fire and emergency cover for the 12 constituent local authorities in the West of Scotland. The Council contributed £5.239m to the Boards revenue costs in 2006/07 or 3.91% and has accounted for £30.924m as its representative share of the Net Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit scrutiny and available from the Treasurer to Strathclyde Fire Joint Board, Bothwell Road, Hamilton ML3 0EA.

Strathclyde Partnership for Transport

This is the statutory body responsible for formulating the public transport policy for the 12 local authorities in the West of Scotland. The greater part of the funding comes from the Scottish Executive in the form of Special Rail Grant which finances the rail franchise payments and ensures the delivery of rail services within the Board's area as specified within the rail franchise agreement. The Council contributed £0.427m or 1.25% of the Board's estimated net running costs during 2006/07 and accounted for £0.463m of the Net Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Executive. From 1 April 2006 the rollout of the national concessionary fares scheme has seen a significant funding change with the vast majority of funding now coming directly from the Scottish Executive. During 2006/07 the Council contributed £0.199m or 5.04% of the net annual running costs and accounted for £0.502m of the Net Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in 1996 at local government reorganisation by an Act of Parliament and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2006/07 Argyll and Bute Council contributed £1.221m towards estimated running costs and accounted for £0.365m of Net



Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

| | 2006/07 | 2005/06 |
|-----------------------------------------------|---------|---------|
| | £'m | £'m |
| Argyll and Bute Council has a 47.5% share of: | | |
| Gross Income | 2.598 | 2.623 |
| Net Surplus (Deficit) | 0.610 | (0.025) |
| Fixed Assets | 0.614 | 0.629 |
| Current Assets | 0.426 | 0.341 |
| Liabilities due within one year | (0.404) | (0.322) |
| Liabilities due over one year | (0.027) | - |
| Retirement Benefit Asset | 0.158 | (0.487) |

Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership

This is a Joint Committee set up to jointly provide the delivery of Social Work Criminal Justice Services for East Dunbartonshire Council, West Dunbartonshire Council and Argyll and Bute Council. Each of the 3 councils has appointed 2 members to the Joint Committee. The overall objectives of the Joint Committee are agreed objectives of the constituent authorities to satisfy their duties regarding the provision and management of Social Work Criminal Justice services, and the appropriate delegations have been made by the 3 authorities to ensure that the Joint Committee can carry out this service effectively. The cost of this service to Argyll and Bute Council is recharged to West Dunbartonshire Council who are the lead authority for compiling the accounts for the Joint Committee. In the main this is fully funded by the Scottish Executive. The income and expenditure associated with this is incorporated into the consolidated revenue account of Argyll and Bute Council. The Council's share of the net year end asset is £0.041m (33.3%), and this has been reflected in the group balance sheet. The accounts of the Joint Committee are subject to independent audit and are available from the Treasurer to Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership because the Council's interest exceeds the 25% threshold for accounting purposes:-

| | 2006/07 | 2005/06 |
|-----------------------------------------------|---------|---------|
| | £'m | £'m |
| Argyll and Bute Council has a 33.3% share of: | | |
| Gross Income | 3.142 | 2.928 |
| Net Surplus (Deficit) | (0.013) | 0.047 |
| Fixed Assets | 0.124 | 0.111 |
| Current Assets | 0.499 | 0.701 |
| Liabilities due within one year | (0.499) | (0.701) |
| Capital and Revenue Reserves | 0.124 | 0.111 |

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Income and Expenditure Account (page 13) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 26 of the Notes to the Core Financial Statements on page 34 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £1.455m.

9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on pages 18 to 19. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.



Independent auditor's report to the members of Argyll and Bute Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, and the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, We do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Council, Head of Strategic Finance and auditor

The Council's, and Head of Strategic Finance's, responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the Council and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the Council's compliance with the 2006 SORP. We report if, in our opinion, it does not comply with the 2006 SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Strategic Finance in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's and its group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the Council and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

**Failure to comply with a statutory requirement**

It has not been necessary to qualify our opinion in respect of the following matter. The Council has a statutory duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three year period.

The Council failed to comply with this statutory requirement for the three year period ending 31 March 2007 in respect of the following significant trading operations:

- Leisure Trading Account;
- Catering and Cleaning Trading Account; and
- Building Maintenance Trading Account.

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Conference House
152 Morrison Street
Edinburgh
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28 September 2007

Argyll and Bute Council

Interim Management Report

31 October 2007

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Executive Summary

Introduction

The Council is required to have arrangements in place for ensuring propriety, regularity and Best Value in their stewardship of public funds. It is the responsibility of management to ensure that adequate internal controls are in place which:

- ensure that resources are applied to the activities intended;
- deter fraud and irregularity; and
- ensure the most effective use of resources.

As part of our 2006-07 audit, we have reviewed the adequacy of the Council's internal control framework in the following areas:

- arrangements for effective governance and stewardship; and
- the operation and effectiveness of key controls over financial systems to support our opinion on the accounts.

Key findings

We found that the Council's systems of internal financial control and governance arrangements are generally operating adequately.

The Council has not undertaken a fundamental (zero-based) review of service needs and relative priorities in preparing its budget estimates and there is no clear link between the Council's budget and the priorities contained in the corporate plan. The Council should explore ways of developing the link between performance and financial management and should build planned efficiency savings into the budget setting process.

The Council currently operates with 6 separate payroll runs for its staff and pays some workers monthly and others fortnightly. There is scope to rationalise the number and frequency of payroll runs to improve operational efficiency.

The Council's catering and cleaning trading account has recorded a deficit of £2.4m over a 3 year period and is unlikely to meet its financial break-even target for the foreseeable future. The deficits recorded result partly from increased costs associated with the impact of equal pay settlements and the outcomes from the single status agreement with no corresponding opportunity to increase income. The Council should take action to address these significant deficits and ensure the catering and cleaning trading account continues to demonstrate best value in its operations.

Executive Summary

The Council should strengthen its arrangements for the prevention and detection of fraud. We identified three areas for improvement:

- the introduction of a requirement for members and officers to evidence that they have read and understood the code of conduct;
- the introduction of a central register of staff interests and hospitality that is updated regularly; and
- more proactive involvement in the National Fraud Initiative to improve detection and reduce the incidence of fraud.

The Council should also improve its arrangements for training and developing members and staff. We identified two areas for improvement:

- development of an outcome based competency framework and ongoing training and development programme for members; and
- ensure performance development reviews for staff are completed consistently across all Council services.

Effective community planning and partnership working arrangements are highlighted as a key priority within the Council's corporate plan. We found, however, that the Council has yet to implement some of the recommendations in Audit Scotland's national report on community planning. The Council should improve its arrangements for considering and monitoring the implementation of recommendations from national audit and inspection agencies to ensure key recommendations are implemented in a timely manner.

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.

Status of our Report

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP 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.

Acknowledgements

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

Grant Thornton UK LLP

31 October 2007

Core Financial Systems

Introduction

We reviewed the Council's systems of internal control in relation to the following core financial systems:

- financial management and budgetary control
- payroll;
- fixed assets; and
- housing and council tax benefits;
- general ledger;
- trading accounts

We identified in our planning document that we would be placing reliance on the work of internal audit for the remaining key systems.

Financial Management and Budgetary Control

For the year ending 31 March 2007, the Council's revenue budget was £194.434 million. This was funded from central government support (£154.393 million) and council tax (£40.041 million). Decisions on the budget are reserved for the full Council.

Our review covered:

- The process for determining and approving the annual budget;
- The quality and frequency of budget monitoring reports;
- The process for authorising and actioning budget virements; and
- Controls over access to the budgeting system.

We found that the Council's revenue budget is largely prepared on a historical basis uplifted for inflation with account taken of major capital projects or changes in service provision where they occur, but has not emerged from a more fundamental (zero-based) review of service needs, relative priorities and potential efficiency savings. This traditional approach to budget setting does not ensure that resources are targeted to priorities outlined in the Council's corporate plan. The Council should explore ways of developing the link between performance and financial management and should build planned efficiency savings into the budget setting process.

Refer action plan point 1

Budget monitoring reports generally provide clear information to budget holders together with guidance on understanding the financial information presented. The reports include expected year end outturn figures and provide detailed narrative explanations for identified variances. Budget reports are prepared on a cash basis and, as a result, monthly budget monitoring reports may not provide a fully accurate reflection of the Council's budgetary position in terms of resources consumed to achieve actual performance,

Refer action plan point 2

The Council has set authorisation procedures for budget virements in its Financial and Security Regulations. Our review of budget virements found that they were supported by appropriate documentation, but had not been evidenced as authorised. This increases the risk of budget virements being processed without appropriate authorisation.

In addition, the ledger automatically overwrites the previous budget when budget virements are processed and does not retain an audit trail of the change. As a result, the Council cannot track changes in the budget through the ledger. This increases the risk that unauthorised budget amendments, or those processed in error, may not be identified timeously.

Refer action plan point 3

Housing and Council Tax Benefits

The Council has responsibility for administering the housing and council tax benefit system on behalf of the Department for Work and Pensions (DWP). An annual subsidy is paid by DWP to cover housing and council tax benefits paid by the Council to claimants. The Council is required to maintain appropriate controls to ensure that the system is designed and operating effectively. The benefits manager is responsible for overseeing the administration of the system on a day to day basis.

Our review covered the following key controls:

- written procedural instructions are made available to staff covering the housing and council tax benefit system;
- awards are processed only on receipt of a properly completed claim form with appropriate supporting documentation;
- the system is designed to detect a duplicate claim or duplicate credit to a tenant's or taxpayer's account;
- the assessment and input of claims is checked independently of the processing clerk, at least on a sample basis and reviewed by management;
- benefit calculations are performed automatically by the system. Manual calculations, if required, are double checked;
- sample checks are undertaken to confirm the accuracy of the annual up-rating exercise; and
- reconciliations between the benefit system, council tax system, housing rents system and the general ledger are completed on a regular basis.

We found that the majority of the controls over the housing and council benefit system are in place and operating effectively.

Payroll

The Council's payroll system (Northgate) processes the payroll for teachers (paid monthly), manual workers (paid weekly and fortnightly) and the Administrative, Technical, Professional and Clerical (ATP&C) staff (paid monthly). The Council maintains a payroll section which is part of ICT and Financial Services and is based in Campbeltown. The payroll section is responsible for the accuracy of each payroll run, processing starters and leavers, payroll amendments and reviewing payroll exception reports.

Our review covered the following key controls for ATP&C payroll:

- starter, leaver and change forms are properly controlled and authorised before payroll data is changed;
- segregation of duties appropriately in place between authorisation of posts, input to payroll system and authorisation of payroll payment;
- payroll costs are reconciled to the general ledger on a regular basis, with evidence of timely completion and review; and
- exception reports on each payroll are produced and reviewed by a senior officer.

We found that the majority of the controls over the payroll system are in place and operating effectively. We noted some control weaknesses which the Council should address to improve the operating effectiveness of the payroll system:

- detailed procedure manuals are in place but there are no formal desk instructions for staff;
- the authorised signatory list not up-to-date and does not contain sample signatures;
- in some cases, leaver forms are received by the payroll section after the employee has left the Council increasing the risk of overpayment; and
- the Council currently operates with 6 separate payroll runs for its staff and pays some workers monthly and others weekly or fortnightly. There is scope to rationalise the number and frequency of payroll runs to improve operational efficiency.

Refer action plan point 4

General Ledger

The Council uses the Oracle accounting system for its general ledger and associated sub ledgers. The systems accountant acts as the systems administrator and is responsible for setting user access rights and maintaining the chart of accounts. User access rights are set to maintain a degree of segregation of duties in key financial systems.

Our review covered the following key controls:

- written procedural instructions are made available to staff covering the operation of the system;
- requests to grant new user access rights are authorised;
- leavers are removed from the system on a timely basis;

- all journals are authorised by staff at accountant level or higher;
- there is segregation of duty in the preparation and authorisation of journals; and
- all journals have a unique reference number, and are filed with supporting documentation.

We found that the majority of the controls over the general ledger are in place and operating effectively. However, we noted that the systems administrator is not informed of leavers, increasing the risk that user access rights are not removed in a timely basis.

Refer action plan point 5

Fixed Assets

The Council maintains a significant portfolio of fixed assets to support service provision. The total net book value of fixed assets at 31 March 2007 was some £314 million covering a range of assets including land and buildings (£173 million); vehicles, plant and equipment (£6.5 million); infrastructure (£90 million); community assets (£2 million); investment properties (£7 million); assets under construction (£19 million); and surplus assets held for disposal (£8 million).

Our review looked at the key controls over the capital programme and fixed asset register:

- maintenance of a fixed asset register, which is updated on a continual basis throughout the financial year;
- depreciation rates being appropriate and consistent with SORP and FRS15 guidance;
- formal process in place regarding the disposal of fixed assets with confirmation of proceeds required;
- periodic reconciliation of the fixed asset register to the nominal ledger, and timely clearance of any reconciling items; and
- capital expenditure budgets are formally approved and monitored by the Senior Management Team.

Our review confirms that an adequate system for monitoring and authorising fixed asset transactions is in place. The Council has implemented an asset management policy to co-ordinate its approach to managing the capital budget. We noted that the fixed asset register is not updated and reconciled with the ledger until the financial year end as part of the accounts preparation process. This approach increases the risk that errors in processing and recording fixed asset transactions will not be identified timeously.

Asset management information for property assets is not held centrally on one system and this arrangement can lead to duplication of effort and increases the risk of error or omission between systems. The Council has also recognised that it needs to improve its systems for recording information on its assets to support its efficiency and improvement agenda. As a starting point the Council is developing an asset register for property assets to identify key information requirements, however, the Council should consider its information requirements for all asset categories including infrastructure, land, fleet, information technology and economic development assets.

Refer action plan points 6 & 7

Trading Accounts

The Council operated five trading accounts during 2006-07 for the following activities:

- roads and lighting;
- waste management;
- leisure trading;
- catering and cleaning; and
- building maintenance.

Our review considered the financial management and planning arrangements for trading operations during 2006-07. We found that the Council has good arrangements for monitoring the performance of its trading accounts, with detailed budget monitoring and variance analysis undertaken on a monthly basis for each trading account.

