

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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12 September 2008

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 19 SEPTEMBER 2008** 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 27 June 2008 (Pages 1 - 6)
4. **SELF ASSESSMENT OF AUDIT COMMITTEE**
Presentation by Gary Devlin, Grant Thornton UK LLP, External Auditors
5. **AUDIT FOLLOW UP OF ISSUES FROM JUNE AUDIT COMMITTEE**
Report by Internal Audit Manager (Pages 7 - 16)
6. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2008-2009**
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- 10. PYRAMID - PROGRESS REPORT**
Report by Chief Executive's Unit (Pages 77 - 80)
- 11. SUMMARY OF QUARTERLY PERFORMANCE REPORTS**
Report by Chief Executive's Unit (Pages 81 - 84)
- 12. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY**
Report by Governance and Risk Manager (Pages 85 - 86)
- 13. INTERNAL AUDIT SECONDMENT POLICY**
Report by Internal Audit Manager (Pages 87 - 90)
- 14. INTERIM MANAGEMENT REPORT**
Report by Grant Thornton UK LLP, External Auditors (Pages 91 - 114)
- 15. REPORT ON INTERNAL AUDIT**
Report by Grant Thornton UK LLP, External Auditors (Pages 115 - 124)
- 16. IT SYSTEMS AND APPLICATIONS**
Report by Grant Thornton UK LLP, External Auditors (Pages 125 - 138)

AUDIT COMMITTEE

Councillor Gordon Chalmers
Councillor Bruce Marshall
Ian M M Ross
Christopher Valentine

Councillor Mary-Jean Devon
Councillor Roderick McCuish
Councillor Ron Simon

Contact: Fiona McCallum

Tel. No. 01546 604406

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 27 JUNE 2008**

Present:

Ian M M Ross (Chair)

Councillor Roderick McCuish

Councillor Ron Simon

Attending:

Charles Reppke, Head of Democratic Services and Governance

Bruce West, Head of Strategic Finance

Danny Longwill, Head of Personnel Services (for item 4)

Paul Cairns, ICT Development Manager (for item 3)

Alex Colligan, Internal Audit Manager

Gary Devlin, Grant Thornton UK LLP

Apologies:

Councillor Mary Jean Devon

Councillor Bruce Marshall

Councillor Gordon Chalmers

Dr Christopher Valentine

1. DECLARATIONS OF INTEREST

None declared.

2. MINUTES

The Minutes of the Audit Committee meeting held on 27 March 2008 were approved as a correct record.

3. COMMUNITY SERVICES - EDUCATION COMPUTER SERVICES REVIEW

The audit of the Education Network which was undertaken by Audit Scotland in 2004/2005 highlighted several recommendations that required action. The Audit Committee at its meeting on 27 March 2008 requested that the Head of Planning and Performance provide an explanation for the delay in implementation of the recommendations of the Education Computer Service Review. A report explaining the reasons for these delays was before the Committee for consideration.

Decision

To note the contents of the report.

(Reference: Report by Director of Community Services dated 27 May 2008, submitted).

4. MANAGING ATTENDANCE

A report advising on the Managing Attendance policy and procedures within the Council was considered.

Decision

To note the contents of the report.

(Reference: Report by Head of Personnel Services dated 16 June 2008, submitted).

5. INTERNAL AUDIT ANNUAL REPORT 2007-2008

Internal Audit has the responsibility to provide to the Audit Committee an Annual report that comments on the duties and audits carried out by the section throughout the financial year. The Annual Report for 2007 - 2008 was before the Committee for consideration.

Decision

To approve the Internal Annual Audit Report for 2007 - 2008.

(Reference: Report by Internal Audit Manager dated 10 June 2008 and Annual Internal Audit Report 2007-2008, submitted).

6. AUDIT COMMITTEE ANNUAL REPORT 2007-2008

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 revised in 2006 and Grant Thornton UK LLP, in May 2007 carried out a Code Compliance Review resulting in a report. One resultant recommendation required that the Audit Committee produce an Annual Report to the Council. A report summarising the work of the Audit Committee during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements was before the Committee for consideration.

Decision

To note and approve the contents of the report for submission to the Council.

(Reference: Report by Internal Audit Manager dated 9 June 2008, submitted).

7. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2008-2009

The Committee considered a report detailing the results from a review performed by Internal Audit on recommendations due to be implemented by 31 March 2008.

Decision

1. To note the contents of the report and that these will be followed up by Internal Audit; and
2. To agree that if Actions F4 and F5 detailed at Appendix 2 of the report are not implemented by the time the Audit Committee next meets the Head of Roads and Amenity Services be asked to report the reasons for this delay at the next Audit Committee meeting on 19 September 2008; and
3. To note that the Internal Audit Manager will advise the Procurement Staff that outstanding Action I2 detailed at Appendix 2 should be progressed and

does not need to wait until amendments are made to the Council's Constitution.

(Reference: Report by Internal Audit Manager dated 4 June 2008, submitted)

8. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY

A report on the progress being made with the implementation of the Council's Risk Management Business Continuity Strategy was considered.

Decision

1. To note the terms of the report; and
2. To note that the Head of Democratic Services and Governance hopes to bring a presentation on the work undertaken to implement the Council's Business Continuity Strategy to the next meeting of the Audit Committee.

(Reference: Report by Governance and Risk Manager dated 6 June 2008, submitted).

9. SUMMARY OF QUARTERLY PERFORMANCE REPORTS

A report summarising the Service quarterly reports for the period January to March 2008, consisting of the exceptional performance sections only was considered.

Decision

1. To note the contents of the report; and
2. To agree to invite the Performance Manager to the next meeting of the Audit Committee to give a progress report on the implementation of Pyramid.

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

10. AUDIT FOLLOW UP OF ISSUES FROM QUARTERLY PERFORMANCE REPORTS FROM MARCH AUDIT COMMITTEE

At the Audit Committee meeting on 27 March 2008 a request was made for an explanation on why there had been a rise from 71 to 100 employees in the top 2% of earners during the period October to December 2007. An explanation was also requested on the reason for the rise in exception reports relating to Audit Care. A report responding to these requests was considered.

Decision

To note the contents of the report.

(Reference: Report by Internal Audit Manager dated 8 June 2008, submitted)

11. BRUICHLADDICH PIER

The Committee considered a recommendation from the Economy Policy and Performance Group of 13 March 2008 requesting that the Audit Committee give consideration to the scrutiny of the Bruichladdich Pier Project.

Decision

To agree to give consideration to the scrutiny of the Bruichladdich Pier project at the appropriate time.

(Reference: Extract from Minute of the Economy Policy and Performance Group of 13 March 2008, submitted).

12. UNAUDITED ANNUAL ACCOUNTS 2007-2008

The Committee considered the Unaudited 2007/2008 Annual Accounts which had previously been considered by the Council.

Decision

To note the Unaudited Annual Accounts for 2007/2008.

(Reference: Report by Head of Strategic Finance dated 20 June 2008 and Unaudited Annual Accounts 2007/2008, submitted)

13. REPORT ON 2007-2008 INTERNAL CONTROL STATEMENT (ICS)

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. Internal Audit have provided an annual overall assessment of the robustness of the Internal Control System for the financial year 2007 – 2008 for the Head of the Strategic Finance and this was submitted for consideration.

Decision

To note the contents of the report and the Draft Internal Control Statement for 2007 – 2008 which maybe updated further when Grant Thornton completes their review of the Council's Annual Accounts for 2007 – 2008.

(Reference: Report by Internal Audit Manager dated 9 June 2008 and Draft Internal Control Statement 2007 – 2008, tabled)

14. INTERIM MANAGEMENT REPORT

It was noted that this report was not available and would be considered at a future meeting of the Committee.

15. REPORT ON INTERNAL AUDIT

A report detailing the External Auditor's follow up review of the Council's progress in implementing recommendations from their report entitled " Review of

Internal Audit" issued in May 2007 was before the Committee for consideration.

Decision

It was agreed to continue consideration of this item to the next meeting of the Committee.

(Reference: Report by Grant Thornton UK LLP, External Auditors, dated 30 May 2008, tabled)

16. IT SYSTEMS AND APPLICATIONS

It was noted that this report was not available and would be considered at a future meeting of the Committee.

17. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE

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

Decision

To note the contents of the report and that these will be followed up by Internal Audit.

(Reference: Report by Internal Audit Manager dated 19 June 2008, submitted)

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

18. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE

A report detailing executive summaries and actions plans (where applicable) for finalised special investigative work undertaken by Internal Audit was before the Committee for consideration.

Decision

To note the contents to the report.

(Reference: Report by Internal Audit Manager dated 19 June 2008, submitted)

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
19 SEPTEMBER 2008

AUDIT FOLLOW UP OF ISSUES FROM JUNE AUDIT COMMITTEE

1. SUMMARY

Equality Impact Assessments – From the External and Internal Audit follow up report submitted to June 2008 Audit committee Internal Audit was asked to provide this Committee with an update on the Equality Impact Assessments carried out by departments. An Equality and Diversity half-yearly report was submitted to SMT on 20 May 2008. A copy of the report is attached with a note of the programme of Equality Assessments to be carried out.

Supply of library books. – Councillor Simon asked what the arrangements were for the supply of library books. He wanted to know if the Council used a specialist supplier and if there were instances when books were obtained from local suppliers. Contact was made with the Culture and Libraries Manager who supplied a list of the Council's regular suppliers of library books with the relevant discount ranges. A copy of the list is attached..

2. RECOMMENDATIONS

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

3. DETAILS

3.1 At the Audit Committee on 27 June 2008 as part of the External and Internal Audit follow up reports i.e. Follow up of SMT decisions the members requested an update on the Equality Impact Assessments to be carried out by departments. A half- yearly report on Equality and Diversity was submitted to the SMT on 20 May 2008 by the Policy Officer, Strategy. The report commented on the progress of the assessments and the appendix to the report detailed the programme of assessments and the progress to date. The report and appendix are attached.

3.2 At the same Audit Committee, Councillor Simon asked how the Council sourced its stock of library books. He wanted to know if the books were sourced through specialist suppliers or whether they were obtained from local suppliers. The Culture and Libraries Manager provided Internal Audit with a note of all our regular suppliers with the relevant discount ranges available. The note is attached to this report.

4. CONCLUSIONS

The Committee is asked to note the contents of this report.

5. IMPLICATIONS

5.1 Policy: None

5.2 Financial: None

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

For further information please contact Alex Colligan, Internal Audit Manager (01546 604271).
27th June 2008

ARGYLL AND BUTE COUNCIL STRATEGIC MANAGEMENT TEAM
CHIEF EXECUTIVE'S UNIT/POLICY AND STRATEGY 20 MAY 2008

EQUALITY AND DIVERSITY HALF-YEARLY REPORT TO 31 MARCH 2008

1. SUMMARY

This report covers actions relating to the Equality and Diversity Scheme, published on 6 December 2006, the Race Equality Scheme that was in place before this date, the Gender Equality Scheme published in June 2007, and on Equality Impact Assessments that have been completed. The reporting period covers 1 October 2007 – 31 March 2008.

2. RECOMMENDATION

It is recommended that SMT notes the actions to date and continues to encourage services to be proactive in pursuing equality in the design and delivery of services. SMT is also asked to note that the Equality and Diversity Scheme will be revised to align the various equality duties and produce a single action plan.

3. UPDATE FOLLOWING SMT MEETING 6 NOVEMBER 2007

SMT requested a review of actions and any gaps in the process with a report back at the end of March 2008.

3.1 Equality Impact Assessments

The Equality and Diversity Action Plan includes a programme of Equality Impact Assessments. Internal Audit has agreed to monitor the number of Equality Impact Assessments that have been undertaken.

3.2 Strategic Board

SMT asked the Strategic Board Customer First and Public Sector Reform to:

- Consider ways to ensure that all employees have an understanding of the values that underpin equality
- Consider adopting a policy in relation to using inclusive language across all equality strands
- Consider how to take forward necessary actions, given the limited resources available in Policy and Strategy.

The Strategic Board has not yet met to consider this. A report will be taken to the Strategic Board at the next available meeting.

4. EQUALITY AND DIVERSITY SCHEME ACTION PLANS

Services are continuing to monitor customer satisfaction through survey forms which include age, gender, disability and ethnic origin. A low response to these has been received and therefore it is not possible to draw any conclusions from the responses. Employee training in equality matters is continuing. Managers need to ensure that all employees receive training in equality matters.

5. EQUALITY IMPACT ASSESSMENTS

Equality Impact Assessments (EqIA) continue to be carried out. The table attached (Appendix 1) shows the completed assessments for the report period and those planned to be carried out in the next 6 months.

As a result of carrying out EqIA, some improvements have been made or are planned. For example, in Operational Services training needs have been identified for employees at all levels and this will take place during the next report period; in Planning and Performance individual work plans now include equality matters; the employee forum Equality Matters has met to consider communications and property, and taken appropriate action.

Further training sessions on how to use the Equality Impact Assessment will be held later in the year.

6. ALIGNMENT OF EQUALITY AND DIVERSITY SCHEME

The last Equality Update to SMT (6 November 2007) included a plan to revise the Scheme by 1 April 2008 to align the action plans to the same timetable and make reporting easier. Due to unforeseen priorities this revision has not been carried out. The review will be completed this year instead.

The new single Commission for Equality and Human Rights was set up on 1 October 2007 and has produced a single Equality and Diversity Scheme. The Commission has recommended that single equality schemes can be produced as long as actions are "levelled up" so that all equality strands meet the highest requirements of any one equality strand.

When the revised Equality Scheme is produced, actions will be put onto the performance management system, Pyramid.

7. CONCLUSION

Progress is being made in carrying out the equality action plan and this should continue. The Equality and Diversity Scheme and Action Plans will be revised to align the various equality duties and ensure links to the Corporate Plan.

For further details, contact:

Jennifer Swanson, Policy Officer (Strategy), Chief Executive's Unit
jennifer.swanson@argyll-bute.gov.uk Tel. 01546 604298

ARGYLL AND BUTE COUNCIL
EQUALITY IMPACT ASSESSMENTS

Equality Impact Assessments carried out between 1 October 2007 – 31 March 2008

Department	Assessment	Completed	Improvements / Adjustments
Corporate Services: ICT and Financial Services	<ul style="list-style-type: none"> • Non Domestic Rates • Creditors Payments • Procurement • Payroll • ICT Services 	January – February 2008	Non-Domestic Rates and Council Tax: 'modifications implemented to improve communications with Equality Target Groups'. Creditors Payments, Payroll and ICT Services: none.
Community Services: Education	Education for Sustainable Development	January 2008	
Development Services: Planning	DS01: Kilmory Home Farm Feasibility Study DS05: Campbeltown Area for Action DS06: Ardrishaig Area for Action DS04: Employability Unit activities	January 2008 December 2007 December 2007 March 2008	
Development Services: Transportation and Infrastructure	DS07: Roads Safety Education	January 2008	

Equality Impact Assessments planned for 1 April – 30 September 2008

Department	Assessment	Timetable	Comments
Chief Exec's Unit: Personnel	<ul style="list-style-type: none"> • Health and Safety • Personnel • Training and Management Services 	2008/09 2009/10 2010/11	
Chief Exec's Unit: Strategic Finance	<ul style="list-style-type: none"> • BV Review of Strategic Finance – various actions 		EQIA will be carried out for various actions included in action plan from BV Review of Strategic Finance
Corporate: ICT and Financial Services	<ul style="list-style-type: none"> • Benefits Administration 	July 2008	Postponed til July due to additional pressures relating to Business Continuity Planning Sundry Debtors: tender for new debtors system underway; EqIA postponed until process complete
Community: Planning and Performance	<ul style="list-style-type: none"> • Integrated Children's Service Plan 2008-2011 • Best Value Review of Social Work Admin • Local Housing Strategy 	31/03/08 2008/09	Awaiting Govt guidance on LHS before completing EqIA
Community: Education	<ul style="list-style-type: none"> • Literacy • Numeracy 	May 2008	
Development: Planning	DS03: European Unit activities DS09: Core Path Plan	30/06/08 28/02/09	
Development: Transportation and Infrastructure	DS08: Public/School Transport provision	30/06/08	
Operational: Roads and Amenity Services	<ul style="list-style-type: none"> • Streetscene • Fortnightly Refuse Collection • Recycling / Waste Minimisation • Refuse Collection 	30/04/08 30/04/08 31/07/08 31/07/08	

Department	Assessment	Timetable	Comments
Operational: Facility Services	<ul style="list-style-type: none"> • School Meals Provision • Health and Safety Policy • Hungry4Success • Leisure and Sports provision • Charging Policy 	31/01/08 31/01/08 31/03/08 31/07/08 31/12/08	

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Argyll and Bute Library Service: Suppliers

Main Supplier – discount in place of 20%

Holt Jackson Book Company Limited (Main Library Supplier)
 Preston Road, Lytham, Lancashire FY8 5AX

Local Booksellers – discount range 10-15%

Bookpoint, (Used weekly)
 147 Argyll Street, Dunoon, PA23 7DD

Printpoint, (Frequently)
 15 Watergate, Rothesay, Isle of Bute

Bookworms, East Clyde Street, Helensburgh. (Occasionally)

Argyll Book Centre, (Occasionally)
 Unit 2, Lorne Street, Lochgiphead.

K. Martin, Booksellers, (Occasionally)
 14 Main Street, Campbeltown.

Loch Fyne Gallery, Tarbert (Occasionally)

Specialist Suppliers – discount range 10-25%

Promotional Books Limited, (Used Regularly)
 Unit 8, 25 Black Moor Road, Ebblake Industrial Estate,
 Verwood, Dorset, BH31 6BE

Cadmus Books, (Used regularly)
 Sidlaw, Campmuir, Coupar Angus, Blairgowrie,
 Perthshire, PH13 9JF

Bright Books, (Occasionally)
 Shaw House, Shawclough Road, Rochdale,
 Lancashire, OL12 6ND

Grant and Cutler Ltd., (Frequently)
 55-57 Great Marlborough Street, London, W1F 7AY

Gaelic Books Council, (Occasionally)
 22 Mansfield Street, Glasgow, G11 5QP

Specialist Suppliers of Large Print and Audio Books – discount range 5-20%

Ulverscroft Large Print Books, (Used regularly)
(Incorporating Isis and Soundings)
The Green, Bradgate Road, Anstey,
Leicestershire, LE7 7FU

Magna Large Print Books, (Used regularly)
Magna House, Long Preston, Skipton,
North Yorkshire, BD23 4ND

BBC Audiobooks, (Used regularly)
St. James House, The Square,
Lower Bristol Road, Bath BA2 3BH

Severn House Large Print Books, (Occasionally)
Bridge End Farm, Long Preston,
Skipton, North Yorkshire, BD23 4NN

Oakhill Publishing Limited, (Occasionally)
PO Box 3855, Bath, BA1 3WW

W. F. Howes Ltd (Used regularly)
Unit 4
Reasby Business Park
Gaddesby Lane
Reasby
Leicester
LE7 4YH

Kerry Corbett
5/8/08

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2008 - 2009

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the 22nd of August 2008. 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 2008 - 2009.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2008 –2009, and are ordered by section and level of completion.

3.2 As at the 22nd of August 2008, of 19 core financial systems audits set out in the audit plan presented on the 27th of March 2008, 4 have been completed. Of the remaining 15 audits 2 have been started.

3.3 Of 15 non-financial audit areas set out in the audit plan of the 27th of March 2008, 1 audit area has been completed as at the 22nd of August 2008. Of the remaining 14 audits, 3 are currently ongoing.

3.4 One hundred direct audit days were set aside in the annual audit plan for Special Investigations / Contingency work. As at the 22nd of August 2008, no time has been expended on these areas.

3.5 Appendix 1 shows that only 175 audit days have been expended on the audits. The main reason for this is the secondment of an Internal Audit Manager and the resignation of one of the Trainee Accountants in June 2008. With the return of the Internal Audit Manager, the appointment of a new Trainee Accountant and the retention of 2 Contract Auditors it is anticipated the annual audit plan will be completed.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2008 - 2009

4.1 It can be reported that Internal Audit continues to make progress with the Annual Audit Plan. Internal Audit effort has been focused on statutory audit activities with regard to the financial year end and statutory performance indicators (SPIs). Current progress with the Internal Audit plan is behind the performance recorded in 2007/08. However, any sustained shortfall will be met through the recruitment of an additional contract auditor.

4.2 One of the Trainee Accountants left the Council's employment in June 2008 and it is hoped to have a replacement in October 2008. Recruitment for the post will take place on the 17th of September 2008.