Some of the Council's trading accounts have not, however, been performing well financially and the 2006-07 accounts record a combined deficit of in excess of £2.5 million over a 3 year period from all trading operations as shown in the Table 1 below:

Table 1 - Analysis of the Financial Performance of Trading Activities

| Trading Account | 3 Year Actual Performance £'000 |
|-----------------------------------------|------------------------------------|
| Roads and Lighting | 280 |
| Waste Management | 258 |
| Leisure Trading | (422) |
| Catering and Cleaning | (2,416) |
| Building Maintenance | (226) |
| Net Position (Surplus/(Deficit)) | (2,526) |

The Council undertook a review of trading accounts in December 2006, and will reclassify Leisure Trading and Waste Management as non-trading activities from 2007-08 onwards. In addition, the Building Maintenance trading account will be closed following the transfer of the Council's housing stock to the Argyll Community Housing Association. The Council has acknowledged it will need to consider how it will continue to demonstrate competitiveness and value for money in the delivery of the services re-classified as non-trading.

Refer action plan point 8

The Council has a duty to achieve best value from its operations and is required to demonstrate that it delivers services competitively where required. We note that the deficits recorded by the catering and cleaning trading account result partly from the impact of equal pay settlements and the outcomes from the single status agreement. However, this trading account is unlikely to meet its financial break-even target for the foreseeable future. The Council has acknowledged it will need to consider whether this trading account continues to deliver best value and how the deficits can be addressed.

Refer action plan point 9

The Council operates a number of airports and has recently developed Oban Airport it intends to operate on a commercial basis. Oban airport is expected to become operational in the near future in preparation for the operation of Public Service Obligation (PSO) routes to the Islands of Coll and Colonsay. The Council should formally consider whether airport operations should be classified as a trading activity when they become operational.

Refer action plan point 10

Governance Arrangements

Introduction

Audit Scotland's Code of Audit Practice (the Code) states that: "public bodies and those responsible for the conduct of their affairs require to establish and maintain proper arrangements for the governance of their affairs and the stewardship of resources at their disposal". During our interim audit, we reviewed the governance arrangements in place at the Council with regards to the following areas:

- fraud and irregularity;
- staff development;
- member development; and
- community planning and partnership working.

We have used Audit Scotland's *Priorities and Risk Framework 2006-07* and other relevant guidance as a basis of our review. Our work involved discussions with key staff and review of supporting documentation as appropriate.

Fraud and Irregularity

Good governance requires the Council to have in place arrangements to prevent and detect fraud and other irregularity. This involves:

- developing and implementing strategies to prevent and detect fraud and irregularity; and to investigate any incidences detected or reported;
- a code of conduct to state the responsibilities of members and staff with regards to their legal and ethical obligations and responsibilities;
- a register of interests and gifts and hospitality for members and staff; and
- a whistleblowing policy in line with the Public Interest Disclosure Act 1998.

We found that the Council's fraud and corruption arrangements were operating satisfactorily. The Council has an anti-fraud strategy in place, which details the procedures in place to detect and prevent fraud and corruption. The strategy is incorporated as an appendix to the Financial and Security Regulations and the Council constitution. These documents meet the good practice standards described above and are available to all staff on the Council's intranet site.

The Council's Code of Conduct for Members is based on the Code of Conduct for Councillors as drafted by the Standards Commission for Scotland. Copies of the code are made available to all new members. A separate code of conduct exists for staff. Both codes incorporate the Nolan principles of standards in public life. The Council issues a copy of the respective codes to each new member or officer. There is, however, no requirement for members or officers to sign that they have read and understood the code of conduct.

Refer action plan point 11

The Council maintains a register of interests for members. The register is updated on a regular basis, and copies are made available to the public on the Council's website. Responsibility for maintaining a register of interests or hospitality is devolved to departments with no central register maintained. Our review found that most departments were not maintaining a register of interests or hospitality for staff.

Refer action plan point 12

The Council is participating in the National Fraud Initiative (NFI) which is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI was initially rolled out in Scotland as part of the 2004-05 audits, principally the audits of councils, police and fire boards. The 2004-05 exercise was a major success and identified £15.1 million of fraud, overpayments and forward savings.

The exercise has been expanded for the 2006-07 NFI by the inclusion of more datasets and a wider range of audited bodies. The role of external audit in NFI is to review the Council's progress in pursuing potential frauds highlighted by the data matching exercise. We have also assessed the adequacy of the Council's arrangements for implementing NFI.

We found that the Council has not prioritised participation in the NFI since its introduction and, at the time of our review, had processed only 29 of the 47,668 matches provided by the Audit Commission. In our view, the Council should take action to develop its arrangements for its future participation in NFI in the following key areas:

- clear allocation of responsibility for managing the Council's participation in NFI;
- development of agreed arrangements for co-ordinating NFI activity;
- development of a timetable to meet NFI deadlines for submitting information and assessing, and prioritising data matches for follow up; and
- further development of arrangements for reporting and publicising the Council's participation in NFI and of associated outcomes, including savings achieved.

Refer action plan point 13

Staff Development

The existence of a comprehensive performance management system is a key component in workforce planning. Such a scheme should cover the performance of all employees in the Council during the year, and assess their individual training and development needs.

The Council's procedures for performance management involve each member of staff completing a performance development review (PDR). The PDR covers: aims and objectives for the next year and assessed performance against previously set aims and objectives. PDRs are to be completed by the employee and reviewed by the line manager. A formal appraisal should then take place to discuss the employee's performance and identify future needs.

We found, however, that completion of the PDR is not being completed consistently across all Council services. In addition, the personnel department does not formally monitor or report performance in completing staff performance appraisals.

Refer action plan point 14

Member Development

Local government elections took place throughout Scotland on 3 May 2007. This was the first election to be conducted under a system of proportional representation using the single transferable vote method introduced by the Local Governance (Scotland) Act 2004. This will be a significant change for the Council as it moves from 36 single member wards to 11 multi member wards (8 three member wards and 3 four member wards).

The 2004 Act also amended the regulations governing remuneration for members and the Scottish Local Authorities Remuneration Committee has recommended that all councils develop role profiles and competency frameworks for members. The Improvement Service has also recently published a General Competency Framework for Councillors.

In response the Council has developed a "Councillor Training and Development" policy together with a programme for member induction and training. The Council has provided a range of induction training to members in line with its policy, but has yet to fully evaluate the outcomes from this training or consider how it should continue to support member training and development going forward.

Refer action plan points 15

The Scottish Local Authorities Remuneration Committee has recommended that all councils develop role profiles and competency frameworks for all members. Although the Council already has a role profile for members, there is no outcome based competency framework and no ongoing training and development programme. The Council intends to develop such a framework following completion of a national review by the Improvement Service.

Refer action plan point 16

Community Planning and Partnership Working

Community planning is the process through which public sector organisations work together and with local communities, the business and voluntary sectors, to identify and solve local problems, improve services and share resources. The Local Government Scotland Act 2003 provides the statutory basis for community planning. It requires councils to initiate and facilitate the community planning process, and NHS boards, the enterprise companies, the police and the fire and rescue service to participate.

Our review considered the progress the Council has made in implementing a comprehensive community plan and implementing the recommendations made in Audit Scotland's national report on community planning.

The Council has improved its community planning processes and has prepared a Community Plan for the period 2007-2012 and this has been published on its website. This Plan sets out the Council's approach to community planning and partnership working, and includes an action plan setting out the key priorities and how they will be achieved.

The Council has yet to implement some of the recommendations in Audit Scotland's national report on community planning. The report recommended that schemes of delegation and joint risk registers be established between the Council and its partners. The Council needs to improve its arrangements for considering and monitoring the implementation of recommendations from national audit and inspection agencies and increase the level of challenge within the organisation to ensure key recommendations are implemented in a timely manner.

Refer action plan point 17

Appendix A – Action Plan

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| Financial Management and Budgetary Control | | | | | |
| 1 | The Council's revenue budget is largely prepared on a historical basis uplifted for inflation, but has not emerged from a more fundamental (zero-based) review of service needs, relative priorities and potential efficiency savings. This traditional approach does not ensure that resources are targeted to priorities outlined in the Council's corporate plan. | Medium | <p>The Council should consider undertaking a zero-based approach to develop its budget at the next available opportunity.</p> <p>The Council should incorporate identified efficiency savings into its budget.</p> <p>The Council should align its budget setting, monitoring and reporting arrangements to better reflect corporate priorities.</p> | The action plan completed in relation to the report on progress with Best Value will address these points. | 31 March 2008 |
| 2 | Budget reports are prepared on a cash basis and, as a result, monthly budget monitoring reports may not provide a fully accurate reflection of the Council's budgetary position. Budget reports are prepared on a cost basis with a full year projected outcome. Budget monitoring reports could be improved if reports were prepared on an accruals basis. | Medium | The Council should prepare monthly budget reports on an accruals basis to better reflect the Council's financial position for the year to date. | Consideration will be given to completion of budget monitoring reports on an accruals basis and a report prepared on the options, resources and issues related to this.- Head of Strategic Finance. | 31 March 2008 |
| 3 | Budget virements are not evidenced as authorised. This increases the risk of budget virements being processed without appropriate authorisation. The Council cannot track changes in the budget through the ledger. This increases the risk that unauthorised budget amendments, or those processed in error, may not be identified timeously. | Medium | <p>The Council should prepare a monthly report of all budget changes processed through the ledger. This report should be authorised by the Head of Strategic Finance.</p> <p>The Council should delegate a limit for budget virements which can be authorised by the Head of Strategic Finance. Proposed budget virements above this limit should require the authorisation of the Strategic</p> | <p>Agreed – Head of Strategic Finance.</p> <p>A report of virements processed each month should be prepared identifying details of approval. – Agreed Head of Strategic Finance.</p> | <p>31 December 2007</p> <p>31 December 2007</p> |

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| | | | Policy Committee or Full Council. | | |
| Payroll System | | | | | |
| 4 | <p>We noted some control weaknesses which the Council should address to improve the operating effectiveness of the payroll system:</p> <ul style="list-style-type: none"> ▪ there are no formal procedure notes for staff; ▪ the authorised signatory list not up-to-date and does not contain sample signatures; ▪ in some cases, leaver forms are received by the payroll section after the employee has left the Council increasing the risk of overpayment; and ▪ the Council currently operates with 6 separate payroll runs for its staff. There is scope to rationalise the number and frequency of payroll runs to improve operational efficiency. | Medium | <p>The Council should:</p> <ul style="list-style-type: none"> ▪ draft formal written procedures for the payroll section as soon as possible; ▪ review and update the authorised signatory list for payroll. The updated list should include sample signatures to enhance security; ▪ remind departments of the need to ensure leaver forms are sent to the payroll section before the final date of employment; and ▪ rationalise the number of separate payroll runs and move to monthly pay for all staff where possible. | <p>Detailed procedures are in place and available to all staff.</p> <p>This exercise is ongoing – Head of ICT & Financial Services.</p> <p>A memo will be sent to departments regarding this but overpayments are rare and closely monitored. The move of fortnightly payroll to an arrears basis will reduce risk even further. – Head of ICT & Financial Services.</p> <p>This has been covered in single status proposals.</p> | <p>N/A</p> <p>Ongoing</p> <p>Done</p> |
| General Ledger | | | | | |
| 5 | The systems administrator is not informed of leavers. There is a risk that user access rights to the general ledger are not being terminated in a timely manner. | Low | The systems administrator should receive notification of all leavers. This will allow the timely removal of user access rights from departing staff. | A further memo will be sent to departments advising them of the requirement to notify the system administrator of leavers – Head of Strategic Finance. | Done |
| Fixed Assets | | | | | |
| 6 | The fixed asset register is not updated and reconciled with the ledger until the financial year end as part of the accounts preparation process. This approach increases the risk that errors in processing and recording fixed asset transactions will not be identified timeously. | Medium | The Council should ensure the fixed asset register is updated on a more timely basis during the financial year. | The Council will review procedures currently in place to identify where improvements can be made. However, the Council feels that there are certain transactions that are better processed at the year end- Head of Strategic Finance. | 31 January 2007 |
| 7 | The Council has also recognised that it | High | The Council should develop its | A framework is already in place and | Ongoing |

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| | needs to improve its systems for recording and reporting information on its assets to support its efficiency and improvement agenda. | | arrangements for recording and reporting asset management information across all categories of assets. | being progressed for developing asset management. | |
| Trading Accounts | | | | | |
| 8 | The Council has acknowledged it will need to consider how to demonstrate competitiveness and value for money in the delivery of the services re-classified as non-trading. | Medium | The Council should demonstrate how it will deliver value for money from services reclassified as non-trading. | A review will be undertaken and results reported to the Executive Committee – Head of Facility Services. | 31 March 2008 |
| 9 | The Council's catering and cleaning trading account has recorded a deficit of £2.4m over a 3 year period and is unlikely to meet its financial break-even target for the foreseeable future. | High | The Council has acknowledged it will need to address the significant deficits recorded by its catering and cleaning trading account including consideration of alternative methods service provision. | A review will be undertaken and results reported to the Executive Committee – Head of Facility Services. | 31 March 2008 |
| 10 | The Council intends to operate Oban airport on a commercial basis, but has not yet classified its airport operations as trading activities. | Medium | The Council should consider, classifying its airport operations as a trading activity when they become operational. | The agreement with the Scottish Executive is that grant funding will be provided to meet the net costs of the airport at Oban. Whilst a formal review will take place it is not considered this will be a trading activity. – Head of Roads and Amenity Services. | 31 March 2008 |
| Fraud and Irregularity | | | | | |
| 11 | There is no requirement for officers to sign that they have read and understood the code of conduct. | Low | The Council should ensure that all staff have signed that they have read and understood the code of conduct. | The Code of Conduct has previously been circulated to all staff and all new staff receive a CD which contains a copy of the Code of Conduct. New staff sign to confirm they have received the CD. This is felt to be a realistic and adequate approach. – Head of Personnel Services. | N/A |
| 12 | The responsibility for keeping a register of interests for Council officers is delegated to | Medium | The Council should consider introducing a central register of interests to record all | Agreed - Head of Democratic and Governance | 28 February 2008 |

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| 13 | <p>each department. However, there is no evidence that departments are keeping a register and ensuring it is kept up to date.</p> <p>We found that the Council has not prioritised participation in the NFI since its introduction and, at the time of our review, had processed only 29 of the 47,668 matches provided by the Audit Commission.</p> | Medium | <p>The Council should develop its arrangements for future participation in NFI in the in the following key areas:</p> <ul style="list-style-type: none"> ▪ clear allocation of responsibility for managing the Council's participation in NFI; ▪ development of agreed arrangements for co-ordinating NFI activity; ▪ development of a timetable for meeting NFI deadlines for submitting information, and assessing and prioritising data matches for follow up; and ▪ further development of arrangements for reporting and publicising the Council's participation in NFI and of associated outcomes, including savings achieved. | Agreed – Internal Audit Manager and Head of ICT & Financial Services | 31 January 2008 |
| Staff Development | | | | | |
| 14 | Our review found that there are inconsistencies in the completion of Performance Development Reviews for staff across service departments. | High | <p>The Council should ensure that all staff have a PDR completed on an annual basis for former APT & C staff not teachers or manual workers.</p> <p>The personnel department should monitor service departments to ensure they are complying with this requirement.</p> | This can now be recorded in Resourcelink and progress reported to departments and SMT. – Head of Personnel Services. | First report as at 31 March 2008 |
| Member Development | | | | | |
| 15 | The Council has provided a range of induction training to members in line with its policy, but has yet to fully evaluate the outcomes from this training or consider how it should continue to support member training and development going forward. | Medium | The Council should from evaluate the outcomes from its recent programme of member training and consider how it should continue to support member training and development going forward. | A significant programme of training has been undertaken and feedback on that has been reported to the Council. Work is already underway looking at the Improvement Service model. – Head of Democratic and | 30 April 2008 |

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 16 | The Council currently has no outcome based competency framework and no ongoing programme of training and development for members as recommended by the Scottish Local Authorities Remuneration Committee | Medium | The Council should develop a competency framework for members as a basis for identifying training needs. | Governance Services. A significant programme of training has been undertaken and feedback on that has been reported to the Council. Work is already underway looking at the Improvement Service model. Head of Democratic and Governance Services. | 30 April 2008 |
| Community Planning and Partnership Working | | | | | |
| 17 | The Council have not yet implemented the recommendations in Audit Scotland's national report on community planning partnerships. | Medium | The Council should to improve its arrangements for monitoring and tracking the implementation of recommendations from national audit and inspection agencies and increase the level of challenge within the organisation to ensure key recommendations are implemented in a timely manner. | The issue of all national audit and inspections will be drawn to the attention of the Audit Committee and when appropriate action required by the Council will also be reported to the Audit Committee – Head of Strategic Finance. Given the nature and operation of the Community Planning Partnership and the resources available the development of joint risk registers and Schemes of Delegation is unnecessary and overly bureaucratic. – Policy and Strategy Manager. | December 2007 N/A |

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2007 - 2008

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the 16th November of 2007. The objective of the report is to advise members of the progress of the Annual Audit Plan. (See Appendix 1).

2. RECOMMENDATION

2.1 The Audit Committee is asked to approve the progress made with the Annual Audit Plan for 2007 - 2008.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2007 –2008, and are ordered by section and level of completion.

3.2 As at the 16th of November 2007, of 18 core financial systems audits set out in the audit plan, 7 have been completed. Of the remaining 11 audits, the decision has been taken to combine 4 audits from the core financial section of the audit plan, and one audit from the non-financial section, to form a Major Capital Audit. These audit areas are as follows:-

- Tendering Procedures;
- Capital Contract Audit;
- Capital Accounting;
- Treasury Management; and
- Strategic Asset Management.

3.3 The review objective is to establish that there is a process in place that satisfies the requirements of both internal demands for accurate management information and external requirements for adherence to the Prudential Code and able to demonstrate Best Value. The Asset Management Strategic Board will have an overview position with regard to the audit. The resultant changes to the audit plan are reflected in Appendix 1. In addition, a further 3 audits are presently ongoing with 4 audits remaining to be commenced.

3.4 Of 15 non-financial audit areas identified for this years audit plan, as at 16th of November 2007, 6 audits have been completed. Of the remaining 12 audits, as highlighted above one audit has been included in the Major Capital Audit. A further 7 audits have been started and are progressing with one close to being complete. At this time one audit area remains to be commenced.

3.4 As detailed in the Annual Audit Plan a total of 80 days have been set aside for Other Areas – Follow Up work etc. As at the 16th of November 2007, a total of 49 days have been expended. In addition, 80 days have been set aside in the plan for Special Investigations / Contingency audit work. As at the 16th of November 2007, a total of 70 days have been expended on Special Investigation work.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2007 - 2008

- 4.1 In October and November, the section welcomed 2 Trainee Accountants who have been assigned presently to assist with qualified audit staff on 2 key audits, the Major Capital Audit and the review of the Council's, Non Profit Distribution Organisation (NPDO) schools contract. It is envisaged this will provide a good opportunity for both trainees to learn about the Council, and in particular the audit environment. Joint working has recently commenced with KPMG on computer audit work in e-Procurement and ICT systems.
- 4.2 It can be reported that Internal Audit continues to make reasonable progress with the Annual Audit Plan. Current progress with the Internal Audit plan reflects similar performance in 2006/07 in audits completed and being progressed.

CONCLUSION

Progress is being made on audits planned for 2007 – 2008.

6. IMPLICATIONS

- | | | |
|-----|----------------------|------------------------------------------------|
| 5.1 | Policy: | Update on audit plan for 2007 – 08. |
| 5.2 | Financial: | The audit plan is based on budgeted provision. |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

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

Ian Nisbet
Internal Audit Manager 21 November 2007.
21Novfinalport21Nov

Assessment of audit days: 2007-2008 strategic plan

| AUDIT WORK SCHEDULE As at 16th November 2007 | Last audited | Risk ranking | Original Estimated Audit Days 2007-08 | Revised Estimated Audit Days 2007- 08 | Actual Audit Days 2007-08 | Balance |
|------------------------------------------------------------------|-----------------|--------------|---------------------------------------------|---------------------------------------------|------------------------------|------------|
| Core financial systems | | | | | | |
| Complete | | | | | | |
| Government & European Grants | 2006-07 | 1 | 30 | 30 | 17 | 13 |
| Stocktaking | 2006-07 | 2 | 25 | 25 | 13 | 12 |
| Payments to Voluntary Bodies (Following the Public Pound) | 2005-06 | 2 | 20 | 20 | 24 | -4 |
| Payroll | 2006-07 | 2 | 30 | 30 | 19 | 11 |
| Contract Hire and Operating Leases | 2006-07 | 2 | 20 | 20 | 17 | 3 |
| Council Tax and Non-Domestic Rates | 2006-07 | 2 | 30 | 30 | 25 | 5 |
| Creditor Payments | 2006-07 | 2 | 25 | 25 | 25 | 0 |
| Started | | | | | | |
| Car Allowances | 2006-07 | 2 | 20 | 20 | 5 | 15 |
| General Ledger Operations | 2006-07 | 2 | 25 | 25 | 1 | 24 |
| Purchasing IT e-Procurement/Pecos | 2006-07 | 2 | 25 | 25 | 8 | 17 |
| Capital Accounting | 2006-07 | 1 | 20 | 0 | 0 | 0 |
| Capital Contracts | 2006-07 | 1 | 20 | 0 | 0 | 0 |
| Tendering Procedures | 2006-07 | 1 | 30 | 0 | 0 | 0 |
| Treasury Management | 2006-07 | 2 | 20 | 0 | 0 | 0 |
| Major Capital Review | 2006-07 | 1 & 2 | 0 | 120 | 39 | 81 |
| Not Started | | | | | | |
| Budgetary Preparation and Control | 2006-07 | 1 | 20 | 20 | 0 | 20 |
| Cash Income and Banking | 2006-07 | 2 | 30 | 30 | 0 | 30 |
| Debtor Accounts | 2006-07 | 2 | 20 | 20 | 0 | 20 |
| Unified Benefits System | 2006-07 | 2 | 30 | 30 | 0 | 30 |
| Section Total | | | 440 | 470 | 194 | 276 |
| Non-financial Audits | | | | | | |
| Complete | | | | | | |
| All Depts - Corporate Governance | 2006-07 | 1 | 20 | 20 | 15 | 5 |
| All Depts - Performance Indicators | 2006-07 | 1 | 50 | 50 | 52 | -2 |
| Community Services - School & Public Transportation | 2006-07 | 1 | 20 | 20 | 19 | 1 |
| Community Services - Disclosure Scotland | 2006-07 | 2 | 20 | 20 | 22 | -2 |
| Community Services - Legislative Compliance | 2006-07 | 1 | 20 | 20 | 18 | 2 |
| Operational Services - Roads and Amenity Services - Waste Mngt.. | 2002-03 | 3 | 20 | 20 | 19 | 1 |
| Started | | | | | | |
| All Depts - Business Continuity Planning | 2006-07 | 1 | 20 | 20 | 9 | 11 |
| Development Services - Partnership Project Funding | 2006-07 | 1 | 20 | 20 | 1 | 19 |
| Corporate Services - Risk Management Register | 2006-07 | 3 | 20 | 20 | 1 | 19 |
| All Depts - Strategic Asset Management | 2006-07 | 1 | 30 | 0 | 0 | 0 |
| Community Services - Social Work | 2006-07 | 1 | 20 | 20 | 2 | 18 |
| Community Services - NPDO - Contract Monitoring | 2006-07 | 1 | 30 | 30 | 25 | 5 |
| All Depts - Partnership Working | 2006-07 | 1 | 20 | 20 | 8 | 12 |
| Corporate Services - ICT - Applications | 2006-07 | 2 | 25 | 25 | 5 | 20 |
| Not Started | | | | | | |
| Chief Executives Unit - Policy & Strategy - Best Value | 2006-07 | 1 | 145 | 145 | 0 | 145 |
| Section Total | | | 480 | 450 | 195 | 255 |
| Actual Direct Audit Time | | | 920 | 920 | 389 | 531 |
| Special investigations contingency | | | | | | |
| Council Wide | | | 80 | 80 | 7 | 10 |
| Chief Executive's Unit | | | | | 34 | |
| Community Services | | | | | 4 | |
| Development Services | | | | | 12 | |
| Operational Services | | | | | 13 | |
| Section Total | | | 80 | 80 | 70 | 10 |
| Other Areas | | | | | | |
| Follow-up External & Internal Audit Management Letter Points | | | 60 | 60 | 31 | 29 |
| Risk Assessment, Strategic Plan, Annual Plans | | | 20 | 20 | 0 | 20 |
| Section Total | | | 80 | 80 | 31 | 49 |
| TOTAL | | | 1080 | 1080 | 490 | 590 |

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
14 December 2007

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2007 – 2008.

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 30th September 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 2005/06 and 2006/07 Internal Audit reports issued prior to September 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 30th September 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. There is an additional column showing when those actions not yet implemented had been reported to previous Audit Committees.

3.2 Appendix 1 is split into 2 documents 1a & 1b. The first document refers to all reports with recommendations due July to September 2007. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by 30th June 2007 for the last Audit Committee. There are no outstanding recommendations from External Audit reports.

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 for external audit.

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)

21 November 2007

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From July to September 2007

| Audit | Report Number | Points to be actioned by 30 September 2007 | Points actioned by implementation date | Behind Schedule/ Insufficient evidence received | |
|----------------------------------------------------------------------|-------------------|--------------------------------------------|----------------------------------------|-------------------------------------------------|--------|
| 2006/07 | | | | | |
| Review of Contract Hire and Operating Leases | 7 (February 2007) | 2 | 0 | 2 | B4 & 5 |
| Review of Main Accounting System 2006/07 | (June 2007) | 1 | 1 | 0 | |
| Review of Payroll | (July 2007) | 2 | 1 | 1 | D2 |
| Review of Performance Indicators | (September 2006) | 1 | 1 | 0 | |
| Review of Primary School funds - Lochgilphead & Park Primary Schools | 8 (February 2007) | 3 | 3 | 0 | |
| Review of School & Public Transport 2007 | (August 2007) | 1 | 0 | 1 | F2 |
| | | | | | |
| Total | | 10 | 6 | 4 | |

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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 September 2007 | Points actioned by implementation date | Behind Schedule/ Insufficient evidence received | |
|---------------------------------------------------------------------|--------------------|---------------------------------------------------------|--------------------------------------------|----------------------------------------|-------------------------------------------------|--------|
| 2004/05 | | | | | | |
| Review of the Prudential Code | 8 (December 2004) | 2 | 2 | 0 | 2 | G1& 15 |
| 2005/06 | | | | | | |
| Review of Contract Tendering & Vetting | 12 (March) 2006) | 1 | 1 | 0 | 1 | C7 |
| Review of Capital Accounting | 13 (February 2006) | 1 | 1 | 0 | 1 | A3 |
| Review of Debtors - Estates Rents | 17 (March 2006) | 1 | 1 | 0 | 1 | H7 |
| 2006/07 | | | | | | |
| Review of Car Allowances | (November 2006) | 1 | 1 | 1 | 0 | |
| Review of Purchasing and e-Procurement | 14 (May 2007) | 2 | 2 | 0 | 2 | E1& 2 |
| Review of Contract Hire and Operating Leases | 7 (February 2007) | 2 | 2 | 0 | 2 | B2 & 3 |
| Review of Primary School funds - Lochgiphead & Park Primary Schools | 8 (February 2007) | 1 | 1 | 1 | 0 | |
| Review of Risk Management Framework | 5 (December 2006) | 1 | 1 | 1 | 0 | |
| Total | | 12 | 12 | 3 | 9 | |