CONCLUSION

Progress is being made on audits planned for 2008 – 2009.

6. IMPLICATIONS

- | | | |
|-----|----------------------|--|
| 5.1 | Policy: | Update on audit plan for 2008 – 09. |
| 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 Alex Colligan, Internal Audit Manager (01546 604271)

Alex Colligan
Internal Audit Manager
28 August 2008

Assessment of audit days: 2008-2009 strategic plan

AUDIT WORK SCHEDULE	Last audited	Risk ranking	Original Estimated Audit Days 2008-09	Revised Estimated Audit Days 2008-09	Actual Audit Days 2008-09	Balance
Core financial systems						
Complete						
Creditor Payments	2007	2	15	15	9	6
Tendering Procedures	2007	1	15	15	18	-3
Started						
Government & European Grants	2007	1	35	35	23	12
Stocktaking/ Work in Progress	2007	2	25	25	18	7
Cash Income and Banking	2007	2	40	40	5	35
Car Allowances	2007	2	15	15	7	8
Not Started						
Budgetary preparation and control	2007	1	15	15	0	15
Capital Accounting	2007	1	15	15	0	15
Capital Contracts	2007	1	15	15	0	15
Contract Hire and Operating Leases	2007	2	15	15	0	15
Council Tax and Non-Domestic Rates	2007	2	40	40	0	40
Debtor Accounts	2007	2	15	15	0	15
Purchasing	2007	2	15	15	0	15
Unified Benefits System	2007	2	40	40	0	40
Asset Management	2007	1	40	40	0	40
General Ledger Operations	2007	2	15	15	0	15
Payroll	2007	2	40	40	0	40
Treasury Management	2007	2	15	15	0	15
Payments to Voluntary Bodies (Following the Public Pound)	2007	2	15	15	0	15
Section Total			440	440	80	360
Non-financial Audits						
Started						
Procurement for Fleet	2005	1	30	30	2	28
Corporate Governance ICS	2007	1	30	30	16	14
Performance Indicators/Single Outcome Agreement	2007	1	52	52	35	17
Health & Safety	-	1	30	30	4	26
Not Started						
Policy & Strategy - Best Value	2006	1	30	30	0	30
Stress Management Exercise	-	?	30	30	0	30
Pre-School Education Provision	-	1	30	30	0	30
SW Commissioning & Contracting	-	2	30	30	0	30
Transport & Infrastructure Grant Funding	2007	1	30	30	0	30
Payroll Processes for Catering	-	2	30	30	0	30
Department Risk Plan Testing	-	1	30	30	0	30
Recruitment and Retention of Staff	2006	1	20	20	0	20
Computer Audit	2007	2	28	28	0	28
Department Business Continuity Plan Testing	2007	1	30	30	0	30
New Legislation	2007	1	30	30	0	30
Section Total			460	460	57	403
Actual Direct Audit Time			900	900	137	763
Special investigations contingency						
Council Wide			100	100		100
Chief Executive's Unit						
Community Services						
Corporate Services						
Development Services						
Operational Services						
Section Total			100	100	0	100
Other Areas						
Follow-up External & Internal Audit Management Letter Points			85	85	30	55
Risk Assessment, Strategic Plan, Annual Plans			20	20	7	13
Section Total			105	105	37	68
TOTAL			1105	1105	175	930

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
19 September 2008

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2008 – 2009.

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 June 2008.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 Appendix 1 is a statistical summary of the 2004/05, 2006/07 and 2007/08 Internal Audit reports issued prior to June 2008. 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 June 2008. 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. The same layout has been used for the follow up of External Audit report recommendations.

3.2 Appendix 1 is split into 2 documents 1a & 1b. The first document refers to all reports with recommendations due April to June 2008. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by 31st March 2008 for the last Audit Committee. The same layout has been used for the reporting of External Audit report recommendations in Appendices 3 & 4.

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)

26 August 2008

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From April to June 2008

Audit	Report Date	Points to be actioned by 30 June 2008	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2007/08					
Review of Risk Management Framework	(January 2008)	2	1	1	G1
Review of Planning Application	(November 2007)	4	4	0	
Review of Planning & Building Warrants	(June 2007)	1	1	0	
Review of Performance - Revenues & Benefits	(April 2008)	4	4	0	
Review of NPDO Schools	(February 2008)	9	9	0	
Review of Mobile Phones	(May 2008)	6	6	0	
Review of Major Capital Audit - Tendering Procedures - Port Askaig	(April 2008)	2	2	0	
Review of Treasury Management	(May 2008)	2	2	0	
Review of Contract Hire & Operating Leases	(December 2007)	1	0	1	A2
Review of Car Allowances - Operational Services	(May 2008)	3	3	0	
Review of Car Allowances - Community Services	(May 2008)	2	2	0	
Review of Budgetary Control	(May 2008)	4	4	0	
Total		40	38	2	

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Points Outstanding From Previous Audit Committee							
Audit	Report Date	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 30 June 2008	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received		
2004/05							
Review of the Prudential Code	(April 2005)	2	2	0	2		F1&15
2006/07							
Review of New Legislation	(October 2007)	1	1	0	1		C1
2007/08							
Review of Council & Committee Decisions	(November 2007)	4	4	2	2		B2&4
Review of School & Public Transport 2007	(August 2007)	2	2	1	1		E3
Review of Roads & Amenity Services - Waste Management Admin	(September 2007)	3	3	1	2		D1&2
Review of Contract Hire & Operating Leases	(December 2007)	2	2	0	2		A4&5
Total		14	14	4	10		

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APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
2	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. This expenditure should however be offset by the potential savings to be made from use of the advanced facilities available from the new machines. It is however necessary for the Council to monitor the savings gained.	A value for money review is to be carried out on completion of the internal print strategy and implementation of any recommendations.	Exchequer Manager	30 June 2008	31 December 2008	Although the print strategy is complete the implementation has not taken place as yet.
4	MATERIAL	In view of there being a reasonable possibility that the bridge option for the Cuan Sound crossing may not be accepted by the Scottish Government the Council should be considering taking steps to plan for the lease or purchase of a ferry boat and the other implications flowing from that.	Steps should be commenced by the Council to decide the action to be taken in the event of the Scottish Government deciding not to fund a high level bridge.	Director of Operational Services	31 December 2007	18 September 2008	Further review of operations necessary after Government changes to funding the outcome of the STAG appraisal putting the onus of improvement on the Council. Most affordable short term option of slipway upgrade and replacement ferry is not without its difficulties and members of the Council will be presented with further paper for decision at September 2008 Executive

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
5	MATERIAL	Operational Services had produced an Internal Waste Prevention Action Plan which has fallen behind with its original implementation dates	Management is now taking steps to put the action plan back on course	Head of Roads & Amenity Services	31 December 2007	31 March 2009	meeting Much of the work has been implemented (better printing options/review of waste collection frequencies for some schools and buildings) but the final action points from this are to be approached in conjunction with the Councils Carbon Management Planning.
B - REVIEW OF COUNCIL & COMMITTEE DECISION FOLLOW-UP							
2	MATERIAL	An evaluation and assessment of the benefits obtained from the implementations of the recommendations arising from the Legal services Best Value Review has yet to be completed.	The Head of Legal & Protective Services should submit an annual report to SMT on the outcomes and benefits arising from the Legal Services Best Value Review. Legal Services should continue to monitor and assess the benefits of the partnership with Brodies by means of regular meetings. This should also	Head of Legal & Protective Services	31 March 2008	31 October 2008	There has been a delay in meeting with Brodies which we require to do prior to submitting a report to SMT. It is intended that this take place within the next couple of months.

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
4	FUNDAMENTAL	Implementation of the Car Parking Strategy agreed by Council in September 2004 needs to be accelerated, thereby restricting further loss of income to the Council.	be included in the annual report. Roads and Amenity Services will ensure that implementation of the Car Parking Strategy is closely monitored and brought to a conclusion as soon as possible. If there are to be any changes to the strategy then this is a decision that will have to be made by members of the Council. Reports will have to be presented to the Local Area Committees.	Head of Roads & Amenity services	29 February 2008	29 December 2008	There are a number of locations where it has not been possible to progress full implementation of the strategy due to ongoing civil engineering works at Rothessay and public utility works in Bowmore. The former car parking issues are being progressed with a view to implementation once the building works are completed.
C - REVIEW OF NEW LEGISLATION							
1	MATERIAL	There is no recognition within the Council Constitution of the need for departments to have a formal process in place for implementing amended and new legislation. At present departments have informal processes apart from training for the implementation of legislation	The Council Constitution should detail that the responsibility to ensure that the Council is compliant with amended and new legislation rests with Departments and their Directors. Departments should be requested to become compliant with the Council Constitution by formalising their existing informal practices in line with the recording system	Governance and Risk Manager	31 March 2008	October 2008	A directive was sent to all Directors around 11 January 2007 confirming that they would be responsible for this process. Recognition of this will be included in the Council's Constitution when it is reviewed.

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
D - REVIEW OF ROADS & AMENITY SERVICES - WASTE MANAGEMENT ADMIN							
1	MATERIAL	<p>1. 17 of 49 Driver's Daily Defect Check records were missing. 2. Of 32 records 25 were incomplete. 3. 53 entries which should have been recorded were not. 4. Drivers were confused as to whether the form was a vehicle or driver related form.</p>	<p>presently in place for training</p> <p>1. The Driver's Daily Defect Check Record should be retained in each vehicle and treated as relating to that vehicle only. 2. All defects, and not just those found in the daily check, pertaining to the vehicle should be recorded by noting the Driver's Defect Record Book Form No. on the appropriate day. 3. When the repair has been completed the blue copy of the Driver's Defect Record Book signed off by the Workshop should be 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.</p>	Area Supervisors	30 November 2007 31 October 2008	30 April 2008	<p>The issues regarding Area Supervisors will be resolved by the impending issue of a driver's handbook which will clearly set out the drivers responsibilities in terms of log book, daily defects, vehicle down time and their own individual responsibilities. The driver's handbook will be distributed to all relevant drivers by the end of October 2008.</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
2	MATERIAL	1. Driver's Record Books weekly sheets are not always completed. 2. The Driver's Record Books at Helensburgh & Lomond did not record the time the driver went off duty	This will provide a full defect/downtime record for each vehicle. 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 completed in respect of any week in which he is required to drive. 2. Driver's at Helensburgh & 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.	Area Supervisors	30 November 2007	30 April 2008 31 October 2008	See above. The driver's handbook will be distributed to all relevant drivers by the end of October 2008.
E - REVIEW OF SCHOOL AND PUBLIC TRANSPORT 2007							
3	MATERIAL	A review of the Guideline Criteria for Supporting Bus Services has not been carried out.	A Paper reviewing the guideline Criteria should be submitted to the Executive Committee as soon as possible.	Transportation & Infrastructure Manager	30 November 2007	30 April 2008 30 November 2008	Further work has still to be carried out on this document before it can be presented to the Executive. It is planned to present a paper to the November Executive.
F - 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	30 April 2008 December 2008	Following formalisation of costs for this project the Post Completion Review will now be taken forward along with those on recently completed major capital projects.

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
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 31 March 2007 30 September 2007	30 June 2008 December 2008	We are still awaiting the Investment Regulations from the Scottish Government.
G - REVIEW OF THE RISK MANAGEMENT FRAMEWORK							
1	MATERIAL	Operating procedures are to be finalised and issued to departments this will also offer an operating framework for departmental LCGs and presented to the Audit Committee for approval.	This is close to completion as the necessary documents have been prepared and will go to the next RMG for review and approval.	Head of Democratic Services and Governance	30 June 2008	December 2008	The RMG are currently reviewing a new Risk Management Policy Statement and Risk Management Strategy which should be approved by the RMG at its next meeting before going to the Audit Committee with a recommendation for its approval.

External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From April to June 2008

Audit	Points to be actioned by 30 June 2008	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 2008	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
Commissioning Community Care Services for Older People	1	1	0	1	A2
2004/05 Audit - Final Report to Members	1	1	1	0	
Improving Customer Services through Better Customer Contact	1	1	0	1	B1
Total	3	3	1	2	

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APPENDIX 4

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	30 th June 2009	Council system in place (Care Assess) and will be implemented across all offices between August – 31 st December 2008. Equivalent NHS system not in place. NHS Highland has indicated that they will meet the national target set by the Scottish Government for 31 st March 2009. Once the two systems are in place they require to be tested over a three month period via the integrated adaptor system before full implementation is possible.
B - 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 31 August 2007 31 March 2008	October 2008	Council agreed at its meeting in May 2008 to endorse a new customer strategy and to agree a revised action plan to roll out customer service centre across all relevant council services in accordance with the action plan submitted. The strategic management team instructed that this strategy be

APPENDIX 4

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
							cascaded through departments to all staff and a programme is being developed to achieve this commencing autumn 2008.

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
19 SEPTEMBER 2008**

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2008 - 2009

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 revised in 2006 and Grant Thornton UK LLP, in May 2007 carried out a Code compliance review resulting in a report. One resultant recommendation required that internal audit reports be reported to the Audit Committee. Attached are report summaries and action plans from recent audits to be submitted to the September Audit Committee. 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 Three final reports have been completed in this reporting period:

- The reports for both the Social Work Review and the Review of Creditors are attached.
- The third report, the Review of Tendering Procedures – Argyll Air Services, will be presented to the Audit Committee in December accompanied by a report from Grant Thornton UK LLP.

4. CONCLUSIONS

The Audit Committee is requested to note the contents of this report.

5. IMPLICATIONS

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

For further information please contact Alex Colligan, Internal Audit Manager (01546 604271).

28th August 2008

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Community Services Department: Review of Social Work Services

Internal Audit Report June 2008

BACKGROUND

This report has been prepared as a result of the Internal Audit review of the Social Work Services Review as part of the 2007/08 Internal Audit programme.

A report to the Council on 9 February 2006 highlighted significant unmet cost pressures on the Social Work budget for 2006/07. The members approved a scrutiny review of the Social Work Services.

As part of this scrutiny review, Brodies LLP and Hope Consultancy were appointed in May 2006 to carry out a review on a joint basis. A report was issued in September 2006, recommending changes in policy, practice, management arrangements and budget configuration.

As a result of our Audit work, findings were generated. These findings were subsequently discussed with management and a report produced.

SUMMARY OF MAIN FINDINGS

Our initial audit work was carried out on a desktop review basis, obtaining a copy of the Brodies/Hope Consultancy report, checking that all of the recommendations therein were incorporated in the implementation plan. Thereafter we checked that the report and implementation plan had been formally approved by the Council and a procedure implemented for the plan to be reviewed and updated on a two weekly basis by the Departmental Management Team, with progress being reported to members on a half yearly basis.

The Brodies/Hope Consultancy report prefaced their detailed recommendations with the identification of two issues of genuine concern with regard to the provision of Free Personal Care as follows:

- ‘.....by far the most important is the level of unmet need...’
- ‘ the second issue...is one of reputation management’

These two issues were not directly cross referenced to the Implementation Plan but were of underlying significance due to the Ombudsman’s findings against Argyll and Bute Council in November 2006 for failing to provide Free Personal Care in a specific case.

A judicial review in October 2007 found in the Council’s favour, in that they did not need to pay for the provision of Free Personal Care in this particular case, where the care had not been provided by the local authority.

A subsequent Free Personal Care paper to the Executive, on 15 November 2007, noted that 'the present figure stands at 52 (clients waiting for community based packages) which is a matter of concern as the home care budget is fully committed...' Accordingly, the Executive decided to refer this matter to the Social Affairs Policy and Performance Group ("SAPPG"), and to request 'that this matter is given high priority within the Policy Performance procedure given the high profile of both the political and financial issues involved.'

The SAPPG at their meeting on 14 January 2008 deferred consideration of the Free Personal Care position until June and it is not clear that the reputation management issue has been specifically addressed.

In the interim, the sensitivity of the issue has been decreased with the publication, on 27 April 2008, of the Sutherland review. This highlighted rising costs and a funding shortfall in line with the country's ageing population. However, in response to this report, the Scottish Government have agreed to provide additional funding of £40million, and further consultation is anticipated with individual Council leaders.

Our subsequent review of the SWIA report and Performance Inspection Improvement Plan focussed on the three areas which had been identified as weak:

- Impact on adults, carers, children and young people who use services
- Delivery of Key Processes
- Leadership and Direction

We are satisfied that the Performance Inspection Improvement Plan addresses the weaknesses in each of these areas with:

- The implementation of a systematic and comprehensive approach to the assessment and management of risk
- Appropriate shared access to social work assessment and electronic case records
- The development of a comprehensive range of leaflets about social work services
- A need to sustain commitment to change and continuous improvement
- A more robust communication approach between senior managers and staff

It is recognised that in addition to the Social Work restructuring exercise there have been changes to staff contracts under the Single Status arrangements. There is therefore still a settling in period for all these changes, and despite the additional contact and consultation there are still likely to be staff members whose comments may not reflect the generally positive feedback that has been associated with the changes implemented.



Internal Audit Report

Corporate Services Department

Interim Audit: Review of Creditors

June 2008

4 SUMMARY

4.1 The following table represents the ICQ question responses from the Creditors Supervisor.

No of questions	ANSWERS		
	Yes	No	Not responsible
18	8	3	7

4.2 Explanation and/or evidence was provided to support 8 of the 8 questions answered with yes.

4.3 The 3 questions that had no as the answer were in relation to the system being registered with the Information Commissioner and some data protection issues. The Creditors Supervisor is not responsible for this area therefore had no knowledge of these requirements. All 3 questions were changed to a 'yes' after consultation with the Data Protection and Information Security Administrator.

4.4 The 7 questions that the Creditors Supervisor was not responsible for related to the departments involvement in the process. This will be looked at when carrying out the full audit in 2009/10.

4.5 The auditor is satisfied that the section has answered the ICQ in an appropriate manner and no significant areas of weakness were found.

4.6 An Action Plan has not been produced for this audit however the following minor areas will be analysed in more detail within the full audit in 2009/10:

- procedure manual being brought up to date and linking with the Oracle User Manual
- old server retention period
- erroneous payments levels

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
19 SEPTEMBER 2008

AUDIT SCOTLAND REPORTS TO AUDIT COMMITTEE 2008 - 2009

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 revised in 2006 and Grant Thornton UK LLP, in May 2007 carried out a Code compliance review resulting in a report. One resultant recommendation required that external audit reports (including Audit Scotland reports) be reported to the Audit Committee.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 Set out below is a list of reports published by Audit Scotland in 2007/08 and 2008/09.

- Sustainable Waste Management
- A review of Free Personal & Nursing Care
- Overview of Local Authority Audits
- Improving the School Estate
- National Fraud Initiative in Scotland 2006/07 and
- Review of Major Capital Projects in Scotland – How Government Works.

The report summaries, key findings and recommendations from the above reports are attached for your review.

3.2 Internal Audit will undertake further scrutiny on 3 of the Audit Scotland reports:

- Sustainable Waste Management:
- A review of Free Personal & Nursing Care: and
- Improving the School Estate.

A report will be prepared for the Audit Committee by the end of the financial year detailing the level of Council compliance with the key findings and recommendations set out in these reports.

3.3 In respect of the remaining 3 reports, Internal Audit is presently co-ordinating the Council response to the National Fraud Initiative (NFI) 2008 – 09. As part of this responsibility Internal Audit will provide progress reports to the Audit Committee and Strategic Management Team (SMT), as the exercise evolves. The key messages and recommendations outlined in the Review of Major Capital Projects in Scotland reflect the future aspirations of the Council regarding capital projects. The Overview of Local Authority Audit key messages will aid audit plan development.

4. CONCLUSIONS

The reports are submitted to the Audit Committee for consideration.