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| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|---------------------------------------------------------|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A - REVIEW OF CAPITAL ACCOUNTING | | | | | | | |
| 3 | MATERIAL | Lack of supporting documentation for option appraisal | procedures will be produced | Finance Manager Development Services | 30 September 2006 31 January 2007 31 August 2007 | 31 January 2008 | Weighting and scoring criteria for capital projects were agreed by the Council in February 2007. This along with the new capital planning guidance around gateway reviews and preparation of business cases will address this issue. The capital planning guidance has been drafted with training/information/consultation seminars held. Individual departmental meetings are now taking place to finalise the capital planning guidance before it is issued." These will be issued in conjunction with the updated Capital Planning and Management Guide. |
| B - REVIEW OF CONTRACT HIRE AND OPERATING LEASES | | | | | | | |
| 2 | MATERIAL | 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 | Strategic Finance should issue guidance to departments on the tendering for, monitoring of, and termination of leasing agreements. This is to include the need for Strategic | Head of Strategic Finance | 31 March 2007 | 31 January 2008 | A final draft on Leasing Guidance has been issued for consultation. responses have to be returned by January 2008. |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|--------------------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>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>Finance to be consulted before major lease decisions are made.</p> | | | | |
| 3 | MATERIAL | <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>Strategic Finance to issue guidance which should form part of the comprehensive guidance mentioned above.</p> | Head of Strategic Finance | 31 March 2007 | 31 January 2008 | <p>A final draft on Leasing Guidance has been issued for consultation. responses have to be returned by January 2008.</p> |
| 4 | MATERIAL | <p>Staff authorising expenditure are required to follow the Council's Constitution, including the Contract Standing Orders, which means that they must use contracted suppliers. However, the risks inherent in using an unendorsed supplier are not spelt out, nor is it clear that disciplinary procedures</p> | <p>It is recommended that written instructions be issued to all staff who can authorise expenditure from external suppliers, detailing the requirement to follow Contract Standing Orders. This means that orders must only be placed with contracted suppliers when</p> | Exchequer Manager | 30 September 2007 | 31 January 2008 | <p>A set of instructions will be drawn up and put before the Procurement and Shared Services Board at their meeting on 18 January 2008</p> |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|-----------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------------------|
| | | could be invoked if staff do not follow the Constitution. | available and PECOS must be used for all such orders. Where there are no contracts in place competition should be ensured for any significant spends. | | | | |
| 5 | MATERIAL | The photocopier contract is for more than £100,000 annually for rental alone, with maintenance charges perhaps being as much again, thus committing the Council to considerable expenditure for the next five years. Prices per copy are lower than previously, and it was expected that other costs, such as printers, external printing and staff time, would decrease due to the ability to network the new printers and their greater functionality. This would offset any rises in rentals. | Value for money in this contract is ensured by open competitive tendering under the EU Procurement Rules. Under the Public Procurement Reforms currently under way photocopying will become a Category A commodity and will be contracted nationally across the Scottish Public Sector. The Council require to carry out a value for money review on completion of the internal print strategy. | Exchequer Manager | 30 September 2007 | 30 Jun 2008 | The Print Review is now nearing completion. A value for money review will be carried out upon implementation of the recommendations |
| C - REVIEW OF CONTRACT TENDERING AND VETTING | | | | | | | |
| 7 | MATERIAL | The Council's Health and Safety Manager requires all contractors whether registered on a Constructionline or on a local Select List to be approved | Determine the requirement for the Council's Health and Safety to approve all contractors, including those registered with | Governance & Risk Management Officer | 30 April 2006 | March 2008 | An amendment has been produced by the Governance & Risk Manager and the Health & Safety Manager for inclusion in the Council |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|---------------------------------------------------|-------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| D - REVIEW OF PAYROLL | | | | | | | |
| 2 | MATERIAL | Personnel Sections had not carried out the existence check. | Personnel sections to be reminded that it is essential to carry out this task on an annual basis. | Exchequer Manager | 31 July 2007 | January 2008 | Delayed due to single status work. Existence checks re-issued to personnel departments in October to be returned by Jan 2008. |
| E - REVIEW OF PURCHASING AND e-PROCUREMENT | | | | | | | |
| 1 | FUNDAMENTAL | Legal & Protective Services were not making use of Pecos, the e-Procurement System. | Arrangements should be made with the Exchequer Manager to provide Legal & Protective Services with a purchase card which would be used to order goods from specialist suppliers who are not on Pecos. Training will be provided for staff in order that they can start making use of Pecos for all other purchases. | Exchequer Manager | 31 May 2007 30 September 2007 | April 2007 March 2008 | Purchase card issued to chief protective services officer Awaiting L&PS being ready for training |
| 2 | FUNDAMENTAL | A photocopier had been purchased from Q5 Oban. They are not one of the 3 suppliers on the approved list | All departments must be made aware of the existence of the approved suppliers lists and the requirement to | Head of ICT & Financial Services | 11 May 2007 | 31 Jan 2008 | A set of instructions will be drawn up and put before the Procurement and Shared Services Board at their |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|------------------------|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | from the Authorities Buying Consortium. | only use suppliers from these lists. This applies to all goods and services and not only photocopiers. | | | | meeting on 18 January 2008 |
| F- REVIEW OF SCHOOL AND PUBLIC TRANSPORT 2007 | | | | | | | |
| 2 | MATERIAL | Benchmark comparisons are less relevant when the basis of notional in-house cost and the percentage of schools and local transport allocable to Community Services are not wholly reliable. The Formula of the allocation of the school and public transport charges for the month of March 2007 was found to be flawed. | Community Services should consider the true cost of increased service provision when calculating the notional in-house cost of school transport. The percentage allocated or the basis of allocation to Community Services should be reviewed regularly following each batch of contract renewals. The integrity of calculations allocating costs should be tested using check formulae. | Head of Community Regeneration and Transportation & Infrastructure Manager | 31 August 2007 | April 2008 | Completed. New Access database system set up to ensure that calculations can not be accidentally amended by users. There has not been an opportunity to review the percentage allocation between school and public transport as there has been no tendering round since the audit. This will be undertaken during the analysis of the January 2008 round of tenders. A working group has been established to review all aspects of the action plan. (minute of meeting attached) A sub group comprising Community Services and Corporate Finance and School Transport are currently recalculating the in-house costs to be used for the next round of tendering |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|---------------------------------------------|----------|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------------------------------------|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | | | | due for January 2008. The review of the allocation will be undertaken during the analysis of these tenders. |
| G- REVIEW OF THE PRUDENTIAL CODE | | | | | | | |
| 1 | MATERIAL | The cost of the Campbelltown Community Project is significant and there would be benefit in carrying out a post completion review. | A post completion review of this project is to be carried out at the end of 2005/06 | Head of Planning and Performance/Internal Audit Manager | 31 March 2007 30 September 2007 | April 2008 | As reported above re Capital Contracts the project has not yet been completed. |
| 15 | MATERIAL | Existing strategy limitations restricts investment returns. There is an opportunity for increased returns at minimum risk | investment strategy indicators to be reviewed upon receipt of new regulations with the aim of increasing returns. | Finance Manager - Development Services | 30 June 2006 | 30 June 2008 | The Scottish Government has not yet introduced the investment regulations but these are expected to be in place by the end of March 2008. |
| H - REVIEW OF DEBTORS - ESTATE RENTS | | | | | | | |
| 7 | MATERIAL | There is no rolling programme of rent reviews | Estates should consider setting up a database of all rentals which will highlight when rent reviews are due. | Head of Legal and Protective Services | 30 April 2006 | March 2008 | A database has been created for Estates covering all aspects of Estates work including rent reviews. The database is currently undergoing evaluation/ minor revisions and the population of data is expected to commence January 08. The new database will take over |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|--------------------|-------|-----------------------|---------------|---------------------|------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | | | | <p>from ad-hoc Excel spreadsheets (in effect databases of the review dates) once it's been populated. Population of essential information should be completed by the end of the financial year with a further 3 to 6 months to populate the remaining fields.</p> |

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External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From July to September 2007

| Audit | Points to be actioned by 30 September 2007 | Points actioned by implementation date | Behind Schedule/ Insufficient evidence received | |
|-------|--------------------------------------------|----------------------------------------|-------------------------------------------------|--|
| | | | | |
| Total | 0 | 0 | 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 June 2007 | Points actioned by implementation date | Behind Schedule/ Insufficient evidence received | |
|-------------------------------------------------------------|---------------------------------------------------------|---------------------------------------|----------------------------------------|-------------------------------------------------|----|
| | | | | | |
| Commissioning Community Care Services for Older People | 1 | 1 | 0 | 1 | A2 |
| Education Department - Computer Services Review | 2 | 2 | 1 | 1 | B8 |
| Improving Customer Services through Better Customer Contact | 1 | 1 | 0 | 1 | C1 |
| Total | 4 | 4 | 1 | 3 | |

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| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A - AUDIT SCOTLAND - COMMISSIONING COMMUNITY CARE SERVICES FOR OLDER PEOPLE | | | | | | | |
| 2 | MEDIUM | Officers should implement information sharing arrangements to enable access to services across social work, housing and health, including the requirement to obtain consent. | Paper version in place. IT infrastructure being negotiated. | Head of Integrated Care | 30 April 2005 31 July 2007 | April 2008 | The CareAssess module of Carefirst will partly address this issue. In broader terms NHS and Council will use different systems that will communicate via a central repository(Scottish Gov developing the adaptors). Individual systems should be ready for April 2008 but no timescale for when they will communicate with each other. |
| B - AUDIT SCOTLAND - EDUCATION DEPARTMENT - COMPUTER SERVICES REVIEW | | | | | | | |
| 8 | MEDIUM | At the time of audit, the inventory of software and hardware was incomplete. At present the opportunity exists for items to be purchased directly by schools. These items are not reflected on the inventory consistently. Software licences are included in the council's balance sheet as fixed assets. However, without a detailed count of the software licenses this figure may be inaccurate. Generally | Update the existing inventories to ensure that all software and hardware are included. Consideration should be given to monitoring hardware and software configurations of all networked computers. This will be implemented as part of IT work plan over the coming year. | ICT Development Manager | 30 November 2006 31 August 2007 | March 2008 | Audit software was purchased in February 2007 and is being rolled out across the Primary and Secondary Estate with completion due by the end of this financial year. The delay in this is principally due to the additional transfer work at NPDO schools. |

| ACTION PLAN NUMBER | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION | REVISED DATE | COMMENT/EXPLANATION |
|---------------------------------------------------------------------------------------|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------------------------------------|------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | software is subject to license agreements, which can be legally enforced. Operating with unlicensed software is an offence. Without a detailed inventory it is difficult to argue that all the necessary steps were taken to ensure that only properly licensed software is used within the schools. | | | | | |
| C - AUDIT SCOTLAND IMPROVING CUSTOMER SERVICES THROUGH BETTER CUSTOMER CONTACT | | | | | | | |
| 1 | MEDIUM | Council needs to commit to actively pursue a programme to manage customer service improvements as this is central to effective service delivery. Councils should improve how they research customers' opinion on service and make better use of feedback. Councils should improve performance measurement. | N/A | Head of Democratic Services and Governance | 31 December 2005 | March 2008 for phase 1 | Customer Services Centre has been developed. Phase 1 to be completed by December 2007. Will now be completed by March 2008. Further roll out plan has been worked up for consideration by the Council and timetable will be dependent on the resources available to continue the very significant progress made. New customer strategy to be considered by Council in November 2007. |

Risk Management and Business Continuity Strategy

1 INTRODUCTION

- 1.1 The Governance and Risk Manager has been instructed to provide an updated report on the progress being made with the implementation of the Council's Risk Management and Business Continuity Strategy.

2. RECOMMENDATIONS

- 2.1 The Committee note the terms of this report.

3. DETAIL**3.1 Risk Register**

The format of the Council's Risk Register has been changed and each Service will be required to update its section of the register and have it available for transfer to Pyramid by 30th January 2008.

There has been discussion between the Governance and Risk Manager and Policy and Strategy about the process of transferring the risk register into Pyramid and it has been agreed that a pilot involving Development Services will be taken forward in the first instance.

3.2 Business Continuity

The SMT has approved the instruction of Glen Abbot Ltd to assist in the further development of Business Continuity through to the Council being compliant with the Civil Contingencies Act by August 2008.

The first stage of the process (programme initiation and management) will be completed by early January and involves a presentation to SMT which confirms the involvement they will have throughout the process and a series of workshops for Heads of Service, third tier managers, the RMG and the Services LCG's and any other members of staff likely to be involved in the process.

The purpose of the workshops is to introduce as many people as possible to Business Continuity and to make them aware of the programme and the involvement they are likely to have. The workshops have been arranged for 4th and 5th December and the take up of places has so far been encouraging.

Iain Jackson,
Risk & Governance Manager
Corporate Services Department
22 November 2007

ARGYLL AND BUTE COUNCIL
CHIEF EXECUTIVE'S UNIT

AUDIT COMMITTEE
14 DECEMBER 2007

SUMMARY OF QUARTERLY PERFORMANCE REPORTS

1 SUMMARY

This paper provides a summary of the Service quarterly reports for the period July to September 2007, consisting of the exceptional performance sections only.

2 RECOMMENDATIONS

It is recommended that the Audit Committee

- notes the Service performance in the report and
- considers the style and content of the report and makes suggestions about improvements to this report to assist the Audit Committee in considering performance matters.

3 DETAIL

Service Plans include a level of detail for each Priority, essentially the third tier management level across the Council. 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. Where explanations for exceptional performance have been provided by Services they are repeated 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 July - Sept 2007

This paper draws together all the exception reports from the quarterly Service performance reports for the second quarter 2007/08. 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

- ✓ Much improved reporting shows steady and progressive performance

Personnel Services

- ✗ Delays to implementation of e-recruitment system. (same comment as previous quarter)
- ✗ The Statutory PIs relating to Equalities demonstrate a very low proportion of women in the top 2% and 5% in terms of pay scales. No targets have been set to address this imbalance. (top 2% = 25% women : top 5% = 30% women : proportion of all employees who are women = not provided)

Policy and Strategy

- ✗ Proactive work slowed markedly due to pressures on the small team. *This impacts on all aspects of the team's performance.*

Strategic Finance – no exception reports

Community Services

Adult Social Work

- Improvements in reporting performance prevent effective trend analysis.

Community Regeneration – no exception reports

Planning and Performance

- ✓ Improved reporting show steady performance

Community Support

- Community Support is no longer a Service, but a report gives information about homelessness - for which the Council maintains responsibility. The information is insufficient to evaluate performance (see Community Regeneration).

Children and Families

- ✗ No report available from Carejustice for this period
- ✓ Much improved information this quarter, although little analysis
- Some new performance information from CareFirst, not including targets, which are promised for the next quarterly report.

Education

- ✓ Standard Grade results in the top 10% of Scottish Authorities.
- ✗ Accommodation and Facilities in Toward Primary school described as "weak" in HMIE report

Corporate Services

ICT and Financial Services

- ✓ Improved ICT performance reporting, although further development is required
- ✓ Improvement in Council Tax collection processes – exceeded the target of 60% paid by Direct debit.
- ✗ The number of Benefit claims outstanding longer than 50 days is over 25% against a target of 9%

Legal and Protective Services

- ✗ Underperformance against targets in high risk and other inspections due to staff shortages.
- ✓ Prompt response to noise complaints, both domestic and non-domestic.
- No performance data provided against Animal Health and Welfare. (same comment as previous 2 quarterly reports)

Democratic Services and Governance

- ✓ This Service has improved the quality of the report, providing more and better information. This needs to be developed further to provide more target levels of performance as well as actual performance.
- ✓ Some useful contextual information provided.

Development Services

Transportation and Infrastructure - no exception reports

Planning

- ✗ Response to Planning Applications slower than planned due in part to the new local plan. This has led to increased departures from the local plan.
- ✓ Much improved response times for building warrants and completion certificates.

Operational Services

Roads and Amenity Services

- ✓ This Service has started making full use of the Pyramid performance management system. Whilst still in its infancy, the system demonstrates the immediacy of on-line information, providing the user with access to the full range of performance data to allow personalised analysis.

Facility Services

- The Facility Services quarterly report contains a great deal of detail across this very operational service. There is insufficient resource in the Policy and Strategy team to undertake a detailed analysis and report the exceptional performance. Dialogue with the Head of Service indicates that the service uses this report operationally.

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POST COMPLETION REVIEWS

1. INTRODUCTION

- 1.1 At the last Audit Committee on 20 September 2007 the Head of Strategic Finance was requested to bring forward a report outlining arrangements for post completion reviews on capital projects.

2. RECOMMENDATION

- 2.1 The Audit Committee note the proposals currently being put in place as outlined in this report.

3. DETAIL

- 3.1 A requirement to carry out post completion reviews has been incorporated into the capital planning guidance currently being finalised. The draft guidance has been prepared and circulated to Heads of Service and training/information/consultation sessions have been held with Directors, Heads of Service and Project Managers. Further meetings on a service basis are now taking place with a view to finalising the guidance.
- 3.2 The requirement to carry out post completion reviews for capital projects varies depending upon the nature of the project – Asset Sustainability, Service Development and Strategic Change. The requirements for post completion reviews are outlined below.
- 3.3 The general objectives of the post completion reviews are as follows:
- To assess how well a project has been managed
 - To consider if the project has met its objectives?
 - To evaluate the ongoing impact of a project
 - Learn lessons
 - Recognise good performance
- 3.4 The post completion reviews will be carried out by:
- By comparing what has actually happened with the plans set out in the business case and benchmarking sheet
 - See Appendix 1 attached which is an extract from the draft guidance.
- 3.5 Post completion reviews will be carried out:
- Initially upon completion of the project
 - For service development and strategic change projects a further review in 1-5 years to establish lasting impact of project

- 3.6 The following categories of staff will be responsible for post completion reviews:
- Asset sustainability projects – Project Manager
 - Service development projects – Relevant Head of Service
 - Strategic Change – Head of Service from another department with support
- 3.7 In order to support the introduction of post completion reviews, it is envisaged that Internal Audit would select a sample of reviews each year for audit. The outcome of this audit would be reported to management and also the Audit Committee in line with the approach for summarised reporting of audits.

Bruce West
Head of Strategic Finance
28 November 2007
Reports/postcompletionreview

APPENDIX 1

Annex 11 – Post Completion Review Summary

Separate report for each post completion review.

Project name and description

Summary of performance

Comparison of actual with budget for each item on benchmarking sheet:

Project Benefits

Listing of measures and targets to be used to determine if the project has been a success in terms of serviced delivery.

Project Financials

Listing of capital costs, revenue costs and external funding. Project is a success in financial terms if these targets are met.

Project Delivery

Listing of targets for key milestones in delivery of project.

Project team formed

Project plan agreed

Specification finalised

Land acquired

Planning, Building Warrant and Other permission secured

Tenders invited

Tenders returned

Tenders evaluated

Contractor appointed

Contractor starts on site

Duration of contract with key milestones

Works complete

Council takes possession

Service delivery commences

If these targets are met then the project is a success in terms of process/management.

Project Risk

Summary of anticipated risks, actual risks and how they have been managed.

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ARGYLL AND BUTE COUNCIL
AUDIT COMMITTEE
14 DECEMBER 2007

BRIEFING NOTE ON PERFORMANCE OF STRATHCLYDE PENSION FUND
– JUNE 2007

1 INTRODUCTION

- 1.1 This report is to give an update on the performance of Strathclyde Pension Fund (SPF) as at 30 June 2007. This is the latest report available from the Strathclyde Pension Fund website.

2 DETAIL

- 2.1 The fund's value at 30 June 2007 stood at £9.978m. This compares to £9.595m at 31 March 2007, representing an increase of 3.99%. The fund value at 30 June 2006 was £8.569m, therefore, the fund at 30 June 2007 represents an increase over the year of 16.44%.
- 2.2 The Fund's return for the quarter was +4.0%, which was comfortably ahead of the benchmark return of +3.4%. The average UK pension fund as measured by the WM All Funds index returned +2.8%.

The table below summarises a 3, 5 and 10 year comparison of investment returns:

| | SPF | Benchmark | WM All Funds |
|-------------------------|-------|-----------|--------------|
| 3Yr annualised returns | 16.5% | 16.3% | 14.6% |
| 5Yr annualised returns | 11.6% | 11.6% | 10.3% |
| 10Yr annualised returns | 8.2% | 8.1% | 7.4% |

- 2.3 Outperformance came from several of the Fund's managers this quarter. Arlington, Capital International, Gartmore, JP Morgan and Pantheon all outperformed their benchmarks.

The only notable underperformance came from Invesco, one of the Fund's new Unconstrained managers.

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

Bruce West
 Head of Strategic Finance

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
14th December 2007**

REPORT OF KPMG ACTIVITY

1. SUMMARY

This report details the activity of KPMG further to the internal audit partnering agreement since the Audit Committee held on 20th September 2007.

2. RECOMMENDATIONS

2.1 That this committee notes the activities undertaken.

3. DETAILS

3.1 KPMG LLP has been providing Argyll and Bute Council with internal audit assistance, support and advice since February 2002 with the current contract running since March 2005. The purpose of this has been to complement the team where there are skills or experience gaps and to develop the way the team functions to increase compliance with the professional standards applicable to internal audit in Scottish local authorities.

3.2 In the period since the previous Audit Committee held in September Steve Keightley, the manager responsible for providing the service to Argyll and Bute Council, has provided the team with the following support:

- Advice and information about how other local authorities have dealt with the issues, good practice and the focus of internal audit when reviewing arrangements surrounding capital expenditure planning and monitoring and the implementation of large capital projects; and
- Advice and information relating to the role of internal audit surrounding the performance improvement and Best Value agenda across the Council.

3.3 In this period KPMG have assisted the Council's internal audit function with the fieldwork on a review of the Council's implementation of a procurement system. This review is at draft report stage and a final report will be issued before the next Audit Committee.

5. IMPLICATIONS

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

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

Steve Keightley
Manager

5 December 2007.

KPMGprogreport5December

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EXTERNAL AUDIT REPORT – BEST VALUE

1 INTRODUCTION

- 1.1 The Council's external auditor undertakes a review of the Council's progress with the best value agenda as part of the normal programme of work each year. The report for the current year is likely to be one of the matters that Audit Scotland consider when they come back to carry out the follow up to the audit of best value and community planning carried out in 2005/06. The action plan attached to the report has been agreed with the external auditor.

2 RECOMMENDATION

- 2.1 Members note the report and attached action plan.

3 KEY MESSAGES FROM THE REPORT**Acknowledgement of Progress**

- 3.1 The report is broadly positive in particular it acknowledges the Council has:
- Responded positively to the Best Value report.
 - Completed all of the improvement actions .
 - Made significant progress revising corporate planning & strategic management.
 - A sound basis from which to take forward the best value and improvement agenda.

Further Challenges

- 3.2 It does flag up further challenges for the Council recognising that whilst there has been a significant improvement in the Council's readiness to deliver best value across its operations the Council must now focus on turning strategies into action and embedding best value principles throughout the organisation to better demonstrate continuous improvement.

E Government Targets and Customer Contact Centre

- 3.3 A timetable for meeting e-government targets should be established to take full advantage of opportunity for more effective and efficient working. Related to this a clearer timetable for developing the customer contact centre as part of overall strategy to meet e-government targets is required.

Planning and Budgeting

- 3.4 More clarity around performance expectations in corporate & service plans (SMARTer) action plans is required. Budgets should be better

aligned with corporate priorities with more use made of benchmarking and unit cost information

Efficient Government Savings

- 3.5 A programme of efficiency savings to meet central government targets with systematic process for identifying, measuring, monitoring and reporting of efficiencies should be developed. The Council faces a significant challenge to rationalise its property portfolio, release efficiency savings and develop its estate to improve services. An action plan for shared services is required and the Council should continue identifying and taking forward opportunities for shared services.

Performance Management and Improvement

- 3.6 Much work is required to create a culture of performance and improvement across all Council service areas. To assist with this roll out of the performance management system across all of the Council should take place in a shorter timescale than currently envisaged. Risk management arrangements are not sufficiently developed as an effective management tool.

Corporate Resources

- 3.7 Greater corporate responsibility for delivering cross cutting themes eg efficiency, performance and risk management is required to ensure priority within individual departments to delivering key corporate initiatives. There is a need for additional corporate resource in the short to medium term to ensure recently developed improvement plans and strategies are implemented and to sustain the current pace of reform.

4 CONCLUSIONS

- 4.1 The report acknowledges the progress made by the Council to date but identifies a number of key challenges the Council must address before it can demonstrate it has embedded a culture of continuous improvement. In particular the report identifies a requirement for additional resources in the short to medium term to provide the corporate capacity needed to do this.

For further information please contact Brian Barker 01546-604436 or Bruce West 01546-604220.

Bruce West
Head of Strategic Finance
9 October 2007

Argyll and Bute Council

Audit of Best Value and Community Planning – Follow up

23 August 2007

Contents

| Section | Page |
|----------------|-------------|
| Main Findings | 1 |
| Action Plan | 6 |

Main Findings

Introduction

The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. The Accounts Commission introduced new arrangements for the audit of best value based on a cyclical approach involving a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

The Council received a full best value audit in 2005, with the report published in February 2006. In May 2006 the Council published an 'Implementation and Development Plan' outlining how it would seek to improve its best value performance.

This report outlines the key findings from our first 'follow-up' review following publication of the Audit Scotland report.

Overall Conclusions

The Council has responded positively to the Best Value report issued in February 2006 and, with few exceptions, has completed all of the improvement actions contained in the Best Value Implementation Plan prepared in response to the report. In particular, the Council has made significant progress in revising its corporate planning and strategic management arrangements.

The progress made by the Council provides a sound basis from which to take forward the best value and improvement agenda, and the Council must now focus on turning strategies into action and embedding best value principles throughout the organisation to better demonstrate continuous improvement.

Key findings

1. The Council has developed its corporate, service and strategic plans covering key corporate themes including best value, risk management, information and communications and technology, and performance management. The development of these plans represents a significant improvement in the Council's readiness to deliver best value across its operations.
2. The Council continues to implement a rolling programme of best value reviews covering key service areas as part of its wider strategy to deliver best value across all service areas. Major reviews have been undertaken in key service areas, such as social work services, resulting in significant change to the way these services are provided.

Main Findings

3. The Council has taken steps to improve arrangements for the scrutiny of performance by both members and officers. Improvements have included the development of member led Policy Performance Groups (PPG) with a specific performance scrutiny and improvement remit, the appointment of an independent chair to the audit committee, and more corporate working and performance focus at Senior Management Team meetings.
4. The Senior Management Team comprises the Chief Executive and Service Directors. The Chief Executive leads personally on a number of key corporate initiatives, and our review found that not all departmental management teams routinely cover key corporate themes. The Council should explore ways of ensuring that sufficient corporate responsibility is taken for delivering cross cutting themes such as efficiency, performance and risk management, and ensuring priority is given within individual departments to delivering key corporate initiatives.
5. The Council's revised political governance arrangements have only recently been implemented following the elections in May 2007 and need time to 'bed-in' before any assessment can be made of their effectiveness. A number of issues have been identified from our review, however, which should be considered in any future assessment of the effectiveness of the Council's political governance arrangements, including:
 - the Policy Development Group, in its February 2007 report, recommended that the Council create a 'Council Executive' comprising a maximum of 9 members as its main decision making body. The Council accepted this main recommendation, but has appointed sixteen members to the 'Council Executive' and may not, therefore, fully achieve the benefits anticipated from streamlined decision making;
 - the role of area committees, their lines of accountability and scrutiny arrangements are not sufficiently clear. The agendas of area committees are largely dominated by minor planning decisions and this is unlikely to make best use of area committee resources. Recent changes in planning law are likely to require less member involvement in considering more minor planning applications;
 - the Council has recently established PPGs whose main role is to develop policy associated with the monitoring and improvement of services; scrutinise the performance of Council services and encourage effective collaboration and co-ordination between and within organisations operating in Argyll and Bute with particular reference to the Community Planning Partnership. There is a potential risk that the role of PPG's may, to some extent, duplicate the scrutiny role of the audit committee. The Council is aware of this risk and is keeping the matter under review.