5. IMPLICATIONS

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

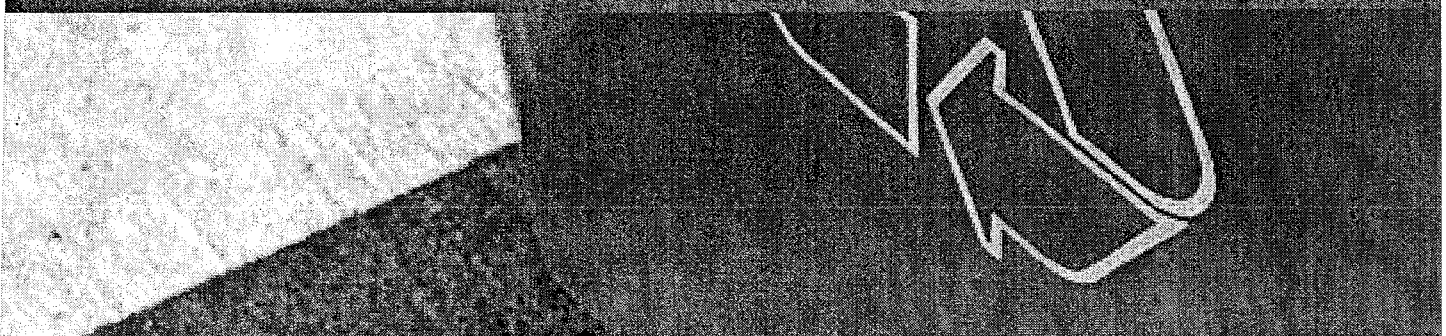
For further information please contact Ian Nisbet, Internal Audit Manager (01546 604271).
9 September 2008

Sustainable waste management



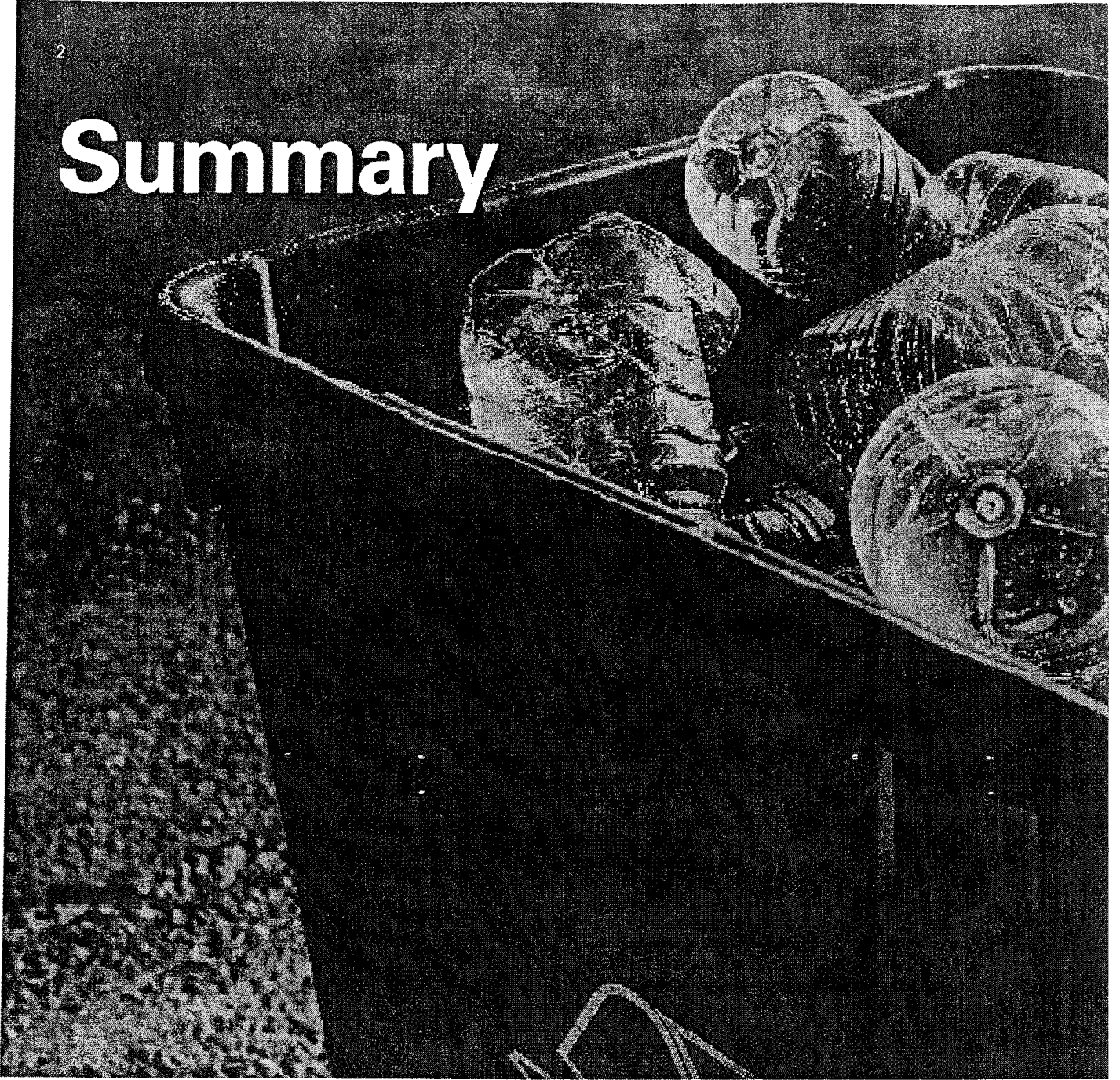
 AUDIT SCOTLAND

Prepared for the Auditor General for Scotland and the Accounts Commission
September 2007



2

Summary



Waste management is a vital local service.



About the study

1. Collecting household waste is a vital and universal household service. It is unique among council services in being provided to all homes on a weekly basis. The Accounts Commission last reviewed councils' waste management services in 2000 in its report *Benchmarking Refuse Collection*. Since then, there have been major changes in waste management, driven mainly by the European Union Landfill Directive 1999 ('the Landfill Directive') which sets targets for all member states to reduce the amount of biodegradable municipal waste disposed to landfill.

2. The overall aim of the study is to review the work of councils, the Scottish Environment Protection Agency (SEPA) and the Scottish Executive in reducing the amount of waste being sent to landfill and to make recommendations to improve the economy, efficiency and effectiveness of waste management. In particular, the study seeks to answer the following questions:

- What progress has been made in developing sustainable waste management?
- Has the investment to date from the Strategic Waste Fund (SWF) achieved value for money in increasing rates of recycling?
- What changes are required to meet the Landfill Directive (and how much will they cost)?
- Are the Executive, councils and SEPA in a position to deliver the changes required?

3. The study has been undertaken as a single exercise covering councils, SEPA and the Scottish Executive. The study also draws on statutory performance indicator information, which includes the collection of audited information on the amount of waste recycled by each council. There were four main strands to the study:

- Desk research and data analysis – drawing on existing data sources

to collect national and international information and reviewing documentation.

- Questionnaires – to gather information from councils on the cost of waste management services and other issues relating to waste management.
- Fieldwork visits to six councils (Clackmannanshire, Dundee City, Glasgow City, Highland, Perth and Kinross and South Lanarkshire) including structured interviews with senior managers and practitioners and visits to waste management facilities.
- Interviews with key officers and waste practitioners including the Executive, SEPA, the Scottish Waste Awareness Group (SWAG), REMADE, community groups and the waste industry.

Key messages

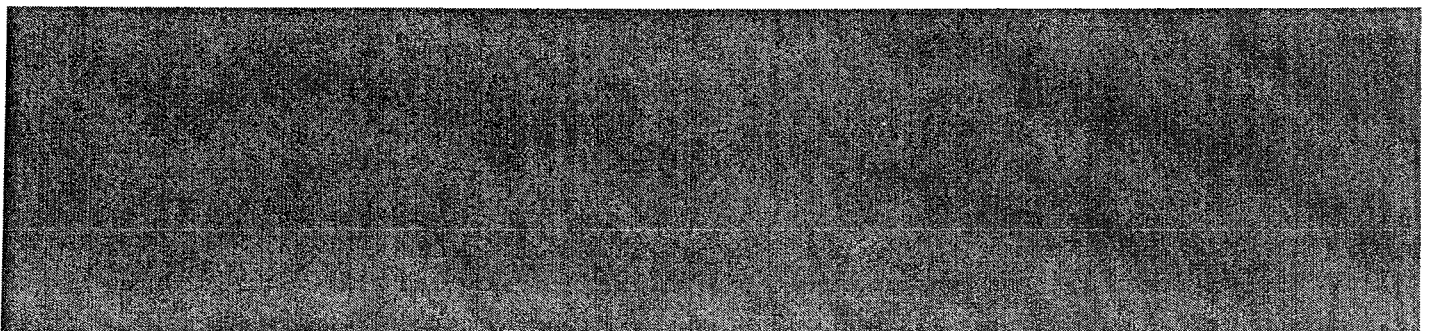
- Scottish councils need to achieve rapid reductions in the amount of biodegradable municipal waste disposed of in landfill to meet the requirements of the Landfill Directive. However, this is made more difficult by the increasing amount of waste being generated by Scottish households (Part 2).
- Significant progress has been made in meeting interim recycling targets but increasing the recycling rate further will provide great challenges. Investment by the Executive via the Strategic Waste Fund has helped councils increase the percentage of municipal waste which is recycled and composted from seven per cent in 2001/02 to 25 per cent in 2005/06. The system offering the best value for money will depend upon the level of recycling required. Co-mingled collections appear to achieve higher recycling rates (Part 3).
- In contrast to the progress on recycling, the slow progress

in developing residual waste treatment facilities means there is a significant risk that the Landfill Directive targets may not be met. In particular, early delays and a lack of organisational capacity within councils and the Executive to deliver change have slowed progress. This will make it difficult to build the residual waste treatment facilities required to achieve the Landfill Directive targets, in particular the 2013 target (Part 4).

- The increases in the amount of recycling have led to increased costs. The cost of recycling increases with the recycling rate and the value of the materials collected falls. This eventually limits the economic viability of recycling schemes. The cost to the SWF of supporting recycling would need to rise from £89 million per annum, to achieve the present 25 per cent recycling rate, to an estimated £271 million in 2020 to achieve 55 per cent recycling. Over this period the estimated waste management expenditure by councils would need to grow from £351 million in 2005/06 to an estimated £580 million per year in 2019/20, if current targets are to be met, depending on the choices made between recycling and residual waste treatment (Part 5).
- Councils, the Scottish Government and other agencies need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the Landfill Directive targets. There is an urgent need to build organisational capacity within councils and the Scottish Government to achieve this. Councils, SEPA and the Scottish Government should consider ways in which they can work with the waste industry and others to deliver the waste treatment facilities required to achieve the Landfill Directive targets (Part 6).

Part 7. Recommendations

An action plan should be published as a matter of urgency.



Recommendations for the Scottish Government

175. The Scottish Government should monitor the progress of its waste reduction plan and report annually on the progress being made in halting waste growth.

176. The Scottish Government and its agencies should look at further opportunities to develop secure, sustainable long-term markets to accommodate the planned increases in recycling.

177. The Scottish Government should publish procurement timetables for all major waste projects.

178. The Scottish Government should examine ways of reducing the barriers to entry into the market to ensure that there is adequate competition for residual waste treatment contracts.

Recommendations for councils

179. To measure progress with waste management initiatives councils should undertake regular waste analyses, particularly where new recycling or home composting services are being introduced.

180. Councils across Scotland should work together to standardise the type of containers they use and adopt a common colour coding system across Scotland.

181. Councils should ensure that current recycling systems offer best value by conducting option appraisals before extending recycling schemes. Option appraisals should include market testing as a way of demonstrating best value.

182. Councils should ensure that they know the final destination of recyclables sold to intermediaries.

183. Councils should examine the benefits of setting up consortia to market their recyclables.

Recommendations for the Scottish Government and councils

184. The Scottish Government and councils should undertake research to assess the contribution that direct charging for waste management could make to increasing recycling and waste reduction.

185. The Scottish Government and councils should continue to support community recycling, strengthen the framework in which they operate and build capacity by providing long-term funding for successful groups. This could be achieved through service level agreements and by encouraging partnerships with councils and the private sector.

186. The Scottish Government and councils should work together with the Scottish Waste Awareness Group to develop a programme to encourage householders to use home composting.

187. The Scottish Government and councils should undertake a technical evaluation of kerbside recycling systems to identify the most cost-effective systems to achieve the levels of recycling required to meet the Landfill Directive targets.

188. The Scottish Government should encourage councils to adopt a more consistent approach to recycling using a small number of 'best practice' schemes.

189. The Scottish Government and councils should work together to reach a decision on the level of recycling and the residual waste treatment facilities required to achieve the 2010, 2013 and 2020 Landfill Directive targets. An action plan showing the key milestones in this process should be published as a matter of urgency.

190. The Scottish Government and councils should review their staffing arrangements for delivering sustainable waste management to ensure they are fit for purpose.

191. The Scottish Government and councils should ensure that the national planning framework is used effectively to minimise planning delay in the provision of new facilities.

192. The Scottish Government and councils should look at ways of encouraging informed public debate on the options for meeting Landfill Directive targets, including the requirement for facilities to treat residual waste.

193. The Scottish Government should work in partnership with councils, SEPA and other agencies to ensure the effective procurement of residual waste facilities including:

- setting up a recognised pool of staff with procurement expertise to ensure that expertise gained in early projects can be usefully employed in later procurement exercises
- ensure that the lessons learned from completed projects are passed on
- coordinating the procurement of facilities for the treatment of residual waste.

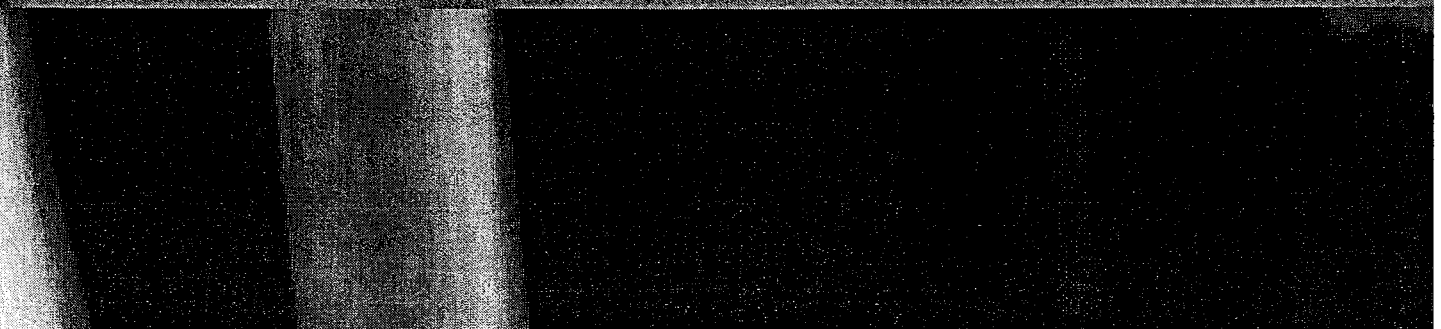
194. To facilitate the progress of residual waste treatment facilities councils and the Scottish Government should make clear to the public the long-term benefits of technologies for the treatment of residual waste, including energy from waste.

A review of free personal and nursing care



 **AUDIT SCOTLAND**

Prepared for the Auditor General for Scotland and the Accounts Commission
January 2008



Part 1. Summary

Background

1. In 1997 the UK government set up a Royal Commission to examine the options for a sustainable system of funding for long-term care for older people in the UK, both in their own homes and in other settings. One of the Royal Commission's main recommendations was to split the costs of long-term care between living costs, housing costs and personal care and make the last free at the point of delivery after assessment.¹ It also recommended that personal and nursing care should be paid for through general taxation.
2. In 2001 the Scottish Executive announced its decision to implement free personal and nursing care (FPNC) for people aged 65 years and over, and free nursing care in care homes for people of all ages. The key aim of the policy is to '*remove current discrimination against older people who have chronic or degenerative illnesses and need personal care*'. It is intended to bring their care in line with medical and nursing care in the NHS where the principle of free care based on need is almost universally applied and accepted.²
3. FPNC was implemented from July 2002, through the Community Care and Health (Scotland) Act 2002. The Scottish Executive provided an additional allocation of £250 million to councils to support this for 2002/03 and 2003/04, with a further £300 million for 2004/05 and 2005/06. From 2006/07, additional funding has been included as part of councils' general revenue grant. This amounted to £162 million in 2006/07 and £169 million in 2007/08.³ The UK government and the Welsh Assembly decided to implement free nursing care only in England and Wales on the grounds of cost.⁴ Since then, the Welsh Assembly has introduced a more heavily subsidised personal care service for people of all ages.
4. Councils lead the implementation of free personal care for older people living at home and FPNC for those living in care homes. They work jointly with health, housing and other support services and providers in planning and delivering FPNC. Councils deliver some of the services directly but also commission personal and nursing care from a range of private and voluntary sector providers.
5. By March 2007 around 72,000 older people in Scotland were receiving personal care services free of charge. Since July 2002, the number of older people:
 - receiving public funding for personal care at home increased from 27,337 to 41,386. This includes people who prior to FPNC would have been paying for their own personal care through private contractual arrangements

¹ *With respect to old age: Long Term Care - Rights and Responsibilities*, Royal Commission on long term care, March 1999.

² *Fair Care for Older People*, Care Development Group, September 2001.

³ Scottish Parliamentary question S2W-15353

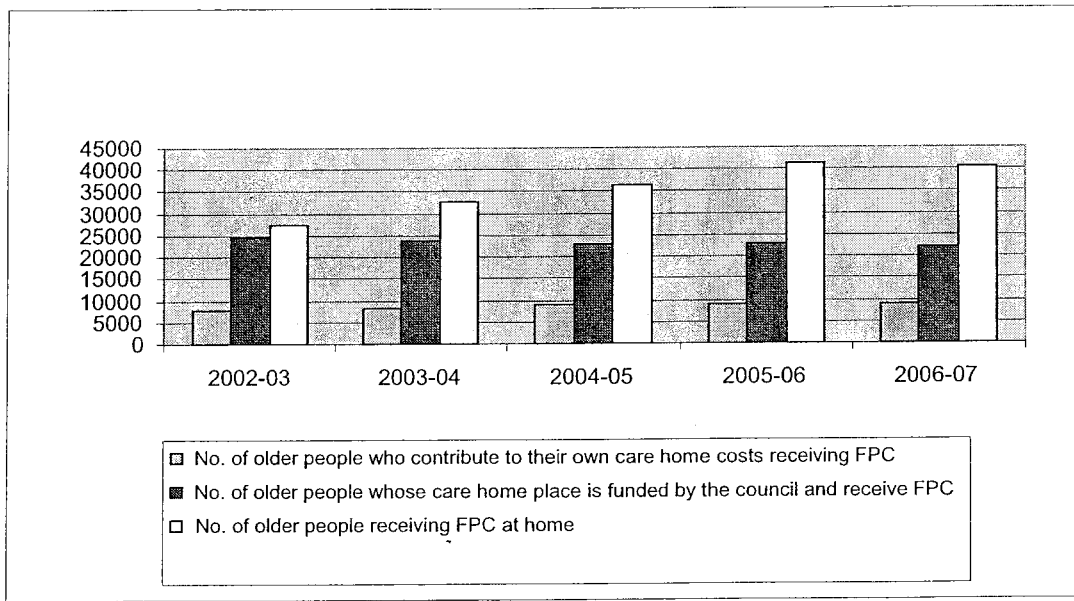
⁴ *The NHS Plan: The Government's Response to the Royal Commission on Long Term Care*, Department of Health, January 2000.

- living in care homes who are contributing to their own accommodation and living costs and who receive free personal care has increased from 7,680 to 9,361
- living in care homes who are fully publicly funded has reduced slightly from 24,569 to 22,234(Exhibit 1).^{5 6}

Exhibit 1

Total number of people receiving free personal care, July 2002 – March 2007

The number of older people receiving free personal care has risen since the policy was introduced



Note: We have assumed that all older people living in care homes who are fully publicly funded by the council are receiving free personal care.

Sources: Scottish Executive Statistics Release on Free Personal and Nursing Care Scotland 2002-2006; unpublished Scottish Executive data for 2006/07

- Although there is an increase in the number of older people receiving public funding for personal care across Scotland, there is variation among councils in the percentage of older people receiving this (Exhibit 2). However, this is not a guide to the level of service which individuals are receiving as a range of care packages are in place.