Refer action plan points 1 - 4

6. The Council has created a sound basis from which to take forward the best value and improvement agenda and significant changes have been made to corporate and strategic plans. The Council recognises, however, that these developments have not yet been fully embedded into operational management and much work needs to be done to create a culture of performance and improvement across all Council service areas.

Main Findings

7. The Council has recently introduced a performance management system. This system will improve the quality, accuracy and timeliness of the performance management information available to members and service managers, and offers significant potential to act as a key driver for improving economy, efficiency and effectiveness. The performance management system is, however, at an early stage of development and currently covers only a limited number of council services.
8. In the absence of a formal system for measuring and monitoring performance (including output measures of service quality and provision), the Council will be unable to effectively demonstrate continuous improvement and efficiency in its operations. There is, therefore, an urgent need to bring forward the Council's implementation plan and roll out the performance management system across all Council services in a shorter timescale than currently envisaged.
9. The Council has improved its arrangements for monitoring and reporting against delivery of plans, however, there remains some scope to provide more clarity around performance expectations in corporate and service plans to make them more Specific, Measurable, Attainable, Realistic and Timebound (SMART) and target focussed.
10. The Council has recently developed its risk management arrangements and set up officer led 'loss control groups' to more systematically develop plans to manage and monitor key risk areas. The Council's current risk register is, however, largely focussed on managing business continuity and insurance related risks and does not cover strategic and operational risks. Risk management arrangements are not, therefore, sufficiently developed as an effective operational management tool.
11. The Council continues to face significant challenges in creating a more flexible, efficient and continuously improving organisation that is focussed on meeting the needs of its citizens and service users. The Council may not currently have the corporate management capacity, skills and expertise to effectively achieve the major organisational changes required to fully meet best value expectations. There is an immediate need to create additional corporate resource in the short to medium term to ensure recently developed improvement plans and strategies, including performance management, are implemented and to sustain the current pace of reform.
12. The Council has recognised the benefits of external challenge in its best value review process and has incorporated external challenge into many of the best value reviews already undertaken. This represents good practice. There is some scope for the Council to consider whether, and to what extent, it should develop the role of external challenge further, as part of its overall approach to identifying and applying good practice and new ways of working.

Refer action plan points 5 - 9

13. Improvements in technology offer the Council significant opportunity to improve the efficiency, quality and effectiveness of its services to the public. The Scottish Executive has set councils a target to improve the efficiency, quality and accessibility of services by providing customers access to a range of services online as part of its 'e-government initiative'. The Council is committed to meeting these targets but has yet to articulate clearly how and when it will do so.

Main Findings

14. The recent introduction of customer contact centres does, however, enable service users to access a small number of Council services from one location either electronically, by phone or in person. The Council should set a clearer timetable for developing these centres further as part of an overall strategy to meet its e-government targets and to maximise their full potential for improving the economy, efficiency and effectiveness of Council services.
15. The Council has a significant property portfolio much of which has been inherited or built up over many years by the Council and its predecessor authorities. The Council has an asset management strategy for its schools estate but less developed arrangements for the management of non-education assets. A number of the Council's assets are now either surplus to requirements, not fully utilised or no longer fit for purpose. The Council faces a significant challenge to rationalise its property portfolio, release efficiency savings and develop its existing estate to improve the provision of Council services to the public.
16. The Scottish Executive has set targets for local authorities to achieve significant efficiency savings by 2008/09. The Council has developed its strategy for efficient government but has not yet agreed a programme of efficiency savings required to meet central government targets and expectations. In addition, the Council does not yet have a systematic process in place for identifying, measuring, monitoring and reporting on efficiency.
17. The Government has indicated that it expects local authorities to take forward opportunities for joint working and sharing services as a key mechanism for delivering efficiency and achieving best value. The Council has developed a shared services strategy and is working closely with a range of bodies to improve arrangements for joint working and shared services. The Council is awaiting Ministerial approval for funding to take forward shared services initiatives and currently provides only a relatively small number of services on a shared basis. The Council should, however, develop an action plan and timetable for delivering its shared services strategy and should continue to be proactive in identifying and taking forward opportunities for shared services and joint working.
18. In common with other authorities, the Council is facing significant financial pressures and will need to develop its financial management systems to:
 - better align the budget to corporate priorities;
 - further develop the linkage between financial and performance management, including use of benchmarking and unit costs; and
 - build efficiency savings into the budget management, monitoring and reporting arrangements (refer also to comments made at paragraph 16).

Refer action plan points 10 - 17

19. The Council meets its statutory responsibilities in relation to public performance reporting, has developed a customer contact strategy and improved its public performance reporting strategy. The Council does not yet, however, co-ordinate effectively how it communicates with its service users across all of its services. The Council has not systematically identified the information requirements and expectations of its service users or how best it should use available media for effective communication. There is a risk, therefore, that the Council's current approach may result in information of the incorrect type, quality and quantity being communicated to service users at the wrong time or in the wrong format for their needs.

Refer action plan point 18

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 the Council's best value arrangements. It is the responsibility of management to determine the systems of best value that are most 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 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 that came to our attention. Our procedures are designed to support our audit 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.

Grant Thornton UK LLP

23 August 2007

Action Plan

| No | Recommendation | Management Response | Responsible Officer | Implementation date |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| 1 | The Council should continue to develop the corporate working arrangements of the Senior Management Team to ensure key corporate themes are systematically implemented across all Council departments including best value, efficiency, performance management and risk management. | <p>The council has established 6 strategic boards covering HR, IT, Asset Management, Procurement & Shared Services, Customer First & Public Sector Reform and Performance Improvement.</p> <p>These boards are chaired by a spokesperson or director and will take forward further development of these key themes on a corporate basis.</p> | Chief Executive | Now in place |
| 2 | <p>The Council should review the effectiveness of its recently implemented political governance arrangements including:</p> <ul style="list-style-type: none"> the effectiveness of the operation and membership of the 'Council Executive' to ensure the benefits anticipated from streamlined decision making are achieved; the role of area committees, their lines of accountability, scrutiny and reporting arrangements; and the respective roles of Policy Performance Groups and the audit committee, to minimise the overall scrutiny burden within the Council. | The Council will undertake a formal review from June 2009 to August 2009 once the current arrangements have been in operation for an appropriate period of time. In addition to the formal review there are a number of operational aspects e.g. planning that will be looked at in the shorter term. | <p>Director of Corporate Services</p> <p>Director of Corporate Services</p> <p>Director of Corporate Services</p> | <p>August 2009</p> <p>August 2009</p> <p>August 2009</p> |
| 3 | The agendas of all departmental management team meetings should cover key corporate themes as a matter of routine. | Agreed | All Directors | October 2007 |

Action Plan

| No | Recommendation | Management Response | Responsible Officer | Implementation date |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| 4 | The Council should set clearer timescales for implementing strategies covering key cross cutting best value themes including best value, efficient government, risk management and performance management. The Council should aim to ensure these strategies are implemented across all council services as quickly as possible in order to embed the culture of performance and improvement into operational management. | <p>Agreed.</p> <p>The Council will develop a timetable for implementation of strategy by October 2007. Thereafter these will be monitored quarterly.</p> <p>Best Value</p> <p>Efficient Government</p> <p>Risk Management</p> <p>Performance Management</p> | <p>Policy & Strategy Manager</p> <p>Head of Strategic Finance</p> <p>Head of Democratic Services & Governance</p> <p>Policy & Strategy Manager</p> | Ongoing from October 2007 |
| 5 | The Council should accelerate the current timetable for implementing its performance management system across all Council services as quickly as possible. | A report for the Executive Committee outlining options to achieve an accelerated implementation of the performance management system will be prepared. | Chief Executive | October 2007 |
| 6 | The Council should take steps to incorporate benchmark information into its performance management system to establish its relative performance across both its operations and with other local authorities. | Already in place for SPI. As individual services are implemented through Pyramid then use of benchmarking will be incorporated. | Policy & Strategy Manager/Heads of Service | Already underway and ongoing. |
| 7 | The Council's corporate and service plans should be developed further to incorporate Specific, Measurable, Attainable, Realistic and Timebound (SMART) targets and milestones to provide greater clarity around performance expectations. | The current review of the corporate plan and preparation of service plans will take account of this. | Policy & Strategy Manager/Heads of Service | December 2007 |
| 8 | The Council should develop its risk management arrangements as an effective operational management tool. The 'strategic risk register' should be extended to cover both strategic and operational risks. | Loss control groups in each department are developing operational risk registers the strategic and operational risk registers and as this happens the strategic and operational risk register will be incorporated into pyramid. | Head of Democratic Services & Governance | Ongoing in line with implementation of Pyramid System |
| 9 | The Council should formally evaluate the resources, skills and expertise required to undertake reviews of efficiency and performance, and to implement the recommendations from these reviews. The Council should establish a programme of training, recruitment and/or external support (for example, | A report for the Executive Committee outlining options for taking this forward will be prepared. | Chief Executive | October 2007 |

Action Plan

| No | Recommendation | Management Response | Responsible Officer | Implementation date |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|---------------------------------------------------------------------|
| | consultants or peer review arrangements) to meet any identified skills gap. | | | |
| 10 | The Council should continue to be proactive in identifying and applying best practice and new ways of working including, for example, use of peer review and external challenge, and identifying and sharing best practice. | Agreed. | SMT | Ongoing |
| 11 | The Council should establish a timetable for meeting its e-government agenda targets taking account of the development of customer contact centres, and to take full advantage of the opportunity for more effective and efficient working. | The customer service centre board will provide recommendations to the council in November 2007 as to a forward plan for implementing the remaining government electronic service delivery targets and identifying other customer service activities for implementation within the customer service centre. The pace of delivery will be dependant on the resources available to implement the project and will be detailed to the council. | Head of Democratic Services & Governance | Ongoing from April 2008 completion dependant on resources and scope |
| 12 | The Council should further develop its asset management strategy, particularly for non-educational assets, to cover issues such as utilisation, state of repair and energy efficiency. | Recent work undertaken provides a sound basis for taking this forward. An action plan has been prepared covering the issues raised. | Director of Development Services | October 2007 and ongoing |
| 13 | The Council should review assets which are surplus to requirements and establish a clear plan for managing its surplus assets as soon as practicable. | Agreed | Corporate Asset Manager | December 2007 |
| 14 | The Council should establish a systematic process for identifying, measuring, monitoring and reporting on efficiency. The Council should also develop a programme of efficiency savings to meet central government targets and expectations. | Agreed – will be incorporated into 2008/09 planning and budget process. | Head of Strategic Finance | February 2008 |
| 15 | The Council should develop an action plan for implementing its strategy for shared services and joint working with its partners. Best value reviews should explicitly consider whether existing Council services could be provided on a shared basis going forward. | Agreed – Draft Action Plan already submitted to SMT and will be considered by Shared Service & Procurement Board | Head of ICT & Financial Services | October 2007 |
| 16 | The Council's budgets should be better aligned with corporate priorities. The Council should explore ways of developing the link between performance and financial management. | This will be incorporated into 2008/09 Planning and Budgeting exercise | Head of Strategic Finance | Immediate |
| 17 | The Council should build planned efficiency savings into its budget management, monitoring and reporting arrangements. | This will be incorporated into 2008/09 Planning and Budgeting exercise | Head of Strategic Finance | February 2008 |

Action Plan

| No | Recommendation | Management Response | Responsible Officer | Implementation date |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| 18 | The Council should identify the performance information requirements of the Council's partners, service users and citizens at both a corporate and service level. Public Performance Reporting should be undertaken as part of an overall corporate communications strategy. | The performance information requirements for public performance reporting will be identified in detail with each service during the roll-out of the Pyramid performance management system. | Policy & Strategy | As per Phase 2 programme for Pyramid |
| | | Policy and Strategy team will develop guidance for services on public performance reporting, highlighting the ways in which information can and cannot be used and presentation to ensure effective communication. | Policy & Strategy and Communications | December 2007 |

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
14 DECEMBER 2007

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2007 - 2008

1. SUMMARY

The Code of Practice for Internal Audit in Local Government (the Code) issued by CIPFA in 2000 sets out good practice in delivering internal audit services. The Code was recently revised to reflect the changing requirements and expectations of internal audit in local government. Grant Thornton UK LLP, in May 2007 carried out a Code compliance review and produced a report. One resultant recommendation for the section to become fully compliant with the Code, requested that findings from internal audit work should be reported to the Audit Committee. Attached are findings and summaries from recent audits. See Appendix 1.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 Set out below and in the attached Appendix is the Executive Summaries and Action Plans where applicable from finalised audit work. The Action Plans detail only those recommendations where Internal Audit in agreement with management have classified the finding either Fundamental or Material. Therefore Minor findings and recommendations have been removed. The contents of this report will therefore complement the External & Internal Audit Follow Up report provided to the Audit Committee on a quarterly basis.

3.2 As at the 16th of November 2007, of 18 core financial systems audits set out in the audit plan, 7 have been completed. Three final reports were presented to the Audit Committee in September 2007. A further 3 final reports are included for this reporting period for the following audit areas:

- Payments to Voluntary Bodies (Following the Public Pound),
- Creditor Payments; and
- Council Tax & Non Domestic Rates.

The remaining audit, Contract Hire & Operating Leases is at a final draft stage and the report will be presented after a final meeting with management.

3.3 Of 15 non-financial audit areas identified for this years audit plan, as at the 16th of November 2007, 6 audits have been completed. Three final reports were presented to the Audit Committee in September 2007. A further 2 final reports are included for this reporting period for the following audit areas:

- Social Work – Legislative Compliance; and
- Roads and Amenity Services – Waste Management Administration.

The remaining audit, Community Services - Disclosure Scotland is at a final draft stage, and a paper is currently being prepared for the Strategic Management Team (SMT). The report will be presented to the Audit Committee when the SMT has agreed the paper.

4. CONCLUSIONS

Executive summaries and action plans from final reports will be submitted to the Audit Committee.

5. IMPLICATIONS

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

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216).
Ian Nisbet, Internal Audit Manager. 21 November 2007
21Novfinalreport21Nov.

APPENDIX 1

- Payments to Voluntary Bodies (Following the Public Pound);
- Creditor Payments;
- Council Tax and Non Domestic Rates;
- Social Work – Legislative Compliance; and
- Waste Management Administration.

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FINAL REPORT

Internal Audit Report

Corporate Services Department

Review of Creditors 2007/08

November 2007

Internal Audit Manager

Ian Nisbet MBA, MSc, ACMA, MIIA

Auditor

Dave Strong BSc, CPFA

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APPENDICES

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| 1 | DETAILED FINDINGS |
| 2 | ACTION PLAN |

1. BACKGROUND

- 1.1 The Creditors Section which is based at Campbeltown within the Corporate Services Department, ICT & Financial Services, receives invoices from all Council departments for processing. The Section processes about 12,000 invoices monthly and around 150,000 in a full year.
- 1.2 The Creditors Section relies heavily on the operations carried out by departmental creditor staff under the direction of local management. To assist with this process a user manual was issued for guidance to all departments by the Creditors Section to be effective from April 2005 describing in detail the accounts payable procedures.
- 1.3 The Creditors Supervisor meets with all Departments annually to discuss and find solutions to any operational problems. The Creditors Supervisor also occasionally attends Education Service, Administration & Financial Assistants (AFA) meetings, whilst his assistant deals with DMR (Devolved Management of Resources) problems.
- 1.4 A review of the Creditors Section was last carried out as part of the 2005/2006 Internal Audit Programme.
- 1.5 The 2005/2006 audit concentrated on establishing whether departments were complying with the procedures set out in the user manual referred to above. Also some work was carried out on the introduction of the Professional Electronic Commerce Online System (Pecos).
- 1.6 This year's audit review has concentrated on issues raised during a meeting recently held between the Creditors Supervisor and Internal Audit.
- 1.7 Various creditor issues were discussed and the Supervisor's opinion obtained as to any difficulties or problems needing to be addressed with regard to each issue.
- 1.8 These issues were then considered by the Audit Manager and an audit programme drafted.
- 1.9 This audit programme was then agreed with the Creditors Supervisor before the audit commenced.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to test departmental Creditor operations, to ensure that the issues raised by the Creditors Supervisor were being addressed in a satisfactory manner by the Creditors Section and/or by departments. The matters raised and tested were:-

- Authorisation Procedures;
- Authenticated Receipts Procedures;
- PECOS procedures in advance of the Internal Audit/KPMG joint audit;
- Problems with Departments;
- Statutory PI Procedures;
- Urgent Payment Procedures;

- Suppliers' Master File;
- C.I.S. Deductions;
- Discounts Allowed;
- Ledger Coding; and
- Duplicate Payments.

The adequacy of the arrangements to meet the objectives has been assessed using a grading of one to five ticks (✓ 's). Five ticks indicate that good arrangements are in place, and one tick that inadequate arrangements are in place. The assessments are set out in section 6.2 (Figure 1). The assessments have been made by considering the value and significance of the findings and recommendations.

3 AUDIT APPROACH

The following approach was used to satisfy the objectives of the audit;

- An Audit Agreement Document (AAD) was prepared and forwarded to the Creditors Supervisor for his agreement. The Agreement set out the main objectives of the audit approach and scope.
- An interview was arranged then with the Creditors Supervisor to agree the AAD before commencing the audit.
- Relevant testing was then completed.
- A draft report was prepared and a copy passed to the Creditors Supervisor, the Exchequer Manager and the Head of ICT & Financial Services for comment and agreement. After comments were received the report was amended as appropriate and copies of the final report issued to all Directors, relevant Heads of Service and all Finance Managers and other designated staff for their attention and action.
- The final report includes an action plan, which lists all agreed actions and a copy has been provided to the Chief Executive.

4 SUMMARY OF MAIN FINDINGS

The overall conclusion is that the Creditors Supervisor and his staff have a sound understanding of the creditors systems and that they work together in a professional manner to achieve the section's objectives.

The main findings and conclusions shown against each of the 11 areas tested are set out below. Detailed findings to back up the conclusions are shown at Appendix 1.

4.1 Authorisation Procedures

The Creditors Supervisor is satisfied that his staff are finding that the lists of Authorised Signatories kept in the Creditors section are now easier to access and use, and that the checking of signatories is working to his reasonable satisfaction. Nevertheless there a number of matters that arose from the audit.

- The responsibility for ensuring that authorisation of all invoices within a batch lies with the batch authoriser and all batch authorisers must be totally aware of this responsibility. Audit has been assured by the Finance Managers that this is the case.

- In order to improve control the Creditors Supervisor should consider carrying out spot checks on a sample of batches incorporating invoices under £10K and report any errors found to the Exchequer Manager. Separate procedures are in place already to authorise all invoices valued in excess of £10K. The Creditors Supervisor says that “as no errors have been identified over the years the system has been operating and to begin these random checks would not be cost effective”. Internal Audit has noted this as an area for checking next year.
- The Creditors Section would benefit from the availability of up to date spreadsheet lists of authorised signatories prepared by each Department. These, in the main, are already available (Operational Services and Community Services have such lists). It is recommended that all Departments prepare spreadsheet lists of current authorised signatories and make them available on the Council’s public folders. The lists should be password controlled and updated on a regular basis.
- The Creditors Section has commenced the compilation of a list of all known authorised signatories for the whole Council. From the departmental lists already available it is replicating the data on a spreadsheet which shows details of levels and values that staff are authorised to sign for. A page number is also shown which matches to a page in a folder which shows the actual signature. This is expected to be completed by 31 March 2008 and will be a valuable asset to the section when it is in place.
- Copies of authorised signatory signatures should not be available on the public folders.

4.2 Authenticated Receipts (AR)

- The system for controlling the receipt of AR is operating well, but could be improved by deciding on the best course of action to follow in the event of stopped payments to the contractor not having the desired effect i.e. AR still not forwarded to the Council. It is recommended any contractor who fails to supply AR after payments are stopped should be reported to the Revenue. The Creditors Supervisor says that “he doesn’t accept this point as experience has shown that there has only ever had cause to stop payments to a couple of suppliers and there is no legal requirement to make contact with HMRC”.

4.3 PECOS

- The Creditors Supervisor has recently met with the PECOS management and is now less concerned about PECOS processes ;
- There is a facility for further meetings between the Creditors Supervisor and Pecos management to sort out problems;
- It is planned for the DMR system to be replaced in schools by the Pecos system within the near future;
- Internal Audit feels that the cessation of the DMR system and its replacement by PECOS within the timescales planned will, in view of the problems to be resolved, be difficult to achieve, but that once Education

Services are fully using PECOS its use throughout the Council will roll out much quicker;

- In view of the savings which should arise from the use of PECOS it is important therefore that the timescales set for the replacement of the DMR system are achieved as far as is possible.
- In order to assist this process regular meetings will be required between the various key staff involved in implementing the changes i.e. Creditors, PECOS and School Administration and Accountancy staff;
- As the process rolls on the Creditors Supervisor will be required to issue purchase cards to all Primary Schools as needed. The issue and control of these purchase cards will require careful scrutiny by audit. Internal Audit has noted this matter for inclusion in a future audit programme.

4.4 Problems with Departments

- The Creditors Supervisor said there were no major problems with particular departments;
- He visits each Department annually to discuss any problems with the payments system both from his point of view and the clients;
- He keeps notes of the meetings and follows up all agreed actions. These notes are handwritten and rather informal. It is recommended that more formal notes of these meetings are kept by the Creditors Supervisor.

4.5 Statutory PIs

- Audit has concluded that the system is well controlled. However, it was noticed that PECOS payments were included within Corporate Services statistics and also that clothing grants were incorporated into Community Services. It is felt that the information to management would be improved if these statistics were separately shown. It is recommended therefore that the Exchequer Manager considers presenting the PI statistics to managers in a form which reflects these matters.

4.6 Urgent Payments

- There were no matters to report here.

4.7 Suppliers Master file

- The supplier/ creditor master file register currently includes data which is superfluous or out of date. To enable the register to be cleared of this unnecessary data there is to be an upgrade to Oracle and testing by Strategic Finance and Creditors. The upgrade is expected to be in place by the end of November 2007.
- A purge of the file will be then carried out to be completed by the end of March 2008. The Creditors Supervisor has pointed out that that a similar exercise is carried out every few years.

- It is important that this upgrade and purge is carried out within the indicated timescales.

4.8 CIS Deductions

- The current deductions are relatively immaterial amounts. There is however the possibility that the deductions will increase in the future. The Creditors Supervisor has commented that "although the amounts involved are relatively minimal the legislation must be adhered to and that processes adopted must be fool-proof to prevent any possibility of incurring penalties. Internal Audit has therefore noted this matter for future audit.

4.9 Discounts Allowed

- There is no clear issue regarding discounts allowed from PECOS invoices but, it may be worthwhile for Internal Audit in conjunction with KPMG to review this further.

4.10 Ledger Coding

- The Creditors Supervisor has reported that inactive ledger codes can cause his section difficulties. This can occur for example if a cheque needs to be reversed but the original ledger code has been withdrawn by Strategic Finance. He asked if anything could be done to assist.
- Strategic Finance has agreed to pass the Creditors Supervisor details of any future codes withdrawn and to continue to press ICT for an electronic solution.

4.11 Duplicate Payments

- The Creditors Supervisor has indicated that duplicate payments are not a material problem and that the system is set up to identify payments for investigation before a payment is made;
- Presented to internal audit was an example of a potential duplicate payment which fitted into that category and was picked up by the system before payment was made;
- This was an invoice from a consultant engineer passed for payment by the Operational Services Department. It has raised the question as to how such an invoice was passed by the department for payment and how to prevent a similar occurrence in the future;
- The "duplicate" payment appears to have been a one off event arising from an error by the consultants. The Principal Engineer agreed that his procedures could be improved to prevent a similar occurrence in the future and that he needed to amend his procedures. He is to amend his computer software accordingly.

5 ACTION PLAN

- 5.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Head of ICT and Financial Services, and the Creditors Supervisor. All other officers named in the Action Plan have also been consulted.

- 5.2 It is the consideration of Internal Audit that, in an effort to improve the quality of financial information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decide not to implement recommendations it must evaluate and accept the risk associated with this decision.
- 5.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definition of each classification is set out below: -

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

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

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

6 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 6.1 Despite the weaknesses identified, the payments procedures appear to be operating satisfactorily. However, during the course of the audit, areas were identified as requiring improvement and therefore, various recommendations have been made. These have been discussed with management and an action plan agreed. Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.

6.2 Figure 1 below sets out a summary of the overall conclusions arising from the audit in terms of the specific objectives detailed at section 2.

Figure 1: Summary of overall conclusions

| Specific objectives | Assessment |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Authorisation Procedures | ✓✓✓✓ |
| Authenticated Receipts | ✓✓✓✓ |
| PECOS. | ✓✓✓✓ |
| Problems with Departments | ✓✓✓✓ |
| Statutory Pls | ✓✓✓✓ |
| Urgent Payments | ✓✓✓✓ |
| Suppliers Master file | ✓✓✓ |
| CIS Deductions | ✓✓✓✓ |
| Discounts Allowed | ✓✓✓✓ |
| Ledger Coding | ✓✓✓✓ |
| Duplicate Payments | ✓✓✓✓ |
| <p>Key:</p> <p>✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily.</p> <p>✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement.</p> <p>✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement.</p> <p>✓✓ - Arrangements in place offer scope for substantial improvement.</p> <p>✓ - Concern is expressed about the adequacy of the scope of these arrangements</p> | |

7 ACKNOWLEDGEMENTS

- 7.1 Thanks are due to the Exchequer Manager and the Creditors Supervisor and his section, for their assistance during the audit and the preparation of the report and action plan.
- 7.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives set out in paragraph 2 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 7.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2
 ACTION PLAN**

| ACTION PLAN NO | PARAGRAPH | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION |
|-----------------------|------------------|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------|
| 1 | App.1 Para 1 | Material | Creditors Section would benefit from the availability on the Councils Public Folders of an up to date spreadsheet list of authorised signatories from each Department. These are in the main already available. (Operational and Community Services have such lists) | The Creditors Section is to prepare spreadsheet lists of current authorised signatories and make them available on the Council's public folders. The lists should be password controlled and updated on a regular basis. | Creditors Supervisor | 31 March 2008 |
| 4 | App. 1 Para 7 | Material | The Supplier/ Creditor master file register currently includes data which is superfluous or out of date. | There is to be an upgrade to Oracle and testing by Strategic Finance and Creditors. The upgrade is expected to be in place by the end of October 2007. A purge of the file will be then carried out to be completed by the end of March 2008. | Creditors Supervisor and Senior Accounting Assistant Corporate Accounting | 31 March 2008 |



FINAL

Internal Audit Report

Corporate Services Department

**Review of Council Tax &
Non-Domestic Rates**

September 2007

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| 6. ACKNOWLEDGEMENTS | 3 |

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Council Tax and Non-Domestic Rates as part of the 2007 – 2008 Internal Audit programme. We identified current practices and critically evaluated these to the standing orders in order to highlight variances.
- 1.2 The Council Tax section administers and collects Council Tax for over 46,000 residential properties in Argyll & Bute. The Council also administers and collects charges for domestic water and sewerage on behalf of Scottish Water. The Council maintains the data base of residential properties and updates it for changes of owners and residents and applications for exemptions and discounts are processed.
- 1.3 Non - Domestic Rates (NDR) are charged on commercial properties based on a rateable value fixed by the Assessor (Dunbartonshire and Argyll & Bute Valuation Joint Board). For 2007-2008 the poundage charged is 44.1p. In certain circumstances, reliefs are available for charitable organisations, disabled persons, empty properties, rural properties and small businesses with a rateable value under £11,500.
- 1.4 Direct Debit is the Council's preferred method of payment for Council Tax and NDR and may be paid in instalments. Payments can also be made by post, at any Post Office and at Council offices. Payment by debit/credit card can be arranged by telephone or via the internet.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to ensure:
- All relevant data from the valuation list is promptly and correctly transferred to the billing system/Assessment Roll.
 - Bills are correctly calculated (including discounts, reliefs etc) for all relevant properties.
 - Only valid amendments can be made to the billing system.
 - Payments received are promptly processed and correctly posted to the taxpayers'/ratepayers' accounts.
 - Write offs, cancellations and refunds are properly controlled.
- 2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to five ticks (✓ 's). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 5 (figure 1). The assessment has been made by considering the value and significance of any findings and recommendations.