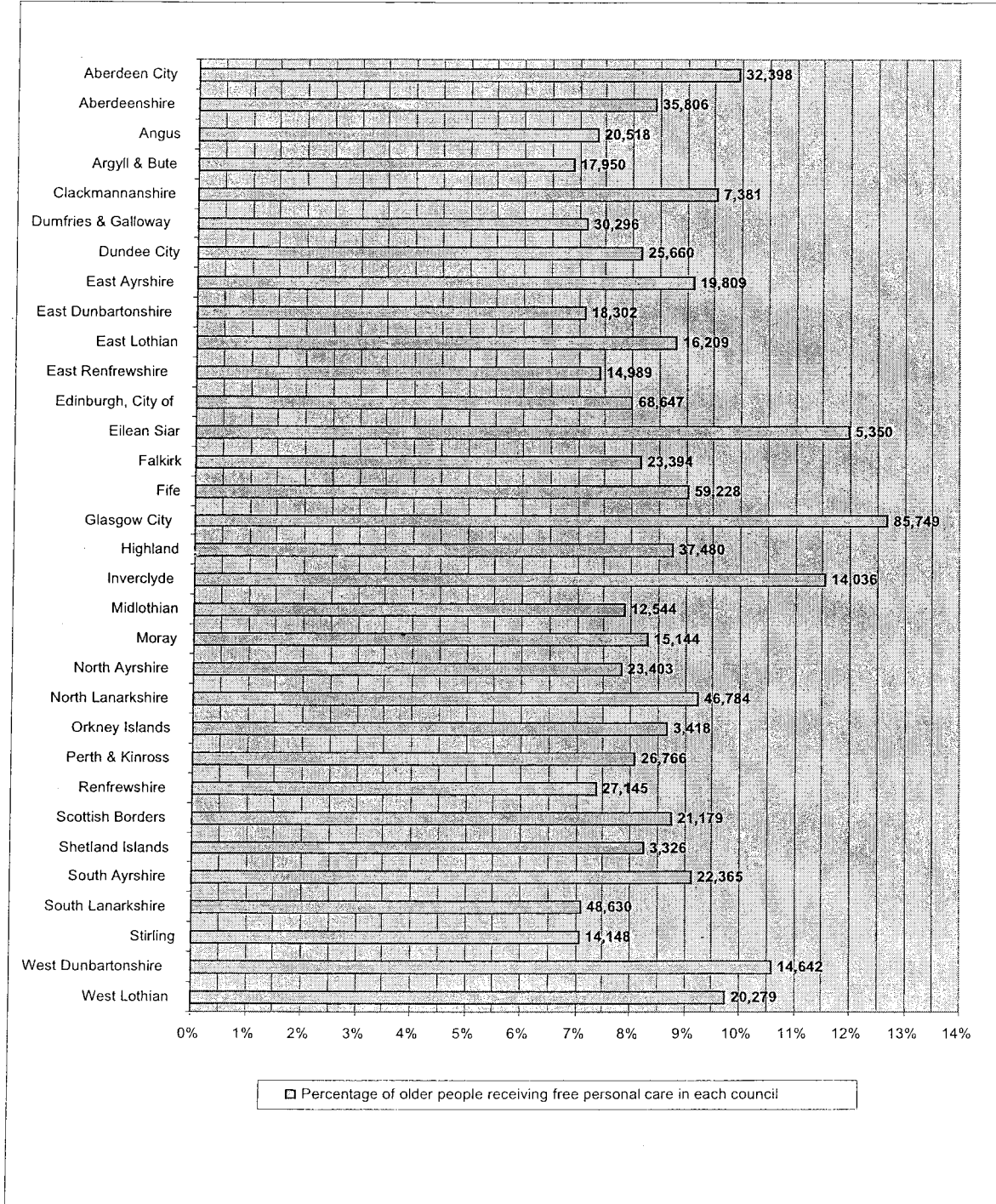
⁵ Scottish Executive Statistics Release on Free Personal and Nursing Care Scotland 2002-2006; Accounts Commission statutory performance indicators, December 2007.

⁶ These are lower income older people whose care home costs have always been fully funded by public funds.

Exhibit 2

Percentage of older people receiving free personal care, by council, 2005/06

The percentage of older people receiving free personal care ranges from just under seven per cent to just over 12.5 per cent in different council areas



Note: The number at the end of each bar refers to the total number of older people aged 65 and over living in the council area. We have assumed that all older people living in care homes who are fully publicly funded by the council are receiving free personal care.

Sources: GRO(S) and Scottish Executive

7. Two-thirds of older people in care homes who were receiving free personal care by 2007, were also receiving free nursing care.⁷

Key messages

- The financial memorandum set out in the Community Care and Health (Scotland) Act 2002 does not provide a robust and comprehensive assessment of the financial implications and risks of introducing FPNC. This was also raised by the Scottish Parliament's Health and Community Care Committee when it scrutinised the initial Bill.
- Scottish ministers made the decision to introduce FPNC early in 2001. This then set the Scottish Executive challenging timescales for developing the policy but it achieved its deadline. All councils were successful in putting in place systems to implement and deliver the policy from 1 July 2002.
- FPNC was introduced at a time of other significant changes and developments in health and social care. This, combined with a lack of intended outcome measures, makes it difficult to evaluate the impact of the policy in isolation from other changes.
- Ambiguities in both the legislation and guidance together with an inconsistency between the two around food preparation have led to different interpretations by councils and therefore variation across Scotland in how FPNC has been implemented. Older people are also unclear about what free personal care means in practice.
- The initial cost estimates for the policy were difficult to make because of the limited information available at that time, particularly regarding personal care delivered at home. However, monitoring the financial impact of the policy following implementation has been limited and central government has not updated the longer-term cost projections for FPNC since 2001, although it has carried out short-term projections to support the annual allocations.
- We estimate that the total costs of FPNC for the first four years were £1.8 billion. Councils would have spent around £1.2 billion of this even if the policy had not been introduced.
- Allowing for the limitations of the data available, we estimate that the additional costs for the first four years of FPNC are around £600 million. This has led to a growing shortfall in central funding, and by 2005/06 we estimate this was either £46 million or £63 million depending on the assumptions used.
- It is likely that demand for FPNC will continue to grow with the projected increase in the older population and this will have implications for the future costs of the policy.
- Councils are using a variety of approaches to manage demand for FPNC. Differences in the use of waiting lists and eligibility criteria mean that older people may receive different levels of service depending on where they live.

⁷ The number of older people receiving free nursing care in care homes who are publicly funded is an estimate. The estimate is based on the same number of those who contribute to their own living and accommodation costs and receive nursing care.

Key recommendations

The Scottish Parliament should require the Scottish Government to provide robust and comprehensive financial estimates, including risk assessments, in support of all bills that have financial implications.

The Scottish Government and councils should continue to work together as a matter of urgency to:

- Clarify current ambiguities with the policy. This includes making clear whether personal and nursing care is a universal entitlement to older people based on an assessment or whether locally available budgets and resources can be taken into account. There is also a need to address about the inconsistency between the legislation and guidance around food preparation. They should then ensure that the policy is consistently applied across Scotland from now on.
- Agree a national eligibility framework which defines risks and priority levels to ensure transparency in access to care for older people.

The Scottish Government should:

- Improve the central monitoring and future planning of FPNC by updating its cost projections; clearly identifying the information needed from councils; and setting out a clear framework for this purpose.
- Work with councils to ensure completion of national finance returns complies with accounting guidance so that full costs, including overheads, are reported.
- Review national allocation amounts for FPNC and methods for distributing this to councils to ensure that these accurately reflect the factors which influence local demand for services.
- Set robust outcome measures to evaluate the effectiveness of major policies in the future.

Councils should:

- Improve their information systems to enable them to collect comprehensive and accurate information on FPNC, and other aspects of care and support services. The information on FPNC should be used by the Scottish Government for central monitoring and future policy development.
- Provide clear information to older people on what is covered by FPNC.
- Publish clear information on eligibility criteria and the thresholds where services are provided, the operation of waiting lists and local care home and home care charging policies.
- Work with local health partners to evaluate the longer-term consequences of reducing domestic home care services, such as cleaning, shopping and laundry services.

Our study

8. Our specific objectives were to:
 - evaluate the robustness of financial planning, monitoring and reporting arrangements for FPNC at both a national and local level
 - examine the current costs and funding allocations for FPNC across councils in Scotland
 - identify the financial impact of FPNC on older people, the Scottish Government and councils.
9. We did not look at continuing care arrangements in the NHS or at resource transfer between health and social care.
10. For this study we carried out:
 - an analysis of national data including demographics, older people's services and financial information
 - a data survey of the 32 councils focusing on activity, financial, policy and practice information.
 - focus groups with older people and care providers⁸
 - interviews with staff in six councils, the Convention of Scottish Local Authorities (COSLA) and the Scottish Government
 - a survey of independent care home providers
 - a review of a sample of care packages since 2002 in two councils.
11. Our study complements the work of Lord Sutherland, who has been commissioned by the Cabinet Secretary for Health and Wellbeing to carry out an independent review of the policy. He is due to report in March 2008.
12. Prior to September 2007, the Scottish Administration was generally referred to as the Scottish Executive. It is now called the Scottish Government. When dealing with the earlier period this report refers to the Scottish Executive. Recommendations for the future refer to the Scottish Government.

⁸ We commissioned Age Concern Scotland to carry out the focus groups. A report on the findings can be found on our website www.audit-scotland.gov.uk

Overview of the local authority audits 2007

 AUDIT SCOTLAND

Prepared for the Accounts Commission
February 2008

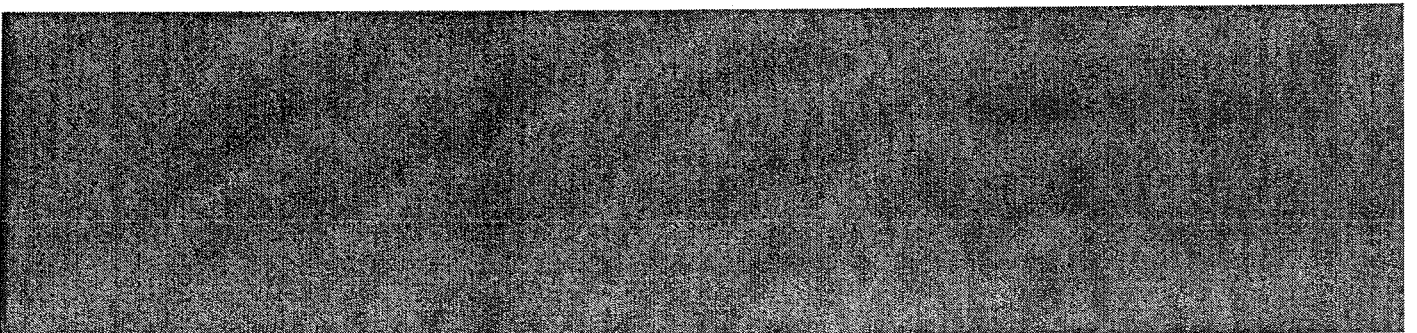


2

Commission findings



The Commission recognises the general improvement achieved. However, councils will need to increase their focus on key areas to meet the significant challenges ahead.



1. This latest report shows that local government in Scotland continues to face and address significant challenges and the Commission recognises the general improvement which has been achieved. We particularly welcome:

- Progress in service delivery, such as a further increase in the amount of waste which is recycled and composted to over 28 per cent.
- The general picture of sound financial accounting and reporting, with accounts and audits completed on time.
- Scrutiny more embedded than before.
- A further improvement in the trend of in-year council tax collection, with nearly 94 per cent of the amount due for 2006/07 collected during the year.

2. Last year we highlighted the major changes likely as a result of the 2007 elections. Many of the improvements in decision-making and scrutiny are still bedding in and councils need to keep them under review to make sure they are effective. The report shows that councillors are receiving training and councils need to build on this to support them in their new and developing roles, especially in strategic leadership and policy choice.

3. The overall context for councils is one of continuing change and pressures on resources. In particular:

- The concordat between the Scottish Government and COSLA, and in particular the shift to an outcomes-based approach, mean that councils and their partners will need to give renewed focus to ways they can demonstrate improved services for customers and citizens.

- The pressure on budgets is likely to lead to difficult choices for councils at a time when the shift to single status, for example, is still far from complete. This underlines the importance of robust long-term financial planning which is risk-based and sustainable.

4. If councils are to meet the challenges ahead, they will need to increase their focus on a number of key areas, including:

- supporting and developing leadership skills and capacity
- demonstrating the net benefits from community planning, other partnership working and shared business support services
- taking a more strategic approach to resources which informs and integrates finance, workforce and asset planning

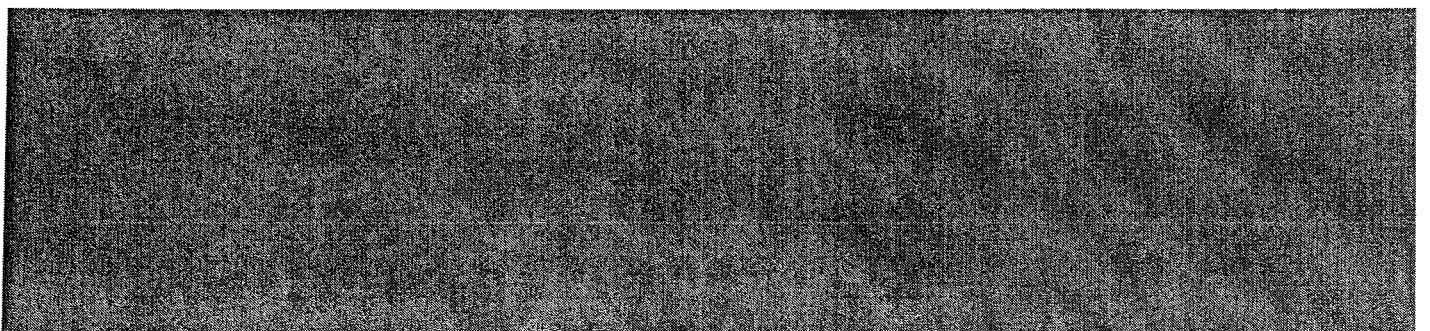
- stronger commitment to testing the competitiveness of services and to continuous improvement
- developing robust baseline data against which improvements in service delivery can be measured and demonstrated
- improving performance management significantly to demonstrate delivery of the outcomes approach.

5. Looking ahead, the Crerar report on scrutiny, audit and inspection highlights the need for more streamlined scrutiny based upon robust self-assessment and a sharper focus on the needs and concerns of service users. We support this approach and welcome the role envisaged for the Accounts Commission in taking this forward.

Summary



This report draws on our 2007 audit work to highlight strengths and areas for improvement.



1. This report provides an overview of the main issues arising from our audit work in local government in 2007. It draws on a range of sources to identify common features in the management and delivery of services and to highlight strengths and areas for improvement.

2. The report is organised into five parts.

- Part 1. Setting the scene: gives an overview of the current context for local government in Scotland.
- Part 2. Governance: covers progress on Best Value, the arrangements for supporting governance and how councils are organised to deliver services.
- Part 3. Use of resources: covers how councils are managing their finances, workforce and assets.
- Part 4. Performance: looks at performance management and how well councils are delivering services.
- Part 5. Outlook: looks ahead and sets out the key priorities and risks for local authorities in the coming year and our audit approach.

3. We have used extracts from audit reports as exhibits and case studies; these are provided to support the text and are not necessarily the best or only examples.

Key messages

- The political context for local government has changed significantly, with a new government and a shift to more coalition and minority administrations at councils. Almost half of the councillors elected in May 2007 are new to local government; they will need continuing support to carry out their roles effectively.
- The government is committed to giving councils more flexibility in return for a focus on outcomes which are important to the achievement of national priorities. The concordat between the government and COSLA signals the start of what are likely to be significant changes for councils.
- Best Value audits are contributing to better governance, but councils could make faster progress with their improvement plans.
- Councils need to keep their political and business management processes under review to make sure that they are effective in the new context and meet the needs of citizens.
- Councils need to do more to demonstrate that the time invested in developing community planning and other forms of partnership working is resulting in improved services; the proposed new outcome agreements will require more effective management of joint delivery arrangements.
- In delivering services through external organisations such as companies and trusts, councils need to ensure good governance and to maintain clear accountability for finance and performance.
- Overall financial reserves were restored to the levels of two years ago but there are wide variations among councils. The demands on services are increasing and competing pressures on resources mean difficult choices for councils.
- Financial accounting and reporting in councils remains generally sound. Accounts and audits are completed on time and audit qualifications are rare.
- Councils are taking a more strategic approach to managing their finances, workforce and assets but greater improvement is possible, particularly in developing longer term planning which is sustainable.
- More systematic and consistent approaches are needed for seeking users' views and using complaints to inform service improvements.
- There remains an urgent need to improve performance management, including robust challenge and balanced public performance reporting. This is particularly important in the light of the outcomes approach. Councils still have some way to go in producing good quality management information to inform decision-making and to demonstrate efficiency gains and service outcomes. This limits audit's ability to provide an overview of performance across services.

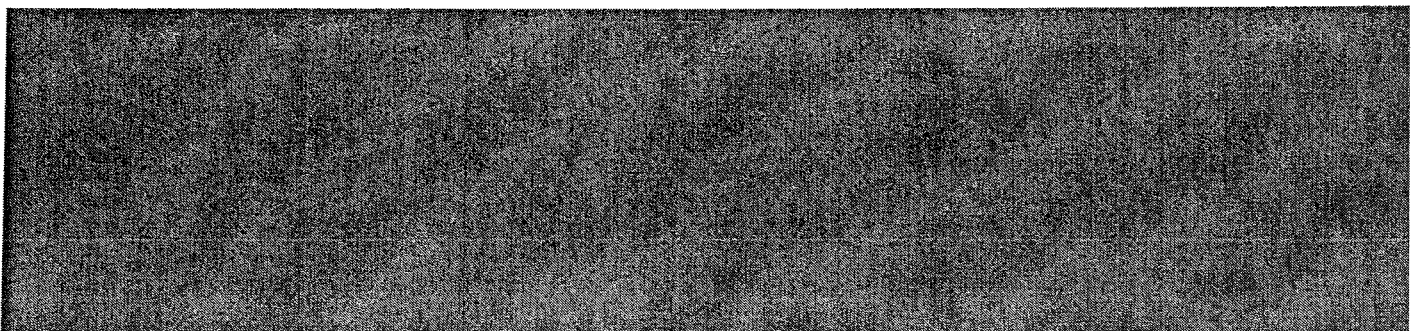
Improving the school estate



Prepared for the Auditor General for Scotland and the Accounts Commission
March 2008

Summary

This report reviews the impact of the School Estate Strategy and what has been achieved so far.



About the study

1. Ten years ago, many of Scotland's schools were in a state of serious disrepair. Education was a high-priority policy area for both central and local government and so a major programme of school building and renewal began. The programme started at the end of the 1990s, with the first new and refurbished schools opening in 2000 and 2001.¹

2. In 2003, the Scottish Executive and the Scottish Convention of Local Authorities (COSLA) launched the School Estate Strategy.² The overall aim of the strategy is to raise the quality of the school estate, ensuring that no schools are in poor condition³ or otherwise unsuitable for 21st century education. The strategy states that new and refurbished schools should be well designed, well built, and well managed.

3. The focus of this report is to evaluate the impact of the strategy on school buildings and what has been achieved to date. Where appropriate we comment on relevant recommendations from *Taking the initiative*, a previous report published in 2002 by the Accounts Commission and the Auditor General for Scotland, which examined the use of the Private Finance Initiative (PFI) in the early projects in the programme of school building and renewal.⁴

4. This report was prepared on behalf of the Accounts Commission and the Auditor General for Scotland and addresses the following questions:

- What does the School Estate Strategy aim to achieve?
- How many schools have been rebuilt or refurbished?

- How much has this cost?

- How effective are the new and refurbished school buildings?

- How well are the Scottish Government and councils managing the improvements?

5. The purpose of the study is not to assess the merits of one funding route compared to another, but to consider what has been achieved for the investment made, whatever its source. We have not examined links between improvements to school buildings and educational performance as there is limited evidence available. Our report recommends actions that will help to achieve the aims of the strategy in the future.

6. We collected evidence for this report through:

- reviewing documentation and analysing existing data
- gathering information from all councils on the profile of their school estate and the costs of improvements made to it
- assessing the design quality of 18 new and refurbished schools
- undertaking focus groups with school pupils and issuing questionnaires to staff at ten new and refurbished schools
- interviewing officers at six councils (East Lothian, East Renfrewshire, Fife, Glasgow, Highland, West Lothian)
- interviewing key officials in the Scottish Government and other key stakeholders.

Key messages

7. When the Scottish Executive launched the School Estate Strategy in 2003, there was a lack of comprehensive and consistent information from councils about their school buildings. The strategy did not set out exactly what needs to be done or how it will be achieved. The Executive allocated financial support to councils before having reliable information and before developing the strategy. However, the information available is improving so the Scottish Government and councils should now be able to review the strategy, set specific outcomes and targets and prepare a detailed plan for achieving them (Part 2).

8. The strategy has led to many schools being improved, including 219 brand new buildings by the end of 2007. Using its own criteria, the Scottish Government can show that its two interim targets of improving first 100, and then another 200, schools by 2006 have been met. However, at current rates of progress, we estimate it could take up to 20 years to remove all schools from poor condition and make them suitable for 21st century education – the overall aims of the strategy (Part 3).

9. Investment worth £3.9 billion has been committed to improving schools in the last seven years,⁵ and this is expected to have increased to over £5.2 billion by April 2008. The Scottish Government cannot accurately assess how much still has to be spent to achieve the overall aims of the strategy due to the limitations of the data and information available. If the strategy is to continue, the government now needs to assess future costs and develop a financial strategy to deliver on these.

¹ In Falkirk, Stirling, Glasgow and East Renfrewshire.

² *Building our Future: Scotland's School Estate*, Scottish Executive and COSLA, 2003.

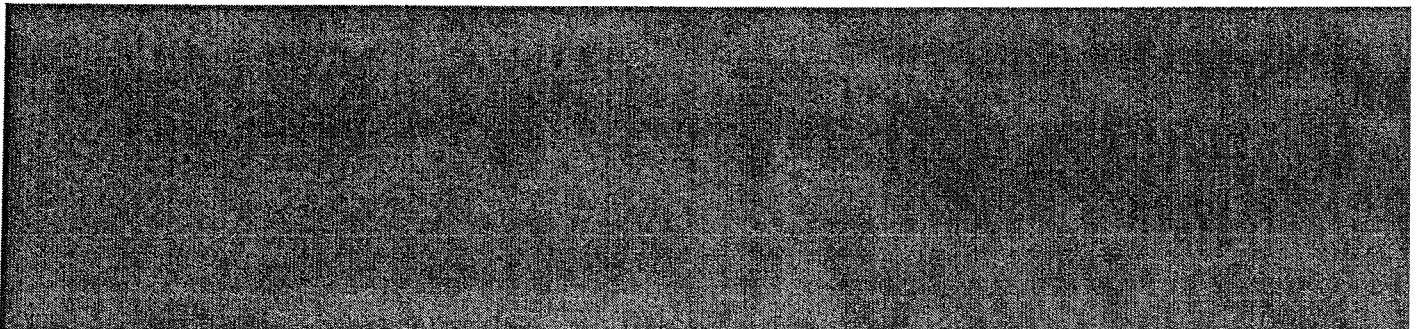
³ Assessed as being either 'in poor condition – major defects and/or not operating adequately' or 'in bad condition – life expired or at serious risk of imminent failure', *School Estate Statistics 2004*, Scottish Executive, 2005.

⁴ *Taking the initiative: using PFI contracts to renew council schools*, Audit Scotland, 2002.

⁵ From 2000/01 to 2006/07.

Part 8. Recommendations

This report makes recommendations to the Scottish Government and councils to help them maximise improvements to the school estate.



Part 2. What does the School Estate Strategy aim to achieve?

- The Scottish Government and councils should review the School Estate Strategy and set specific, measurable and meaningful targets to ensure that the aims of the strategy are clearly expressed and progress can be properly assessed.
- The strategy should contain an implementation plan, which sets out what has to be done, when and by whom.
- The Scottish Government and councils should report progress using information collected at an agreed time and to an agreed standard.

Part 3. What has been achieved?

- The Scottish Government and councils should implement standardised approaches for collecting reliable information about the condition and suitability of school buildings.
- The Scottish Government and councils should agree to report progress in terms of new, clearly defined targets reflecting key standards for condition, suitability and sufficiency.

Part 4. How much is it costing?

- The Scottish Government should identify a financial strategy for achieving the aims of the School Estate Strategy. The amount of financial investment required should be estimated now and kept under review as information improves and progress towards targets continues. The financial strategy should allow for the long lead-in time required for major school-building projects.

- Councils should develop plans for the duration of their PFI contracts that identify how they will pay the increasing charges for their PFI contracts.
- The Scottish Government and councils should ensure that adequate resources are allocated to building maintenance for schools without PFI maintenance contracts.

Part 5. How effective are the improvements?

- To maximise their positive impact, refurbishments need to be designed taking an overall view of the whole school.
- Environmental sustainability should be a key element of school design, not an added extra.
- Councils should consider preparing user guides for all new and refurbished schools to ensure that staff know how to make the best use of the facilities in their building.
- Councils should use the Scottish Executive's guidance *Optimising the internal environment* to make sure that future school designs strike a good balance for the comfort of everyone who uses the building.
- The Scottish Government and councils need to continue working to identify and share good (and bad) practice to ensure that the quality of design keeps improving.
- Councils should make sure they consult and involve school users at the design stages, even if this means the process takes longer.

- Councils should complete post-occupancy evaluations as a matter of priority. They should make the results available to other councils and take up the opportunities offered through the Local Authority School Estates Network to compare notes and learn from each other.

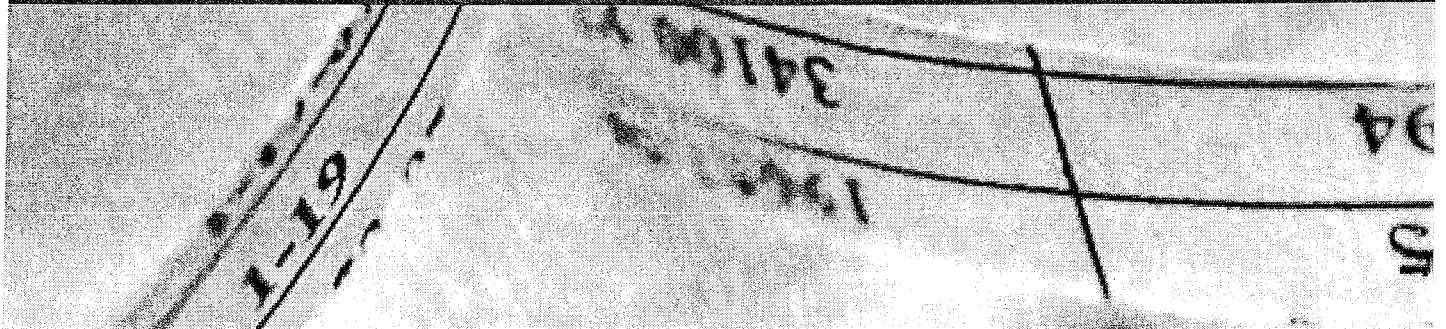
Part 6. How well are the improvements being managed?

- Councils should estimate pupil rolls for at least ten years ahead and should review these assessments at least annually.
- Councils need to build flexibility into their school estate plans to accommodate both longer term demographic changes and unforeseen local changes. This might include school buildings that can be readily expanded or easily converted to other uses.
- The Scottish Government and councils should do more to share experiences and develop joint approaches to improving the school estate. There are potential efficiency savings to be made from more sharing of staff and technical expertise.
- Councils should transfer learning from experiences on school estate management to improve general asset management across their organisations as appropriate. COSLA should take a lead role in coordinating this, in consultation with the Scottish Government and the Improvement Service if appropriate.

National Fraud Initiative in Scotland 2006/07

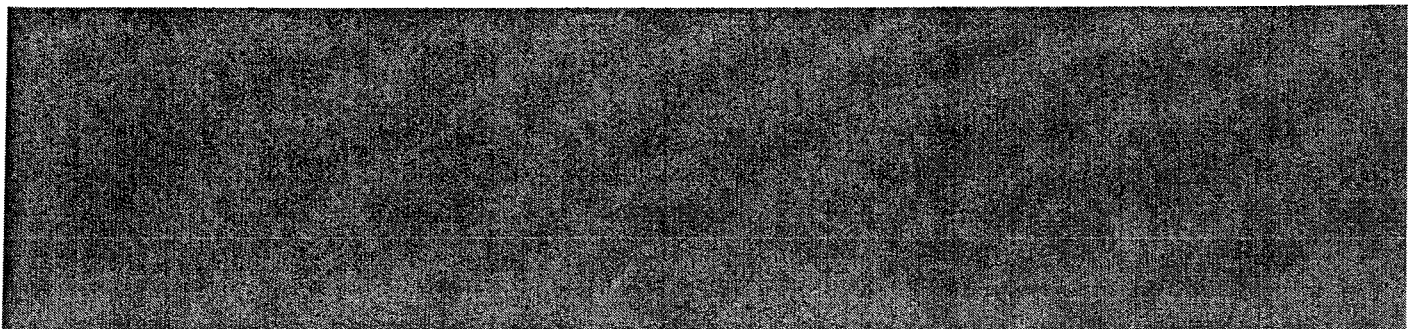


Prepared for the Auditor General for Scotland and the Accounts Commission
May 2008



Summary

The cumulative savings from NFI in Scotland are now around £37 million.



Key messages

- The 2006/07 National Fraud Initiative (NFI) exercise has helped to identify fraud and error of at least £9.7 million. The cumulative savings from NFI in Scotland are now around £37 million.
- The 2006/07 results suggest that NFI and other anti-fraud work is making an impact in deterring fraud, and that bodies are improving their systems of control.
- The 2008/09 NFI exercise will commence in October 2008 when data will again be collected from the participating bodies.
- Audit Scotland is liaising with the Scottish Government Criminal Justice Directorate about the provision of express powers for data matching in Scotland.

1. Audit Scotland, working with the Audit Commission, external auditors and a range of public bodies in Scotland, has undertaken another major counter-fraud exercise. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the public bodies. The latest exercise (NFI 2006/07) commenced in October 2006 and is now complete, or substantially complete, at most participating bodies.

2. Seventy-four bodies took part in NFI 2006/07. These included councils, police authorities, fire and rescue authorities, Strathclyde Partnership for Transport, health boards, the Scottish Public Pensions Agency (SPPA) and the Student Awards Agency for Scotland. The 2006/07 exercise built on the 2004/05 NFI and pilot exercises carried out in previous years.

3. NFI uses computerised data matching to compare a range of information held on bodies' systems (eg, housing benefits, public sector pay and pensions, students, disabled persons' 'blue badge' parking permits and a government register of deceased persons) to identify inconsistencies or other circumstances that might indicate fraud or error. These 'matches' are provided to the audited bodies via a secure website for them to investigate.

4. To date, fraud and overpayments of £9.7 million have been found as a result of the 2006/07 NFI in Scotland, and this amount is expected to increase in the months ahead. The main outcomes included:

- 186 occupational pensions stopped because the pensioner was found to be deceased
- 1,552 housing benefit cases involving public sector pensioners
- 672 housing benefit cases involving public sector employees
- 969 disabled blue badges cancelled after NFI identified that the holder was deceased.

5. The cumulative fraud and error detected by the NFI in Scotland is now around £37 million, and this does not reflect the extent to which NFI may help to deter more fraud.

6. The level of fraud and error identified from the 2006/07 exercise is about a third less than that reported at the 2004/05 exercise. This is not especially surprising. The most likely reasons are that:

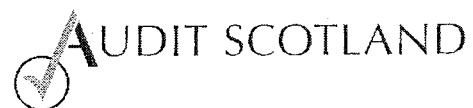
- 2004/05 NFI was the first significant roll out of NFI for councils in Scotland, and outcomes from that exercise

were always likely to be untypical. NFI 2004/05 helped bodies to identify the longest-running frauds and errors; whereas most fraud and error found at the 2006/07 exercise should only have run for two years at most

- NFI, and other anti-fraud work by bodies, is making an impact in deterring fraud
- informed by the fraud and error cases identified previously, bodies have made improvements to their systems of control
- in addition, SPPA had not completed its investigations at the time of preparing this report and its final results are expected to reduce the difference between the 2004/05 and 2006/07 NFI outcomes.

7. Audit Scotland will continue to work with the Audit Commission on NFI and will commence the 2008/09 exercise in October 2008. We are currently revising our Code of Data Matching Practice to ensure that NFI exercises continue to comply with data protection requirements, and to reflect best practice in notifying individuals about the use of their information in NFI exercises.

8. Audit Scotland is also in discussion with the Scottish Government Criminal Justice Directorate about providing Scotland with the same express data matching powers that were recently given to other UK audit agencies by the Serious Crime Act 2007.



2

Summary

The scale of investment means that good decision-making about the capital programme and good management of individual projects are vital.

Capital investment in the public sector is significant

1. Public investment in infrastructure touches most aspects of Scottish life. It provides new and upgraded facilities, such as roads, railways, hospitals, schools, museums, prisons and major IT projects. Between 2002 and 2007, the Scottish Government and its agencies, non-departmental public bodies (NDPBs) and the NHS completed 43 publicly-funded major capital projects valued at £811 million (Appendix 1).¹

2. There are currently 104 major projects valued at £4.7 billion in progress (Appendix 2). Most of these are in the transport and health sectors (Exhibit 1). There are:

- Nine large projects – seven transport and two health projects – with a combined value of £2.8 billion. The value of these projects ranges from £120 million to £692 million.
- Thirty-seven medium projects – mainly in the transport, health and justice sectors, valued at between

£15 million and £85 million each – with a combined value of £1.4 billion.

- Fifty-eight smaller projects – covering all government portfolios, valued at less than £15 million each – with a combined value of £0.5 billion.²

3. The scale of investment means that good decision-making about the capital programme and good management of individual projects are vital.

4. In May 2008, the Scottish Government proposed the further development of the Scottish Futures Trust initiative. This includes plans to provide a focal point for coordinated public sector infrastructure planning and investment. If approved and implemented, this coordination may help address our recommendations below.

Summary of key messages

- At project approval stage, the early estimates of cost and time were too optimistic for many major projects. Performance against cost and time estimates is better after contracts are

awarded, as plans are more certain and risks clearer.

Two-thirds of projects were completed within five per cent of the contracted cost and within ten per cent of the contract time. Most current projects reviewed also appear on track to meet the contract cost.

- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment.
- Project management and governance arrangements of individual projects are broadly effective. However, the quality of project appraisals could be improved. Initial cost estimates also need to better reflect risk and uncertainty, and consider a range of inflation scenarios.

Exhibit 1

Major capital projects by government portfolio

Portfolio	Completed projects 2002-07		Projects in progress		Projects examined by Audit Scotland	
	Number of projects	Actual cost £m	Number of projects	Estimated cost £m	Number of projects	Estimated or actual cost £m
Finance and sustainable growth (mainly transport projects)	10	198	50	3,357	8	1,463
Justice	12	213	11	350	4	181
Rural affairs and environment	1	33	5	53	2	49
Health and well-being	11	258	28	737	3	186
First Minister	1	32	7	127	2	78
Education and lifelong learning	8	77	3	52	1	38
Total	43	811	104	4,676	20	1,995

Source: Audit Scotland

1 We define a major project as having a capital cost of £5 million or more.

2 We have defined small, medium and large projects as less than £15 million, £15 -100 million and over £100 million respectively.

- There is a case for better cross-government coordination of capital investment programmes, including consideration of the capacity and capability of suppliers and contractors.

Summary of recommendations

The Scottish Government should:

- collect information on all projects and get explanations for cost, time and quality changes, and lessons learned. It should report performance publicly.
- strengthen strategic direction and investment planning through a senior, government-wide, investment coordination and challenge function
- ensure robust procurement strategies and cost estimates have been developed prior to awarding funding to projects
- take account of market conditions and construction inflation when developing its capital programme.

Public bodies should:

- prepare robust business cases for every project. These should be clear about the project aims and benefits, and include assessment of: risks; the range of options to be considered; and a clear basis for assessing, reviewing and reporting
- build whole-life costs into business cases and subsequent project reporting
- ensure cost, time and quality targets are clear from the outset, and properly recorded
- improve early-stage estimating of the cost and time of projects.

They need to ensure better assessment and quantification of risk and uncertainty, and should include a specific risk allowance, optimism bias allowance and take account of construction cost inflation in early cost estimates

- develop an appropriate procurement strategy which considers all procurement routes, competitiveness and capacity within the construction industry. Ensure that risk management strategies explicitly consider and mitigate the risk of changes in scope after the contract has been awarded
- make more use of tools available to assess and confirm both the quality of design and environmental sustainability to get the best of benefits from the available funding
- ensure appropriate project management and governance arrangements are put in place for every project
- from the outset, ensure they have project managers with appropriate experience and knowledge of effectively managing major projects
- ensure independent gateway or similar reviews at the key stages in projects
- ensure project budgets are sufficient to allow for post-project evaluation in all projects
- carry out post-project evaluations within a reasonable timescale to determine whether projects have delivered the benefits intended (benefits include satisfying the business requirements as well as providing good-quality design

and functionality). Evaluations should consider performance against cost, time and quality targets.

- set a clear plan with regard to the need for independent gateway or similar reviews at key stages in projects

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ARGYLL AND BUTE COUNCIL
CHIEF EXECUTIVE'S UNIT

AUDIT COMMITTEE
19 SEPTEMBER 2008

PYRAMID – PROGRESS REPORT

1 SUMMARY

This paper provides a brief update of progress with the implementation of the Council's performance management system, Pyramid.

2 RECOMMENDATIONS

It is recommended that Audit Committee has an update during the remainder of the Pyramid implementation – due to complete May 2009.

3 DETAIL

The attached report was presented to the Performance Improvement Strategic Board on 15th August. It was suggested that training opportunities are needed for Members as well as DMTs and the SMT to increase use of Pyramid at a strategic level.

On August 15th, 93% of performance measures were populated with up-to-date data.

For further information contact:

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

Pyramid Progress Report **15th August 2008**

Pyramid Implementation Project Overview

The Council adopted the current performance management framework in 2004. Before that time, performance reports were largely based on financial information only. A further development was the introduction of non-financial performance reports to the SMOG and the Audit Committee in 2006 along with a unified reporting framework. The introduction of the software system, Pyramid, in 2007 makes available a wider range of up-to-date performance information to all Members and managers across the organisation.

The Pyramid project is working with each Service through a series of workshops, seminars and training sessions to develop a Service scorecard, representing the key performance features of the Service. The 12 week programme culminates in go-live when the Head of Service signs off the scorecard. Following go-live, the Head of Service presents their scorecard to their DMT, explaining the key aspects of their performance. The DMT acknowledges and agrees Service performance with Departmental and Strategic impact. Finally, the Head of Service presents their scorecard to the SMT who sign-off the implementation and agree the aspects of Service performance with significance at a corporate level.

The main purpose of the Pyramid project is to promote and support a change of the organisational culture to one focused on performance.

Progress to date

The pilot phase of the project concluded with Roads and Amenity Services, Financial Services (including Benefits) and some cross cutting Strategic Financial data in Pyramid. Additional work was undertaken with Education to prove the use of an automated data transfer from SEEMIS to Pyramid. It was clear at this point that additional people were required to deliver Pyramid within an acceptable timescale. The SMT agreed that Departments would each provide a secondee for a period of 2 years.

The main phase of the project is progressing satisfactorily, with 14 Services being directly involved so far. This level of progress has only been possible with the secondees from other Departments. The attached table illustrates overall progress with Services.

Strategic Finance and Financial Services (including Benefits) have completed the process. Roads & Amenity Services and Planning & Performance will follow in the next few months.

Successes

The positive attitude of most Service Heads and 3rd tier managers has enabled the project to progress largely to plan. Services with a strong record of monitoring performance have coped very well with the additional work of developing Pyramid scorecards. This has enabled the Pyramid Team to add other essential aspects of performance to the Pyramid model, including the Statutory Performance Indicators, Social Work Improvement Plan and the

Best Value Improvement Plan. Other sections have been progressed including the European & Employability Unit, Performance & Support, the Corporate Risk Register and the Capital Programme. These are areas of work not included in the original Project Plan.

In terms of organisational culture, it is clear that the Pyramid implementation programme is providing space for Services to think about their purpose and performance. This has enabled the Pyramid team to encourage discussion about key metrics and critical areas of performance, focusing on the cause and effect of service delivery. Sometimes referred to as Strategy Mapping or the Golden Thread, this process illustrates the links between the Corporate Objectives, Service Plans and service delivery.

Issues

Whilst a positive attitude is apparent in most Services, there are still pockets of resistance. Sometimes this is simple resistance to change, at other times it is clear that there is little understanding of how performance can be managed. Resistance to change is overcome in part by ensuring that Heads of Services have control over the Pyramid implementation programme. It is made clear that Pyramid is the adopted corporate system and managers have a responsibility to ensure that the system is properly employed. Although sometimes grudging, there is general acceptance that Pyramid has the potential to be a useful corporate system.

Where the Pyramid Team finds little experience or understanding about performance management techniques, the programme of workshops includes sufficient opportunity for managers to follow the basic principles.

A major issue is the need for pull as well as push. The Pyramid Team is pushing Services along the path of building and maintaining their Pyramid scorecards. Services are generally progressing along the performance management path with encouragement and assistance from the Pyramid Team. What is needed now is for Members and senior managers to demand (pull) information from Services through Pyramid - to define the improvement path and charge Services to follow.