3 AUDIT APPROACH

3.1 The following approach was used to satisfy the objectives of the audit:

- Revenues Manager was approached to provide a brief outline of the scope of the audit and estimated timings.
- Current practices were discussed with the Council Tax Supervisor and Senior Revenues Assistant and noted on the SAM control summaries.
- It was explained that the Auditor would call for evidence on a sample basis as appropriate to back up the responses.
- The documents and information provided together with the completed control summary were reviewed by Audit and queries arising were subsequently raised with Auditees.
- Appropriate compliance and substantive tests were devised and carried out and as part of the exercise, visits were made to Witchburn Road, Campbeltown.
- All findings/matters arising were raised and discussed with the Council Tax Supervisor and Senior Revenues Assistant.
- A draft report was prepared and a copy passed to the Head of ICT & Financial Services and Revenues Manager for comments.
- Comments were included in the final report, which was then passed to the Director of Service.

4 SUMMARY OF MAIN FINDINGS

4.1 Internal Audit found that controls were effective and no recommendations have been generated as a result of this review.

5 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

5.1 The Council Tax and Non-Domestic Rates sections have a good working knowledge of the processes involved. During the course of the audit, there were no significant areas identified as requiring improvement.

5.2 Figure one below sets out a summary of the overall conclusions arising from the audit in terms of the specific objective detailed at section 2.1

Figure 1: Summary of overall conclusions

| Specific objectives | Assessment |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| All relevant data from the valuation list is promptly and correctly transferred to the billing system/Assessment Roll. | ✓✓✓✓✓ |
| Bills are correctly calculated (including discounts, reliefs etc) for all relevant properties. | ✓✓✓✓✓ |
| Only valid amendments can be made to the billing system. | ✓✓✓✓✓ |
| Payments received are promptly processed and correctly posted to the taxpayers'/ratepayers' accounts. | ✓✓✓✓✓ |
| Write offs, cancellations and refunds are properly controlled. | ✓✓✓✓✓ |
| <p>Key:</p> <ul style="list-style-type: none"> ✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily. ✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement. ✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement. ✓✓ - Arrangements in place offer scope for substantial improvement. ✓ - Concern is expressed about the adequacy of the scope of these arrangements. | |

6 ACKNOWLEDGEMENTS

- 6.1 Thanks are due to the Council Tax and Non-Domestic Rates sections for their co-operation and assistance during the Audit and the preparation of the report and action plan.
- 6.2 Argyll & Bute Council's internal audit department has prepared this report. Our work was limited to the scope in paragraph 2.1 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 6.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an Internal Audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

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FINAL

Internal Audit Report

Community Services Department

Social Work Legislative Compliance

October 2007

Ian Nisbet MBA, MSc, ACMA, MIIA

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APPENDICES

ACTION PLAN

1. BACKGROUND

- 1.1 Direct audit days were set aside within the 2007 – 2008 Internal Audit programme for a review of New Legislation.
- 1.2 Under Governance & Risk, Internal Audit is required to look at how the responsibility for implementing New Legislation is dealt with by Council departments. In last years audit 2 key risk areas were reviewed to ensure that:
- Management were aware of changes in legislation and therefore have not failed to implement; and/or
 - Management were aware of changes in legislation but cannot fully comply because their staff has not been provided appropriate training.
- 1.3 An action plan was drawn up and implementation of the reports findings carried out.
- 1.4 This year the emphasis of the audit was directed towards a specific area namely, Social Work and the efforts of Community Services Department to keep track of various changes in Legislation and how this in turn can influence the robustness of compliance.
- 1.5 As a result of our work, findings were generated. These findings were subsequently discussed with management and a draft report produced. Management comment was then included along with an agreed Action Plan and a final report produced.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The audit looked at what controls the Social Work service has in place to prevent a failure to implement or comply with Amended or New Legislation. The audit will look at what formal recognition there is within Social Work regarding managing the risk of not complying with legislation. The broad objective of the audit is to:
- Test that suitable systems are in place to ensure the Social Work Service complies with statutory obligations, both in terms of legislation specific to the functions of the service and the wider legislative requirements of the Council.
- 2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to five ticks (✓'s). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 6 (figure 1). The assessment has been made by considering the value and significance of the findings and recommendations.

3 AUDIT APPROACH

- 3.1 The following approach was used to satisfy the objectives of the audit:
- Interviews with officers of the Community Services Department - Social Work Service Management;
 - Review of documentation relating to relevant of legislation and actions carried out;
 - Identification, using control matrices, of key controls required and level of compliance with them; and
 - Any problem areas highlighted were brought to the attention of the appropriate Director.
- 3.2 A draft report with audit findings was prepared for the Community Services Department – Heads of Service for Adult Care Service and Children & Families for comments.
- 3.3 Management comments were then included in a final report, which was then passed to the Director of the Community Services Department. The final report includes an Action Plan, which lists the actions agreed with management.

4 SUMMARY OF MAIN FINDINGS

- 4.1 Internal Audit found from the completed Internal Audit Control Matrices that both sections had a similar process in place to identify impending and or amended legislation. They used their Departmental Management Team (DMT) to discuss impending changes to legislation. Heads of Service also involved their management as a matter of routine in the process for monitoring and implementation of legislation. However, these processes are informal and solely reliant on management being aware of legislation changes.
- 4.2 The audit found that both Heads of Service ensure that training is provided as and when required to support management and staff. It was also noted that this training was recorded.
- 4.3 In conclusion, there have been no recorded issues of the service failing to comply with amended or New Legislation. Responsibility for implementing legislation is being managed within the service however, informal processes need to be formalised.

5 ACTION PLAN

- 5.1 The Action Plan attached at Appendix 2 has been compiled with the co-operation and agreement of both Heads of Service.
- 5.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed Action Plan. Both Heads of Service have set

achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

- 5.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification is set out below:-

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

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

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

6 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 6.1 Both sections have a good working knowledge of the processes involved in the implementation of amended and New Legislation. However, during the course of the audit, some issues were identified that would improve management controls. Therefore a recommendation has been made, discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)
- 6.2 Figure one below sets out a summary of the overall conclusions arising from the audit in terms of the specific objectives detailed at section 2.1.

Figure 1: Summary of overall conclusions

| Specific objectives | Assessment |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Test that suitable systems are in place to ensure the Social Work Service complies with statutory obligations, both in terms of legislation specific to the functions of the service and the wider legislative requirements of the Council. | ✓✓✓✓ |
| <p>Key:</p> <ul style="list-style-type: none"> ✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily. ✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement. ✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement. ✓✓ - Arrangements in place offer scope for substantial improvement. ✓ - Concern is expressed about the adequacy of the scope of these arrangements. | |

7 ACKNOWLEDGEMENTS

- 7.1 Thanks are due to both Heads of Service and their staff for their co-operation and assistance during the Audit and the preparation of the report and Action Plan.
- 7.2 Argyll & Bute Council's internal audit section has prepared this report. Our work was limited to the scope in section 2 above. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 7.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

| ACTION PLAN NO | PARAGRAPH | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION |
|-----------------------|------------------|--------------|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------|
| 3 | 1.6 | Material | There is no service or departmental register to log the New Legislation and subsequent changes to existing legislation. | It is recommended that a central log is set up for the recording of the receipt of received legislation new and amended. This will therefore provide a verifiable record for all received legislation. | Head of Adult Care & Head of Children & Families. | 31 March 2008 |
| 4 | 3.2 | Material | At present there is no rolling programme of procedural updates established as part of management arrangements. | The Heads of Service have confirmed that a rolling programme of procedural updates will be established as part of the new management arrangements. | Head of Adult Care & Head of Children & Families. | 31 March 2008 |

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FINAL

Internal Audit Report

Operational Services Department

**Review of Roads & Amenity Services – Waste Management
Administration**

September 2007

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APPENDICES

| | |
|---|-------------------|
| 1 | DETAILED FINDINGS |
| 2 | ACTION PLAN |

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Roads & Amenity Services – Waste Management Administration as part of the 2007/2008 Internal Audit programme. We identified current practices and critically evaluated these to the standing orders in order to highlight variances.
- 1.2 In recent years the Strategic Waste Fund Grant and the PPP with Shanks has been the subject of review by Internal Audit. Currently there are a number of issues affecting Waste Management; these include introduction of alternate weekly collections, assisted uplift policy, efficiency of existing refuse and recycling routes.
- 1.3 The administration of Waste Collection was therefore seen as an appropriate topic for review. The Section operates 35 vehicles for collecting waste. Mainland Argyll & Bute excluding Helensburgh and Lomond is part of the PPP with Shanks while the Council operates directly the islands and Helensburgh and Lomond.
- 1.4 As a result of our Audit work, findings were generated. These findings were subsequently discussed with management and a report produced.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to ensure:
- That waste vehicles downtime is managed and kept to a minimum; and
 - That non productive time is duly authorised;
- 2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to five ticks (✓ 's). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 6 (figure 1). The assessment has been made by considering the value and significance of the findings and recommendations.

3 AUDIT APPROACH

- 3.1 The following approach was used to satisfy the objectives of the audit:
- An initial meeting was held with management representatives and following these discussions it was agreed we would concentrate on two areas these being Helensburgh and Lomond and Mid Argyll.

- The administration system for waste collection was identified and documented and an internal control questionnaire devised.
- It was explained that the Auditor would call for evidence on a sample basis as appropriate to back up the responses.
- The documents and information provided together with the completed control summary were reviewed by Internal Audit and queries arising were subsequently raised with Auditees.
- Appropriate compliance and substantive tests were devised and carried out and as part of the exercise; visits were made to the Helensburgh and Kilmory Depots as well as the vehicle workshop in Helensburgh, Blairvadach House and Manse Brae.
- All findings/matters arising were raised and discussed with the Supervisors and Managers as well as Senior Management.
- A draft report was prepared and a copy passed to the Head of Service and the Assistant Operations Manager - Waste for comments.
- Comments were included in the final report, which was then passed to the Departmental Strategic Director.
- The final report includes an action plan, which lists all actions agreed with management.

4 SUMMARY OF MAIN FINDINGS

- 4.1 Internal Audit found that the Depots ceased recording vehicle downtime at the end of 2005/06.
- 4.2 The Driver's Daily Defect Check Record was not being accurately completed.
- 4.3 The Helensburgh Depot Driver's Record Books did not record the actual time they finished their working day.
- 4.4 Driver's Record Books and employee's Time Sheets and hence non productive time were appropriately authorised.

5 ACTION PLAN

- 5.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Area Managers.
- 5.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable

implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

- 5.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification is set out below:-

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

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

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

6 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

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

Figure 1: Summary of overall conclusions

| Specific objectives | Assessment |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| That waste vehicles downtime is managed and kept to a minimum | ✓✓ |
| That non productive time is duly authorised | ✓✓✓✓✓ |
| <p>Key:</p> <ul style="list-style-type: none"> ✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily. ✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement. ✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement. ✓✓ - Arrangements in place offer scope for substantial improvement. ✓ - Concern is expressed about the adequacy of the scope of these arrangements. | |

7 ACKNOWLEDGEMENTS

- 7.1 Thanks are due to The Auditee's section for their co-operation and assistance during the Audit and the preparation of the report and action plan.
- 7.2 Argyll & Bute Council's internal audit department has prepared this report. Our work was limited to the scope in paragraph 1.2 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us
- 7.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

| ACTION PLAN NO | PARAGRAPH | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION |
|----------------|-------------|----------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------------|
| | | | | attached to the Vehicle Daily Defect Check Record form and returned to the Supervisor at the end of each month. 4. Each month the Supervisor should ensure that he receives a Vehicle Daily Defect Check and Defect Record for each vehicle together with the blue copy Defect Record Book Form and retain these in an individual vehicle file. This will provide a full defect /downtime record for each vehicle. | Area Supervisors | November 2007 |
| 2 | 1.7 to 1.11 | Material | 1. Driver's Record Books weekly sheets are not always completed. | 1. All operatives who are required to drive a Council vehicle even if intermittently should be issued with a Driver's Record Book to be | Area Supervisors | November 2007 |

| ACTION PLAN NO | PARAGRAPH | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION |
|----------------|-----------|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| | | | <p>2. There is an inconsistency in the treatment of the lunch break in the completion of Driver's Record Books.</p> <p>3. The Driver's Record Books at Helensburgh & Lomond did not record the time the driver went off duty.</p> <p>4. At Helensburgh & Lomond a Task & Finish regime is operated as a result of custom and practice as opposed to any formal arrangement</p> | <p>completed in respect of any week in which he is required to drive</p> <p>2. The way in which lunch is to be recorded or omitted should be decided by management and driver's instructed accordingly in order that consistency of treatment is achieved.</p> <p>3. Drivers at Helensburgh and Lomond should record the actual time they go off duty in the Driver's Record Book thus providing a record of the effect of Task and Finish.</p> <p>4. Consideration should be given to rationalising the working arrangements within each Area or alternatively formalising existing arrangements</p> | <p>Assistant Operations Manager – Waste</p> <p>Area Supervisors</p> <p>Head of Roads and Amenity Services</p> | <p>November 2007</p> <p>November 2007</p> <p>March 2008</p> |

| ACTION PLAN NO | PARAGRAPH | GRADE | WEAKNESSES IDENTIFIED | AGREED ACTION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION |
|----------------|-----------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------------|
| | | | | by agreement. | | |
| 4 | 1.15 | Material | It is some 5 years since the waste collection routes were determined and timed and in that time it is probable that significant changes have occurred e.g. new house building, the introduction of wheelie bins. | The waste Collection routes should be reviewed and assessed at least every 4 years or earlier if significant change occurs in the interim. | Area Managers | December 2007 |

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