Pyramid allows Members and managers to view and analyse information, leading to the formulation of questions and ideas focused on improvement. There is little experience across the organisation of actively seeking and using performance information. Previous practice has been to accept regular reports or to make ad-hoc requests for specific information. Using Pyramid, Services will respond to the demand from Members and managers for timely, accurate information.

Dept	Scorecard	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
CE	Statutory PIs	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
Comm	SW Improvement Plan	O	O	O	G	G	G	G	G	G	G	G	G	G	G	G	G	G
CE	BV Audit Improvement Plan	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
Corp	Financial Services (+ Benefits)	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
Op	Roads and Amenity Services	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G
CE	Strategic Finance	O	O	O	Y	Y	Y	Y	G	G	G	G	G	G	G	G	G	G
CE	Personnel Services	O	O	O	Y	Y	Y	R	R	G	G	G	G	G	G	G	G	G
Comm	Education			O	O	O	Y	Y	Y	Y	G	G	G	G	G	G	G	G
Comm	Planning and Performance			O	O	O	Y	Y	Y	G	G	G	G	G	G	G	G	G
Dev	Planning Services					O	O	O	Y	Y	Y	G	G	G	G	G	G	G
CE	Corporate Capital Programme					O	O	O	Y	Y	Y	G	G	G	G	G	G	G
Corp	ICT Services					O	O	O	Y	Y	Y	G	G	G	G	G	G	G
Comm	Community Regeneration						O	O	O	Y	Y	Y	G	G	G	G	G	G
Dev	European & Employability						O	O	O	Y	Y	Y	G	G	G	G	G	G
CE	Policy & Strategy							O	O	O	Y	Y	G	G	G	G	G	G
CE	Communications							O	O	O	Y	Y	G	G	G	G	G	G
Dev	Performance and Support							O	O	O	Y	Y	Y	G	G	G	G	G
Comm	Children and Families									O	O	O	Y	Y	Y	G	G	G
Op	Facility Services									O	O	O	Y	Y	Y	G	G	G
Comm	Adult Social Work										O	O	O	Y	Y	Y	G	G
Corp	Democratic Services											O	O	Y	Y	Y	Y	G
Corp	Legal and Protective Services												O	O	O	O	Y	Y
Dev	Transportation & Infrastructure												O	O	O	O	Y	Y

orange - planned workshop phase
yellow - planned post workshop development
green - live
red – delayed

ARGYLL AND BUTE COUNCIL
CHIEF EXECUTIVE'S UNIT

AUDIT COMMITTEE
18 SEPTEMBER 2008

SUMMARY OF QUARTERLY PERFORMANCE REPORTS

1 SUMMARY

This paper provides a summary of the Service quarterly reports for the period April to June 2008, 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 Apr-Jun 2008

This paper draws together the exception reports from the quarterly Service performance reports for the first quarter 2008/09. 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 – no exception reports

Personnel Services – no exception reports

Policy and Strategy

- ✗ Proactive work is still suffering due to pressures on the small team. This period effort has been directed to the Single Outcome Agreement.
- ✗ Performance management progressing well in most areas. Ingrained cultural patterns of work/ behaviours are slowing some parts of the process.

Strategic Finance

- Both loan fund and long term borrowing rates show favourable trends

Community Services

Adult Social Work

- ✓ Some improvements to the number of people awaiting assessments across a range of disciplines (similar to previous quarter, showing a continued improving trend)

Community Regeneration - no exception reports

Planning and Performance - no exception reports

Children and Families - no exception reports

Education

- ✓ The educational attainment of children leaving local authority care has shown considerable improvement.

Corporate Services

ICT and Financial Services

- ✗ 12 month delay to e-Planning system due to national programme delays, reported previously, may come on stream sooner than March 09.
- ✗ The number of new Benefit claims outstanding longer than 50 days stands at over 35% against a target of 9% - a continued deteriorating trend.
- ✗ New benefit claims and changes to circumstances have generally been slower than planned
- ✓ The percentage of payments made within 7 days of determination has risen to over 99%.

Legal and Protective Services

- × The number of trade premises inspected has dropped due to staff shortages. A focus has been given to consumer complaints instead.
- × No performance measures have been developed for animal health and welfare (same comment in previous 4+ reports).

Democratic Services and Governance

- The lack of stated targets in some areas reduces the value of the report.

Development Services

Transportation and Infrastructure - no exception reports

Planning

- ✓ There has been continued overall improvement in the response times for building warrants, planning applications and completion certificates
- × The vacancy in the Access Manager's post is still causing delays in the Core Path Plan

Operational Services

Roads and Amenity Services

- The report from this Service is a Pyramid printout. Too little data is entered to assess progress. The Head of Service has committed to re-vitalise the Pyramid data in time for the next report. This has come about in part as a result of recent changes to management responsibilities which were not reflected in Pyramid in time for this report.

Facility Services

- Declining numbers of school pupils taking up school meals, but those who do are mostly very satisfied with the quality, choices, etc.
- A good deal of user data is presented in the report with little analysis.
- × A significant reduction in the budget for the Education planned maintenance programme is predicted to have a severe effect on the ability to carry out work in the future. It is suggested that this may put pressure on Head Teachers and Property staff to over-compensate by treating routine repairs as emergency maintenance - this gives access to the limited budget available. The current overspend is reported as £82,625.

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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**

A demonstration of the format for transfer of the information into Pyramid was given by Lyndis Davidson at the last RMG meeting. All departmental reps were happy that it will meet their needs. The RMG will arrange for transfer of the data into Pyramid by the end of September, all departments are to nominate administrative officers to complete the process/training which will be undertaken in conjunction with the performance management team.

3.2 Business Continuity

The DRPs for each Service should be submitted by 17 September in order that the quality assurance checks and any amendments can be made prior to them being signed off by the Departmental Management Teams. A presentation to Directors and Heads of Service on where we are with the Business Continuity Programme has been arranged for 1 October and as part of that, there will also be training on the Incident Management Plan.

An exercise of the BC plan will be arranged for early November.

A presentation will be made to the December Audit Committee on the outcomes of the BC process.

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
19 SEPTEMBER 2008**

INTERNAL AUDIT SECONDMENT POLICY

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 revised in 2006 and Grant Thornton UK LLP, in May 2007 carried out a Code compliance review resulting in a report. One resultant recommendation required that Internal Audit have a policy on the secondment of staff both from and to Internal Audit. This arose originally as a result of staff being seconded from Internal Audit to other sections within Strategic Finance. A proposed policy is attached.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 In the past members of staff have been seconded from Internal Audit to other sections of Strategic Finance. There has also been an instance where one of the Trainee Accountants has been seconded to Internal Audit for a period prior to sitting an Auditing paper in the CIPFA examinations. In order to prevent a conflict of interest a policy has been produced that will prevent Auditors covering areas where they had previously worked. The policy will prevent any staff seconded into Internal Audit covering areas of work associated with their substantive post.

4. CONCLUSIONS

The Committee is asked to approve the proposed policy.

5. IMPLICATIONS

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

For further information please contact Alex Colligan, Internal Audit Manager (01546 604271).

27th August 2008

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Internal Audit Secondment Policy

1 Internal Audit staff being seconded to other duties

- 1.1 Internal Audit staff may on occasion be seconded to other duties within the Council. Any such secondment must be with the agreement of the Head of Strategic Finance and the Internal Audit Managers.
- 1.2 The period of secondment must be agreed at the outset of the secondment and any extension of the secondment must also be agreed by the Head of Strategic Finance and the Internal Audit Managers.
- 1.3 At the end of the secondment the staff involved will return to the Internal Audit section to take up their duties.
- 1.4 On return to their duties within Internal Audit staff must provide the Internal Audit Managers with a note of the duties they carried out during the period of their secondment. This note should include details of the work carried out and within which departments and services. This note will be retained by the Internal Audit Managers.
- 1.5 The Internal Audit Managers will ensure that the seconded staff will not be involved in any audits or area of work for which they were responsible during their period of secondment. This will last for a period of not less than 2 years from the end of the secondment.

2 Staff being seconded into Internal Audit

- 2.1 Internal Audit may on occasion second staff to carry out duties within the section. Any such secondment must be with the agreement of the relevant Head of Service and line manager(s).
- 2.2 The period of secondment must be agreed at the outset of the secondment and any extension must be agreed by all relevant managers.
- 2.3 Commencing the secondment the seconded staff member must supply a note to Internal Audit Managers detailing position held in their normal role and the duties they carry out. This note will be retained by the Audit Managers.
- 2.4 The Internal Audit Managers will ensure that the seconded staff will not be involved in any audit work for which they are responsible for during their normal working practices.
- 2.5 At the end of the secondment the staff involved will return to their position within the Council.

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Grant Thornton

Argyll and Bute Council

Interim Management Report

28 August 2008

DRAFT

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3 National Fraud Initiative	13

Appendices

A Action plan

Executive Summary

Introduction

The Council is required to have arrangements in place for ensuring propriety, regularity and Best Value in the 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 2007-08 audit, we have reviewed the adequacy of the Council's internal control framework in the following areas:

- financial management and budgetary control;
- audit committee arrangements; and
- participation in the National Fraud Initiative exercise.

Key Findings

Financial management and budgetary control

The Council has generally good arrangements for financial management and budgetary control and has improved its arrangements for linking corporate priorities into the budget setting process. The linkage between budget setting and corporate priorities is being addressed by the Council, but there remains scope for further transparency in this area.

The Council will continue to face financial pressures over the next three years, and currently anticipates that the level of unearmarked reserves will fall below the target of 1.5% of net operating expenditure by the end of the 2008-09 financial year. The Council's earmarked reserves of £21 million remain healthy, however, the reduction in available un-earmarked reserves presents a risk to the achievement of overall corporate objectives.

More generally, there is scope for greater transparency in the plans the Council has to apply all earmarked reserves, including those currently earmarked within departmental budgets.

The Council has produced an Efficiency Savings Plan to identify ways to achieve the Scottish Government's target of 2% efficiency gains per annum over the next three years, but does not yet have the performance systems in place to measure outputs and outcomes to support the measurement of efficiency.

Audit Committee arrangements

Our review found that the audit committee operates effectively and complies with the majority of good practice principles outlined in the CIPFA guidance. In particular, the approach adopted by the Council to appoint non-executives as chair and vice chair of the

audit committee goes beyond good practice, and significantly improves overall governance and scrutiny within the Council.

We identified some areas where overall audit committee arrangements could be improved further to fully comply with good practices principles, including:

- reviewing and updating the committee's terms of reference to ensure it incorporates all the areas recommended by CIPFA; and
- establishing a formal training programme for committee members.

We also note that one member of the audit committee is also a Deputy Spokesperson. The audit committee's existing terms of reference currently preclude the appointment of Spokespersons to avoid the potential for conflicts of interest to emerge in the exercise of scrutiny functions.

National Fraud Initiative

The Council participates in the National Fraud Initiative (NFI) Exercise, but has identified only a small amount of housing benefit fraud following its 2006-07 review. We found a number of areas for improvement in the Council's arrangements for participating in the NFI exercise, in particular the need for improved documentation of progress monitoring, investigation and closure of case matches.

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.

About this 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
28 August 2008

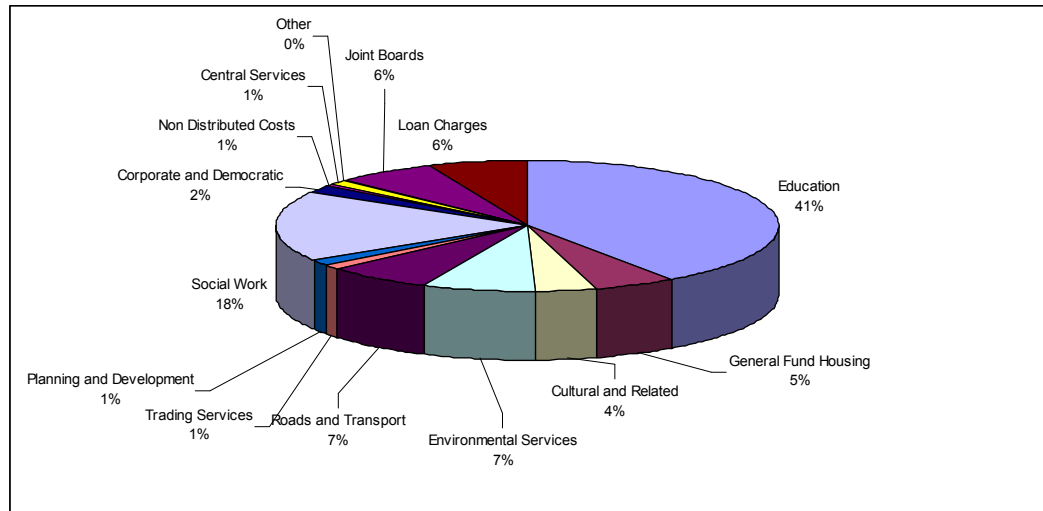
1 Financial management and budgetary control

1.1 Background

1.1.1 In February 2008, the Council approved its first three year budget plan for the period to 2010-11. This marks a significant change in the Council's approach to financial management and budgetary control, and matches the introduction of the new three year funding settlement with the Scottish Government for local authorities.

1.1.2 For the year ending 31 March 2009, the Council plans to spend some £252 million on providing services, with education services accounting for the significant majority of planned expenditure in line with Council priorities. Effective financial management and budgetary control arrangements are therefore essential for the proper stewardship of the Council's resources. Table 1 below provides a more detailed breakdown of the 2008-09 budget across services, excluding the effects of internal trading.

Table 1: 2008-09 revenue budget (excluding internal trading)



Source: Argyll and Bute Council

1.1.3 Our review assessed the adequacy of the Councils' financial management and budgetary control arrangements covering:

- the budget setting process;
- the process for monitoring and reporting budget variances;
- procedures for authorising and processing budget virements;
- the reserves policy; and
- arrangements for meeting the Scottish Government's efficiency savings target of 2% per annum.

1.2 Budget setting process

1.2.1 In our 2006-07 audit, we noted that the Council prepared the budget on a largely historical basis rather than on a more fundamental zero based budgeting approach. The traditional budget setting approach does not always ensure that resources are targeted to the Council's corporate priorities and objectives.

1.2.2 Since our last review, there have been significant changes in the Council's approach to setting the budget. The main changes reflect the need to re-align the Council's budget to meet the aims of the Concordat between the Scottish Government and local government, including:

- a funding settlement based over the three years to 2010-11;
- freezing of Council Tax at 2007-08 levels;
- the development of a Single Outcome Agreement to link national policy priorities and targets with local priorities and circumstances;
- reduction in the ring-fencing of resources; and
- the requirement to meet an efficiency savings target of 2% per annum.

1.2.3 The Council has responded by developing a financial strategy which seeks to provide a more transparent link between the revenue budget and corporate objectives. As part of the budget process, the Council allocated free funding of £1 million to priority areas of roads and services for older people. The Council has also carried out a "golden thread" review to monitor how it is progressing with matching objectives with financial resources. This review concluded that there was a good linkage between budgets and corporate priorities, although the review also identified some corporate priority areas that did not yet seem to receive budget priority. The Council is moving towards making the linkage between corporate priorities and budget setting, however there is scope to make this more transparent.

Action Plan Point 1

1.3 Budget monitoring

1.3.1 Regular and robust budget monitoring is required in order for the Council to maintain effective budgetary control throughout the year. The Council prepares two main types of budget monitoring reports:

- monthly budget monitoring reports for each budget holder;
- monthly budget monitoring reports for SMT; and
- quarterly budget reports for the Executive.

1.3.2 The budget monitoring reports are clear and concise, and provide budget holders and members with the necessary level of information to understand the financial position. Projected year end outturn figures are produced for each monthly budget monitoring report and the quarterly report to the Executive.

1.3.3 However, budget reports continue to be produced on a cash basis, and many of the identified variances are noted as "profiling issues". Thus, reports may not fully reflect the

Council's financial position at the report date, or be fully effective in highlighting potential budget variances sufficiently early in the financial year for corrective action to be taken. The Council should consider producing an accruals based budget report to report more accurately on the financial position at the report date.

Action Plan Point 2

1.4 Budget virements

1.4.1 The policies and procedures for processing budget virements (transfers of budget authorisation between linked budget groupings) are set out in the Financial and Security Regulations. These regulations require that:

- all virements above £25,000 are agreed by the relevant service Director, and notified to the Head of Strategic Finance; and
- for virements above £100,000, there must be advance consultation with the Chair and Vice Chair of the Executive, and all virements above £200,000 require specific Executive approval.

1.4.2 The Council's financial and security regulations require budget virements to be notified to the Head of Strategic Finance. We reviewed a sample of twenty budget virements processed during the 2007-08 financial year, and found that only three (15% of our sample) had evidence that the correct notification procedures had been followed. This increases the risk that budget virements are being processed without the necessary level of senior management scrutiny.

Action plan point 3

1.5 Reserves

1.5.1 For the year ending 31 March 2007, the Council had a total general fund reserve balance of £24.8 million, of which £20.5 million was earmarked for specific purposes, and £4.3 million was unearmarked. Table 1 shows the breakdown of the main general fund balances at 31 March 2007.

Table 1: General Fund balances as at 31 March 2007

	31 March 2007
	£'000s
Total General Fund	24,798
<i>of which</i>	
Earmarked:	
Smoothing Funds	6,587
Social Housing	3,173
Grant Income carried forward	3,918
Budget carried forward	4,843
Funding committed to 2007-08	2,026
Total Earmarked	20,547
Un-earmarked	4,251

Source: Argyll and Bute Council

1.5.2 In our 2006-07 audit, we noted that the Council's arrangements for reserves were prudent, but more could be done to better identify how the Council proposes to apply some earmarked balances. The Council has responded by producing a new reserves policy, as part of the three year budget setting process.

1.5.3 The Council has analysed the earmarked portion of the reserves and developed budget expectations for specific reserve balances, including:

- the Waste Management PPP Smoothing Fund balance is expected to increase to £9.5 million;
- a balance held for social housing projects to be funded by income generated from council tax levied on second homes; and
- a target to ensure that balances relating to unspent grants and contributions do not exceed 1% of expenditure (current position is 1.8%) in any year.

1.5.4 We note that the level of earmarked reserves for social housing projects continues to rise each year from the accumulation of council tax receipts on second homes (approximately £1.7 million per year). The reserve will be used to fund projects based on the conditions set out in the Strategic Housing Fund and Landbank policy. The Council has provisionally allocated £0.642m in support of 2 projects.

Action plan point 4

1.5.5 The Council currently enables departments to carry forward unspent budget provision between years. In 2007-08, the total value of this element of reserves had risen to £6 million. Only funds set aside for specific purposes should be earmarked. A full review of the earmarked general fund balance is carried out on an annual basis, and departments are asked to provide explanations for balances carried forward. However, the Council should ensure departments are sufficiently challenged in how they intend to utilise unspent budget provisions as part of the budget process.

Action plan point 5

1.5.6 The Council is required to hold reserve balances to meet contingencies and respond to unforeseen events. It is important that the Council hold adequate reserves of this type to manage the impact such events can have on the ongoing operations of the Council.

1.5.7 The Council currently plans to reduce the target level of unearmarked reserves from 1.9% to 1.5% of net operating expenditure for 2008-09. Current forecasts indicate that this revised target may not be met in the 2008-09 financial year due to a transfer from general fund reserves to balance the budget for that year.

1.5.8 The revised target for unearmarked reserves has been calculated to reflect available funds as part of the budget setting process and a partly risk based assessment of the reserves balance required to be held to meet contingencies and respond to effectively to unforeseen events.

Action plan point 6

1.6 Efficiency savings

1.6.1 The Scottish Government has set local authorities an efficiency savings target of 2% per annum for the 3 year period beginning 2008-09. This is a challenging target for the Council and will require savings of approximately £2 million to be identified. Under the Concordat, the Council will be able to retain savings to meet its own priorities.

1.6.2 The Council has prepared an Efficiency Savings Plan to address how it intends to meet the Scottish Government's target. A Strategic Board for Performance Improvement will oversee the monitoring of the target. The Council has identified the following five themes where efficiency savings can be obtained:

1. Asset Management
2. Absence Management
3. Procurement
4. Shared Services; and
5. Streamlining Bureaucracy

1.6.3 The Council has not yet set out how it will measure and report efficiency savings generated from the plan and performance systems are not yet in place to measure outputs and outcomes to support the measurement of efficiency. In addition, efficiency savings targets are not yet linked to corporate priorities and incorporated within the budget setting process and this may not provide sufficient challenge to Council departments to achieve planned savings.

Action plan points 7 and 8

2 Audit Committee arrangements

2.1 Background

2.1.1 To assist audit committees in local government in effectively discharging their functions, CIPFA issued guidance in 2004 *Audit committee principles in local authorities in Scotland: a guidance note*. This outlines the principles audit committees should adopt in addressing their functions across the following key areas:

- the role and remit of the audit committee;
- audit committee membership, induction and training;
- audit committee meetings;
- arrangements to monitor the systems of internal control;
- arrangements for financial reporting and regulatory matters; and
- establishing relationships with internal and external audit.

2.1.2 As part of our review we have evaluated the extent to which the Council's audit committee arrangements meet the principles set out in the CIPFA guidance.

2.2 Role and Remit

Terms of Reference

2.2.1 The audit committee requires formal terms of reference that set out its core functions. The terms of reference should be approved by the Council and reviewed on an annual basis. Terms of reference for the audit committee were agreed at the Council's meeting on 17 May 2007 and cover the following duties:

- promote internal controls, financial risk and governance;
- develop an anti-fraud culture;
- promote good practice;
- agree internal audit strategy and plans;
- receive external audit strategy and plans, and review external audit reports;
- review financial performance and to report on the internal control environment; and
- exercise a governance role over management.

2.2.2 Our review found that while the current terms of reference meet many of the best practice principles included in the CIPFA guidance, further improvements could be made by incorporating sections on:

- the committee's responsibility to review the annual accounts process and review the accounts on behalf of the Council;
- the rights of the Committee to call any officer to account for their actions during the year;

- the role of the committee in the formal establishment of internal audit - including rights of access to the chair by the Head of Internal Audit;
- the requirement for the committee to consider the annual internal audit report and annual governance statement;
- the frequency of meetings and required quorum arrangements; and
- training arrangements for committee members.

Action plan points 9

Annual Report

2.2.3 The audit committee should also prepare an annual report to the Council, which sets out the committee's work and performance during the year. The report should include confirmation that the system of risk management in the authority is adequate in identifying all relevant risks and allowing the authority to understand the appropriate management of those risks; and confirmation that there are no areas of significant duplication or omission in the systems of governance in the authority that have come to the committee's attention and not been adequately resolved.

2.2.4 We noted that the audit committee did not produce an annual report for the 2006-07 financial year, but has produced one for 2007-08. For 2008-09, the report should also provide a self review of the audit committee's performance over the financial year. CIPFA have produced a template to assist audit committees in performing their self review.

Action plan point 10

2.3 Membership, induction and training

Chair

2.3.1 A key feature of a successful audit committee is the appointment of a strong chair, with relevant skills and depth of interest in local government. It is also essential that the chair is apolitical, and CIPFA guidance recommends that the chair should not be a member of the executive.

2.3.2 The current chair of the audit committee, is not an elected member and has significant commercial experience. In our view, the additional independence provided by this arrangement goes beyond the minimum good practice requirement and improves overall scrutiny and governance within the Council.

Membership

2.3.3 The current audit committee is comprised of seven members with five Councillor members (three members from the Coalition group, and two others), and two non-Councillor members. The terms of reference state that none of the Councillor members of the committee should be a Spokesperson, Deputy Spokesperson or Member of the Executive.

2.3.4 However, we noted that one member of the audit committee is also a Deputy Spokesperson and this may limit the effectiveness of overall scrutiny within the committee.

Action plan point 11

Induction and training

2.3.5 It is essential that tailored induction and training is provided to audit committee members, covering the diverse topics and subjects that are included within the committee's remit.

2.3.5 We noted that members received an extensive induction programme following the 2007 elections, and this covered key areas relevant to the audit committee, including finance and accountancy, internal and external audit and risk management.

2.3.6 However, there is no formal training programme specifically tailored to the role of audit committee members and this may limit the continued effectiveness of scrutiny going forward.

Action plan point 12

2.4 Meetings

2.4.1 The audit committee meets four times per year, and as far as possible, the timing of meetings is scheduled to meet the business and governance needs of the Council, including receipt of the external audit plan and annual reports.

2.4.2 From our attendance at audit committee meetings over the past 18 months, we note that:

- an agenda is produced and distributed with relevant papers in advance of the meeting;
- a register of attendance is maintained by the Board secretary;
- relevant Council officers, including Head of Strategic Finance and the Internal Audit Manager, are in regular attendance;
- declarations of interests are sought at the beginning of each meeting; and
- minutes are promptly produced and published following the meeting.

2.4.3 All Councillor members of the audit committee complete an annual declaration of interests, which is made available for public inspection. However, there is no annual declaration of interests for the two non-Councillor members of the audit committee.

Action plan point 13

2.4.4 The Committee has also not yet sought a private meeting with internal or external audit.

Action plan point 14

2.5 Internal control

Statement of Internal Control

2.5.1 The audit committee has responsibility for advising the Council on the effectiveness of internal control systems and compliance with laws and regulations. Internal control systems should also provide reasonable assurance that assets are safeguarded, that waste or inefficiency is avoided and that reliable financial information is produced. They should also give reasonable assurance of effective and efficient operations.

2.5.2 A statement of internal control has now been prepared for the 2007-08 financial statements and this represents an improvement in overall governance and control arrangements. A key task for the audit committee going forward will be to set out expectations for the scrutiny of wider internal control within the Council (including operational control issues) going forward.

Action plan point 15

Risk Management

2.5.3 The Council has overall responsibility for ensuring that appropriate risk management procedures are in place. The role of the audit committee is to provide assurance to the Council that risk management procedures are effective for the Council's purposes.

2.5.4 Our review found that risk management arrangements are reviewed by officers on a regular basis, and risk is a standing item on the audit committee's agenda. However, we note that risk registers do not yet cover aspects of operational risk and the audit committee has not yet undertaken a formal review of the risk registers prepared by the Council.

Action plan point 15

2.6 Financial reporting and regulatory matters

2.6.1 The audit committee should review the Council's financial statements before they are submitted to the full Council. The audit committee should also review the external auditor's ISA 260 Report, *Communication of audit matters to those charged with governance*, and the annual audit report.

2.6.2 Our review found that the audit committee performs this role in line with CIPFA guidance.

2.7 Internal and external audit

2.7.1 It is essential for the audit committee to have good relations with both internal and external auditors, and to have procedures in place for reviewing, monitoring and approving the work of internal and external audit, including:

- approving internal and external audit plans and strategies;
- reviewing the outputs of internal and external audit reports; and
- allowing access for private discussions with the audit committee.

2.7.2 The audit committee currently has a good relationship with both internal and external audit. The committee reviews all audit plans and strategies on an annual basis. Following recommendations made in our 2006-07 audit, the audit committee now formally receives and approves all internal audit reports, and continues to receive all reports from external audit.

2.7.3 The audit committee does not yet, however, assess or formally consider the performance of internal and external audit and this may limit the effectiveness of overall scrutiny.

Action plan point 16

3 National Fraud Initiative

3.1 Introduction

3.1.1 The National Fraud Initiative (NFI) 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 a two year cycle beginning 2004-05 and was principally for the audits of councils, police and fire boards. The exercise was expanded for the 2006-07 cycle by the inclusion of more data sets and a wider range of audited bodies.

3.1.2 The 2006-07 exercise has now been completed, and Audit Scotland reported that across Scotland, £9.7 million of fraud, overpayments and forward savings have been identified. The amount of savings identified by Argyll and Bute Council was £1,546.75, relating to a housing benefit fraud.

3.1.3 The role of external audit in NFI is to review the Council's procedures for managing the exercise and the progress in pursuing potential frauds highlighted by the data matching exercise.

3.2 Data submission and quality

3.2.1 In order to ensure that the Council complies with data protection and human rights legislation, all data subjects had to be notified in advance that their data was to be used for the 2006-07 exercise. We reviewed the Council's procedures and found that all data subjects were notified in line with Audit Scotland guidance.

3.2.2 We did note however, that the Council failed to submit Form 3 (Return on Data Protection Compliance) to the Audit Commission by the specified date of 31 September 2006. The return was eventually received by 31 March 2007.

Action plan point 17

3.3 Planning

3.3.1 In order to effectively coordinate the exercise, the Council should have a structured approach to manage, monitor, control and deliver the NFI exercise. It is essential to the success of the exercise that individuals are clear as to their responsibilities and the approach to be taken.

3.3.2 A planned approach should be formulated for each category of data match as some of the reports contain different types of matches. The Council has not developed a protocol to document the investigation procedures for each type of match. As a result, there is no established procedure for ensuring that a common approach is taken in recording the investigations, and in retaining the supporting evidence.

Action plan point 18

3.4 Investigation

3.4.1 The Council should have a planned and prioritised approach to reviewing matches and determining the reasons why an investigation should not take place. The Council should apply the data filters recommended by the Audit Commission when prioritising matches and determining which matches to investigate.

3.4.2 Our review found that the Council investigated all the high priority matches after applying the recommended filters. However, we noted that:

- officers did not routinely complete all their investigations on the NFI application;
- there was a lack of audit evidence as to how the matches were investigated and cleared; and
- there was no evidence that any of the available monitoring reports were reviewed by the co-ordinator.

Action plan point 19

3.5 Monitoring and Reporting

3.5.1 In order to assess the effectiveness of the NFI exercise, it is essential that procedures are in place to monitor the progress of data matches. This includes:

- what matches are being reviewed;
- by whom;
- within what timescales; and
- stage reached.

3.5.2 The absence of a control record increases the risk that the Council does not complete the investigations by order of priority, and within the appropriate timescale. Our review found that the Council did not maintain a formal control record throughout the exercise. As a result of this, many of the data matches were not processed in a timely manner.

3.5.3 The results of the NFI exercise should be also reported to the Senior Management Team, and Council members.

Action plan points 20 and 21

A Action plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Financial management and budgetary control					
1	There is scope to make the linkage between corporate priorities and budget setting more transparent.	Medium	The Council should undertake a further review of its budget setting arrangements to better demonstrate how corporate priorities are prioritised within the budget.	Head of Strategic Finance - Planning and budgeting arrangements will be further developed in the coming planning and budgeting exercise.	February 2009.
2	Budget monitoring reports may not be fully effective in highlighting potential budget variances sufficiently early in the financial year for corrective action to be taken.	Medium	The Council should adopt commitment accounting principles when preparing budget monitoring reports.	Head of Strategic Finance - An approach to addressing this recommendation will be developed as part of the implementation of the Best Value review of Strategic Finance.	Ongoing as part of BV review implementation.
3	There is a lack of evidence that budget virements are being notified to the Head of Strategic Finance in accordance with the Council's Financial and Security Regulations.	Medium	The Council should ensure that all budget virements are authorised in accordance with established procedures. A report of budget virements processed should be prepared for review by the Head of Strategic Finance on a monthly basis to provide evidence that procedures are being followed.	A report of budget virements will be prepared each month and reviewed to ensure proper authorisation.	October 2008.
4	The Council has earmarked £3.2 million of the general fund reserve for social housing projects. This is funded from the Council Tax charge on 2nd homes in the Argyll and Bute area. The Council has agreed a policy for projects to be funded from the reserve and so far have provisionally allocated £0.642 million against two projects.	Low	The Council should identify specific projects to apply these reserves or release them to be applied to other corporate priorities.	The future use of the fund is being considered within the context set by the Local Housing Strategy. Projects will be highlighted for consideration through collaborative working with the Scottish Government's Housing Regeneration Division and local RSL's. Developing a programme of projects is dependent upon RSL's bringing forward projects in line with the Local Housing Strategy and having these appraised for VFM by Scottish Government's Housing Regeneration Division and with a funding gap established. The current funding	Noted – no action proposed.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
				regime for RSL's will make it difficult to develop a medium term programme.	
5	There is scope to improve arrangements to provide greater transparency around departmental plans to apply all earmarked reserves.	Medium	The Council should ensure there are clear plans to apply all earmarked reserves.	The report submitted to the Council with the unaudited accounts lists the department, description and reason for carry forward for each element of unspent grants, unspent contribution and budgetary underspends to be carried forward. Whilst consideration will be given to what form of challenge there should be on proposed carry forwards the Council should avoid a situation whereby it is setting the budget on a 3 year basis but enforcing annuality in terms of allowing the carry forward of underspends (or overspends). Further consideration will be given to how this recommendation might or might not be implemented.	February 2009.
6	The revised target for unearmarked reserves has been calculated to reflect available funds as part of the budget setting process, rather than as part of a risk based assessment of the reserves balance required to be held to meet contingencies and respond to effectively to unforeseen events.	<i>High</i>	The Council should develop a policy for determining the level of unearmarked reserves based on past experience and an evaluation of risk.	Head of Strategic Finance - The current approach is based around general consideration of inflation and interest rate risk and historic budgetary performance and is laid out in a report to members as part of the budget pack each year. In view of the audit recommendation a more specific set of criteria will be developed for 2009-10.	February 2009.
7	The Council has not yet set out how it will measure and report efficiency savings generated and performance systems are not yet in place to measure outputs and outcomes to support the measurement of efficiency.	<i>High</i>	The Council should put in place mechanisms to record efficiency savings generated from the plan. Progress against the efficiency savings target should be reported on a regular basis to management and members.	Head of Strategic Finance - This will be addressed.	December 2008.
8	Efficiency savings targets are not yet linked to corporate priorities and incorporated within the budget setting process and this may not provide sufficient challenge to Council departments to achieve planned savings.	Medium	The Council should embed planned efficiency savings within budget setting arrangements.	Head of Strategic Finance - Efficiency savings are currently budgeted in services but a review of the efficiency savings plan as part of the coming planning and budgeting round will review how it can be linked to corporate priorities.	February 2009.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Audit Committee arrangements					
9	<p>The current terms of reference for the audit committee are not in line with best practice in the following areas:</p> <ul style="list-style-type: none"> responsibility of the committee to review the Council's financial statements; the rights of the committee to call officers to account; the responsibilities of internal audit to the committee; the responsibilities of the committee to consider the internal audit opinion and annual governance statements. 	Medium	The Council should review the current terms of reference against CIPFA guidance, and ensure all relevant areas are covered. The terms of reference should be reviewed and updated on a regular basis.	Internal Audit Manager - The terms of reference will be updated to reflect this recommendation.	December 2008.
10	The audit committee has committed to producing an annual report for 2008-09. We note that the annual report should also incorporate a review of the audit committee's performance over the financial year.	Medium	The audit committee should ensure its 2008-09 annual report also incorporates a review of the committee's performance.	Audit Committee - The audit committee did produce an annual report for 2007-08. The audit committee will take advice on appropriate tools/approaches with regard to self assessment of its own performance.	June 2009.
11	A member of the audit committee is also a Deputy Spokesperson and this does not comply with the committee's terms of reference.	Medium	The Council should review the audit committee membership to ensure it complies with the terms of reference.	Head of Democratic Services and Governance - Noted. This will be drawn to the attention of the Council.	December 2008.
12	There is no formal training programme tailored to meet the needs of audit committee members.	Medium	<p>The audit committee should develop an annual workplan setting out items to be considered at each meeting.</p> <p>This workplan should include a training programme for members timed to match the business and governance needs of the Council (for example, financial training in May in advance of accounts approval in June).</p> <p>We have some examples of workplans we can share and can also assist the Council in developing its training programme for audit committee members.</p>	Audit Committee - As noted in the report members have been provided with extensive induction training. The audit committee will develop an annual work plan and consider how to establish its own training programme within that overall workplan.	December 2008.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
13	There is no annual declaration of interests for the two non-Councillor members of the audit committee.	Medium	The non Councillor members of the audit committee should make a similar annual declaration of interest as that required for Councillor members.	Head of Democratic Services and Governance and Audit Committee Chair and Vice Chair - This requires the voluntary agreement of both the Audit Chairman and Vice Chairman. The Head of Democratic Services and Governance will discuss this matter both parties.	December 2008.
14	The audit committee has not yet held private meetings with internal or external audit.	Low	The audit committee should consider whether it should hold private meetings with internal or external audit.	Audit Committee - The audit committee has not identified a need to meet in private with internal or external audit and no request has been made by external or internal audit to meet the audit committee in private. However the audit committee will consider as part of the development of its annual work plan when it might wish to have private meetings with external audit and internal audit.	December 2008.
15	A key task for the audit committee going forward will be to set out expectations for the scrutiny of wider performance and internal control within the Council going forward.	Medium	The audit committee should set out clearer arrangements for the scrutiny of performance and wider operational control matters.	Audit Committee - The audit committee recognises the need for the scrutiny of wider internal control within the Council, especially in the embedding of Corporate Governance across the Council and its reliance on Council risk registers.	June 2009.
16	The audit committee does not yet, however, assess or formally consider the performance of internal and external audit and this may limit the effectiveness of overall scrutiny.	Low	The committee should formally assess the performance of internal and external audit annually.	Audit Committee - On annual basis a formal assessment of both external and internal audit will be undertaken by the audit committee. A proposed approach would have an annual assessment of internal audit in June and an assessment of external audit in September.	June 2009 and September 2009.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
National Fraud Initiative					
17	The Council did not submit Form 3 (Audit Commission Return on Data Protection Compliance) in line with the deadline of 30 September 2006.	Low	The Council should ensure that all relevant forms for the NFI exercise are submitted to the Audit Commission in line with the specified deadlines.	Lead Internal Audit Manager - Form 3 (Audit Commission Return on Data Protection Compliance) is detailed in the Project Plan for 2008 – 2009 along with other key dates. This was passed to Grant Thornton on the 18 th of August 2008 for 2008-09.	Completed.
18	The Council did not adopt a formal plan for the NFI exercise.	Medium	The Council should prepare a formal plan for the NFI exercise which details: <ul style="list-style-type: none"> • roles and responsibilities • training requirements • timescales for completion • monitoring and reporting arrangements 	Lead Internal Audit Manager - A Project Plan for 2008 – 2009 was passed to Grant Thornton on the 18 th of August 2008. Since this date regular plan updates have been passed to Grant Thornton to advise progress against key dates and actions for the 2008 – 09 NFI exercise.	Completed
19	The Council did not adequately monitor the progress of the NFI exercise, and there was no overall control record maintained of cases being investigated.	Medium	The Council should introduce a control record for the next NFI exercise which details: <ul style="list-style-type: none"> • matches being reviewed; • responsible officer; • completion; and • stage reached. 	Lead Internal Audit Manager - A control document has been prepared and passed to Grant Thornton, which has been accepted as addressing this recommendation.	Completed
20	Formal reports are not produced for the Senior Management Team or members on the progress of the NFI exercise.	Medium	Regular monitoring reports on the NFI exercise should be reported to Senior Management and members which detail the progress of the exercise.	Lead Internal Audit Manager - A formal reporting document was prepared and passed to Grant Thornton on the 18 th of August 2008. This has been accepted. Reporting will commence at the end of September when key milestones have been achieved.	With effect from 30 September 2008
21	The Council did not make full use of the NFI application. We noted that there was a lack of evidence on file as to the outcome of cleared cases, and there was no evidence that any of the control features of the application were utilised.	Low	The Council should ensure all staff who use the NFI application are aware of its features and are able to process data matches in line with Audit Scotland guidance.	Lead Internal Audit Manager - The results coming from the NFI exercise are of limited use to Argyll & Bute as it supplements existing systems identifying fraud. This has resulted in limited use of the system by staff. The NFI have on-	Completed.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
				line training for the 2008-09 exercise and users will be encouraged to view this training.	



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Argyll and Bute Council

Progress Implementation Review- Internal Audit

30 May 2008

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Appendix A - Updated Action Plan

1 Executive Summary

Introduction

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

The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA in 2006 sets out good practice in delivering internal audit services.

We reviewed the Council's internal audit department against the requirements of the Code and reported our findings in our 2006-07 audit. This report details our follow up review of the Council's progress in implementing our recommendations from our report, *Review of Internal Audit*, issued in May 2007.

Findings

Our review on the progress of implementation of prior year recommendations found that only 4 out of the 12 outstanding recommendations from our 2006-07 report have been fully implemented. Of the remaining recommendations, 6 were not implemented within the specified timeframe and 2 were in progress at the time of our audit. Table 1 summaries the progress of implementation across each of the Code standards.

Table 1: Summary of the progress of implementation

Standard	Implemented	Not Implemented	In Progress
Scope of Internal Audit			1
Independence		2	
Audit Committees	2		1
Staffing, Training and Continuing Professional Development	1		
Audit Strategy and Planning		1	
Undertaking Audit Work		1	
Reporting	1	2	
TOTAL	4	6	2

Of the remaining outstanding recommendations, one was regarded as high risk, four were related as medium risk and one as low risk.

The outstanding high risk recommendation relates to ensuring that the audit days allocated to the audit plan match reflects the current capacity of the internal audit department. We noted that the internal audit manager is currently on secondment to the shared services team and this is not reflected in the resource availability for the 2008-09 audit plan.

The medium risk recommendations that remain outstanding include:

- reviewing the requirement for a 'head of internal audit' position;
- ensuring that any internal audit staff who go on secondment to other areas of the Council is in line with agreed policies; and
- ensuring the rationale for awarding a high controls assurance grading is reflected in the working papers on file.

At the time of our audit, we noted that the internal audit manual had not been updated to take account of the requirements of the 2006 Code of Practice. We understand that this has now been implemented and the a revised internal audit manual has been issued to staff.

We noted that 1 recommendation was not yet due at the time of our audit. We note that the audit committee intends to produce a report to the Council by June 2008 on the internal control framework, risk management and governance arrangements during the financial year to 31 March 2008. This would meet the Council's commitment in relation to our recommendation on this matter.

Way Forward

We have summarised management's progress of implementation on recommendations made in our 2007 Review of Internal Audit Report in Appendix A.

Management should seek to ensure that the outstanding recommendations that have not been implemented within the specified timeframe are prioritised for completion.

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 it.

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.

Appendix A - Summary of the progress of implementation

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
Scope of Internal Audit					
1	The Council's procedures for the prevention of fraud and corruption are detailed within the Financial and Security Regulations and include guidance for staff reporting suspected fraud. The guidance does not specifically detail the role of internal audit in fraud investigations.	Medium	The Council should update its 'guidance for staff reporting suspected fraud' to include specific reference to the role of internal audit.	The Council Constitution will be amended to recognise the role of internal audit in the investigation of suspected frauds. April 2008.	In Progress Guidance on internal audit's role in the investigation of fraud is included in the current version of the Council Constitution. The Council are still in the process of updating the whole document, including the fraud section, to take into account the restructure following the new administration in place since May 2007.
Independence					
2	Secondments from internal audit may compromise the independence of auditors should their return to the department not be effectively managed at the end of their secondment.	Medium	Wherever possible, the Council should ensure that internal auditors do not have any operational duties. Internal audit should develop a policy for managing staff returning from secondment to ensure the effective working and independence of the department is not compromised.	Internal audit do not undertake operational duties. However, it is beneficial to allow internal audit staff to gain a broader understanding of the Council where they apply and are successful in securing secondments. Internal audit will produce a policy whereby seconded staff will not cover areas in which they have been involved for the next 2 years. July 2007.	Not Implemented We note that the internal audit manager has recently been seconded to the shared services team. The Council should ensure any secondments from internal audit are in line with the agreed policy. A formal secondment policy has been drafted and will be presented to the audit committee for consideration in September 2008.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
3	The Council does not operate with a single head of internal audit position. This does not comply with the Code which recommends the appointment of a 'head of internal audit'.	Medium	The Council should formally designate a head of internal audit post. This would raise the profile of internal audit and would help clarify reporting lines and responsibilities within the department.	This situation will be reviewed at the end of the internal audit partnership. April 2008.	Not Implemented The internal audit partnership ended on 31 March 2008, and the Council has now extended the agreement. The creation of a 'head of internal audit' position remains under review.
Audit Committee					
4	The findings from internal audit work are currently not reported to the audit committee.	High	Internal audit work should be reported to the audit committee in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.	A report will be submitted to the next audit committee outlining the options regarding the reporting of internal audit work. This will range from full copies and reports to executive summaries and action plans. July 2007.	Implemented Internal audit work is now reported to the audit committee.
5	The audit committee does not prepare an annual report to Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.	Medium	The audit committee should consider preparing an annual report to the Council summarising its work during the year and outlining its view of the Council's internal control framework, risk management and governance arrangements.	This will be put to the first audit committee with a view to submitting a report to the Council in April 2008.	In Progress An annual report to go to the Council in June 2008 to coincide with the approval of the draft 2007-08 financial statements.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
6	There are currently 3 vacancies in the internal audit department. The Council has appointed some part-time contractors to help fill the shortfall, however, internal audit is currently not fully resourced to meet its objectives.	High	The Council should ensure internal audit are fully resourced to meet objectives.	The recruitment process will commence in the next few weeks with a view to staff being in place by September 2007.	Implemented The internal audit department has recruited two trainees during 2007-08 taking full time employees up to five, accompanied by two part time contractors.
Staffing, Training and Continuing Professional Development					
7	Internal audit staff do not receive annual performance assessments in line with Council policy. The skills and competencies required of each auditor grade are not defined and performance objectives are not made explicit. As a result, the future training and staff development needs of the internal audit department are not linked to a systematic needs assessment.	High	The Council should ensure that all staff receive an annual appraisal in line the requirements of the Performance Development Review (PDR) and define the skills and competencies required of each level of auditor. The annual appraisal process should act as a prompt for future training needs and aid staff development.	PDRs will be reintroduced for all members of staff within internal audit. July 2007.	Implemented All permanent staff have completed a PDR during 2007-08.
Audit Strategy and Planning					
8	The total audit days allocated to the 2006-07 audit plan included 555 days expected to be met by the three auditors who were on secondment and unavailable for audit work at the time the plan was prepared. There is a risk that the audit plan cannot be delivered if the resource allocation is not based on the actual resources available.	High	The resource requirement calculation for audit planning should reflect the actual audit days available based on the current capacity of the department.	The annual audit plan for 2007/08 stated that there were vacancies and that they would be covered by contract staff. There will be a continuous review and reporting of the situation to the audit committee. Done.	Not Implemented The internal audit strategic plan 2008-2011 was presented to the March audit committee. We note that the internal audit manager's secondment in the early part of 2008-09 is not reflected in the resource allocation.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
Undertaking Audit Work					
9	Our review of internal audit's work on core financial systems found that detailed system notes were produced for each audit undertaken. We noted that there was no walk through test performed to confirm that the system was operating as documented.	Low	Audit documentation should include a walk through test to confirm that controls are operating as per the systems notes and flowcharts on file.	This will be done in 2007/08.	Not Implemented Our review of the internal audit files on key financial systems during 2007-08 found that there was no evidence of walkthrough testing being performed.
Reporting					
10	Internal audit provide management with an annual report summarising its work, key findings for the year and opinion on the effectiveness of the Council's internal financial control arrangements. There is scope to link this opinion more clearly to the overall assurance conclusions reported for each audit assignment.	Low	Internal audit's conclusion on the effectiveness of the Council's internal financial control arrangements should be more clearly supported by the overall assurance conclusions reported for each audit assignment.	This is done in the 'overall conclusion and assessment against objectives' section. This gives assessment of 1-5 ticks. Implemented.	Implemented We reviewed the internal audit management report for 2006-07 and were satisfied with the arrangements.
11	In some of the audit reports, the grading awarded in relation to controls assurance did not appear to correspond to the detailed findings within the audit report and the recommendations contained in the action plan.	Medium	The Council should ensure that the rationale for awarding a high controls assurance grading is clearly reflected within supporting working papers.	This will be covered in the Audit Manager review of the working papers file. Auditees responses are also taken into consideration.	Not Implemented Our review of 2007-08 audit reports confirmed our 2006-07 report finding that the overall assurance grading provided by internal audit is not always matched to audit findings.

No	Finding - May 2007	Risk	Recommendation raised	Management Response and implementation date	Position at May 2008
12	<p>The internal audit manual was last updated in November 2003. The responsibility for updating the manual is assigned to KPMG as part of the partnership agreement.</p>	<p>Medium</p>	<p>It is recommended that the Manual is updated to reflect the requirements of the 2006 Code of Practice. The Manual should be reviewed following each revision to the Code.</p>	<p>This will be done in conjunction with KPMG. July 2007.</p>	<p>Not Implemented at the time of our audit</p> <p>The internal audit manual was not available for review at the time of our audit.</p> <p>We understand that the internal audit manual has since been completed and issued to staff.</p>



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Argyll and Bute Council

Review of IT Systems and Applications

30 June 2008

* Draft for discussion

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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 2007-08 audit, we have reviewed the adequacy of the Council's general controls over IT systems and applications.

Overview

The Council's key financial systems, and many of the front line services, rely on information technology for processing, recording and reporting transactions and for providing services. Information technology is, therefore, critical to the ability of the Council to operate effectively and deliver high quality services to the public.

The Council also holds personal data for both employees and citizens and appropriate security and compliance procedures are required to ensure the integrity and security of data, and to prevent and detect fraud. The Council is also required to have appropriate systems and procedures in place to ensure compliance with the requirements of the Data Protection Act 1998.

The Council operates a wide variety of IT systems and applications in its operations. Our review covered the operation of the Council network, databases and applications.

Findings

Overall, we found that the Council has good controls over its IT systems, networks and applications. In addition, the Council's arrangements in place to ensure compliance with the Data Protection Act 1998 are satisfactory.

There are no 'high risk' findings emerging from our review, however, our testing did identify a number of weaknesses in the controls over IT systems and applications. The weaknesses identified may increase the risk of data loss and limit the capacity for the Council to prevent and detect fraud or errors. Our key findings included:

- user accounts for former employees are not always disabled in a timely manner;
- user accounts are not automatically disabled following a number of invalid logon attempts;

- some changes to software applications and databases have been implemented without following agreed authorisation procedures; and
- the vulnerability of the IT network to outside attack is not tested on a regular basis.

Way Forward

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

About This 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 it.

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

Acknowledgements

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

IT Systems and Applications

Introduction

IT systems are critical to the ability of the Council to deliver services to the local community. In addition, appropriate security procedures are required to ensure the integrity and security of data held on the systems. The Council is also required to have appropriate systems and procedures in place to ensure compliance with the requirements of the Data Protection Act 1998.

The Council operates a wide variety of IT systems and applications in its operations. The Head of Financial Services and ICT is responsible for overseeing and managing the Council's approach to IT systems and applications.

During our audit we reviewed the key controls over IT systems and applications. We have noted the key points arising from our audit in the sections below.

User access

In order to protect the integrity of IT systems and applications, procedures should be in place to control physical and electronic access. This includes ensuring only authorised users have access rights to IT systems and applications, and that privileged access is restricted to appropriate individuals.

Overall we found that the Council has good IT security policies and procedures in place which meet expected practice.

Any user who leaves the employment of the Council should have their access rights disabled within a timely period. We tested a sample of 15 leavers and noted that the accounts of 2 network users had not been disabled.

One of these accounts is a 'privileged user account' enabling administrator access and is allocated to a former employee who left the Council three years ago. We understand that the password of this account has been changed since the employee left, but the account was not deleted to avoid errors when running processes.

In line with good practice, the Council perform a review of network user accounts every six months. We noted that evidence of this review is not always retained.

Action plan points 1-3

Password controls

Passwords represent a key control in restricting the access to IT systems and applications to authorised users. It is essential that appropriate settings are in place to ensure passwords can provide the necessary level of protection for sensitive IT systems and applications.

Overall, the Council has good arrangements for passwords controls over its systems. However, we noted two weaknesses in the settings for password protection:

- information to retrieve the password of the root user in the UNIX operating system is stored electronically; and
- user accounts on the network are not locked out after a number of invalid logon attempts.

Action plan points 4-5

Data Protection Act 1998

The Data Protection Act 1998 sets out the statutory obligations for organisations for managing personal data. This includes the capture, holding and use or disclosure of personal data and ensuring individuals are able to access any personal data which an organisation may hold on them. Compliance with the Act is governed by the Information Commissioner.

A key objective of any organisation which holds personal data is to have in place appropriate policies and procedures to ensure compliance with the Act. Data management is a topical issue, and is particularly high profile due to recent publicity about the loss of personal data at Her Majesty's Revenues and Customs. Failure to ensure adequate controls over personal data carries significant reputational and financial risk.

Our review found that the arrangements in place at the Council were satisfactory for the purposes of complying with the Act, including:

- a data protection policy is in place and it complies with good practice;
- guidance had been issued to users to ensure compliance with the policy;
- additional security arrangements (e.g. encryption) of personal data was used for the transfer of personal data; and
- at the time of our review no instances of the loss of personal data had been reported to the Council.

Change management

The Council runs approximately seventy databases and applications. Each database has a lead user who can authorise changes directly from the system. The IT department maintains a master table that lists all applications and the corresponding lead users.

We tested ten changes made to databases from several applications and found:

- two changes were approved by lead users who were not the nominated lead user stated on the master table; and
- a change to a database was requested by an individual who is not a lead user.

We also tested a sample of ten changes to business applications and noted that:

- One change record was closed in the HEAT system, which is the software used for the IT helpdesk, and the lead user had not accepted its implementation; and

- No user test plan was attached to one change record.

Action plan points 6-7

USB devices

USB memory devices have the potential to introduce viruses to the Council network. There is also a risk that these devices are used for unauthorised disclosures of data. The Council has started a project to restrict access to USB memory devices by using a software package. Only certain members of staff have been granted write access to USB devices.

During our audit, we noted that some training PCs can still write to USB memory devices.

Action plan point 8

Security testing

In order to protect the integrity of the Council's IT systems, it is necessary for a programme of security testing to be undertaken. Such testing includes reviewing and installing software updates and patches for the Council's IT operating system, and testing for security vulnerabilities that could be exploited by hackers or unauthorised users ("penetration testing").

We noted that the Council does not perform penetration testing on a regular basis. The last penetration testing that took place was in April 2008, two years after the previous test. This increases the risk that unauthorised access to the system could be gained.

Windows patches are released by Microsoft on a regular basis. However, these patches are only implemented in a PC when the machine is rebuilt. This process is usually performed every three years.

Action plan points 9-10

A- Action plan

Finding	Recommendation and Management Response
User access	
<p>1. Privileged access to the network</p> <p>One of the privileged user accounts on the network belongs to an employee that left the Council three years ago. The password of this account was changed but the account was not deleted to avoid errors when running processes.</p> <p>There is a risk that unauthorised access is gained to network data.</p> <p>Risk Assessment: Medium</p>	<p>Recommendation</p> <p>The Council should review the processes administered under this privileged account. The account should then be disabled or deleted and processes reassigned as appropriate.</p> <p>Once this change is actioned, data processing should be monitored for a period of time to ensure that any errors are promptly detected and resolved.</p> <p>Management response</p> <p>The privileged account referred to here belonged to Craig Brown, a former Senior Engineer. The account had been left open to deal with any problems which may have surfaced from any undocumented processes Craig implemented. The password of this account had been changed as soon as Craig left the Council's employment. The account has now been disabled and we will deal with any problems that may arise.</p>
<p>2. Leavers</p> <p>We tested a sample of fifteen leavers and found that the accounts of two users had not been disabled. There is a risk that unauthorised access could be gained to the network.</p> <p>Risk Assessment: Medium</p>	<p>Recommendation</p> <p>Business Managers / Human resources should promptly report staff movements to IT.</p> <p>Leavers should have their user accounts deleted or disabled on their leaving date.</p> <p>Management response</p> <p>Agreed</p> <p>Implementation Date</p> <p>Immediate</p>

Finding	Recommendation and Management Response
<p data-bbox="284 353 596 383">3. User access review</p> <p data-bbox="284 387 780 546">We understand that a review of network user accounts is performed every six months. However, we noted that evidence of this review is not always retained. The most recent evidence was from July 2007.</p> <p data-bbox="284 589 735 649">There is a risk that employees may gain unauthorised access to the network.</p> <p data-bbox="284 692 568 721">Risk Assessment: Low</p>	<p data-bbox="863 353 1112 383">Recommendation</p> <p data-bbox="863 387 1401 580">Evidence should be retained for the regular review of network user accounts. This evidence should include the user accounts that were checked, any e-mail communications and actions that were taken as a result of this review.</p> <p data-bbox="863 622 1182 651">Management response</p> <p data-bbox="863 656 1350 752">We review user accounts on a six monthly basis and we will retain evidence of each review.</p> <p data-bbox="863 795 1160 860">Implementation Date by 24 December 2008</p>
<hr/> Password controls <hr/>	
<p data-bbox="276 992 764 1021">4. Password for privileged account</p> <p data-bbox="284 1025 743 1218">Information to retrieve the password of the root user for the UNIX system is stored in a password-protected Word document. The document contains the data to be used in the retrieval of the password for this user.</p> <p data-bbox="284 1261 759 1357">There is a risk that the password of the root user could not be retrieved within a reasonable time in the event of a disaster.</p> <p data-bbox="284 1400 568 1429">Risk Assessment: Low</p>	<p data-bbox="858 992 1106 1021">Recommendation</p> <p data-bbox="858 1025 1390 1155">The Council should detail the password of the root user in a closed envelope. This envelope should be properly sealed, countersigned and stored in a fireproof safe.</p> <p data-bbox="858 1198 1406 1294">A procedure should be implemented to detail how members of staff could have access to this envelope.</p> <p data-bbox="858 1337 1177 1366">Management response</p> <p data-bbox="858 1370 1422 1563">Our practice with keeping the passwords electronically has been audited many times in the past and has not been questioned. However the password for the root users will be stored in an envelope within the fireproof safe in the Service Desk</p> <p data-bbox="858 1606 1153 1671">Implementation Date Immediate</p>

Finding	Recommendation and Management Response
<p>5. Password settings User accounts on the network are not locked out after a number of invalid logon attempts.</p> <p>There is a risk that unauthorised access to the network is gained through password guessing or a brute force attack.</p> <p>Risk Assessment: Low</p>	<p>Recommendation Network user accounts should be locked out after a number of invalid logon attempts.</p> <p>This setting should be implemented as part of a change management process that educates users about the benefits and implications of this change.</p> <p>Management response The incorrect password limit had been implemented previously but relaxed due to the excessive increase in the number of support calls. It will be re-implemented but will result in a considerably higher number of support calls for the server team.</p> <p>Implementation Date by 24 December 2008</p>
Change Management	
<p>6. Software change requests Our review of a sample of ten changes to business applications and noted that:</p> <ul style="list-style-type: none"> ▪ One change record was closed in the HEAT system and the lead user had not accepted its implementation. ▪ No user test plan was attached to one change record. <p>There is a risk that changes are not tested adequately before being migrated into the live environment. In addition, there is a risk that changes do not meet business requirements.</p> <p>Risk Assessment: Low</p>	<p>Recommendation Test plans should be attached to change records once testing has been completed by lead users or IT staff.</p> <p>HEAT records should only be closed once the lead user has formally accepted the implementation of a change.</p> <p>Management response Agreed</p> <p>Implementation Date by 24 December 2008</p>

Finding	Recommendation and Management Response
<p>7. Direct changes to databases From a review of ten changes to databases, we noted that:</p> <ul style="list-style-type: none"> ▪ two changes to databases were approved by users who were not the nominated lead user per the master table; and ▪ a change to a database was requested by an individual who is not a lead user. <p>There is a risk that unauthorised changes to databases are performed.</p> <p>Risk Assessment: Low</p>	<p>Recommendation The Council should define a procedure to update the table of lead users and applications on a regular basis. Once updated, this document should be communicated to all relevant members of staff.</p> <p>Direct changes to databases should only be approved by lead users. In the event of an emergency change; this should be retrospectively approved by lead users.</p> <p>Management response Agreed</p> <p>Implementation Date by 24 December 2008</p>
<hr/> IT security <hr/>	
<p>8. USB devices Although the Council has restricted access to USB memory devices to authorised members of staff, we noted that some training PCs still have write access to USB memory devices.</p> <p>There is a risk that data is saved to USB memory devices by unauthorised users.</p> <p>Risk Assessment: Low</p>	<p>Recommendation The Council should reassess the user accounts that have been granted write access to USB devices. This access level should only be granted to authorised individuals.</p> <p>Management response The IT Security forum has not as yet produced the policy for controlling access by USB devices. Software capable of managing USB devices has been purchased as part of the Centennial Security suite; however it has not been deployed until the policy has been agreed. One of the training PC's was accessed to ascertain if the alternative device registry method had blocked the use of writing to USB device. This PC had been locked previously but had recently been patched and when tested it was possible to write to the USB device. Desktop staff are checking all training PCs.</p> <p>Implementation Date by 24 December 2008</p>

Finding	Recommendation and Management Response
<p>9. Penetration testing</p> <p>We noted that the last two penetration tests were performed in 2006 and April 2008.</p> <p>There is a risk that new vulnerabilities in systems and IT infrastructure are not promptly addressed.</p> <p>Risk Assessment: Medium</p>	<p>Recommendation</p> <p>Giving the rate at which IT vulnerabilities are identified and published in the Internet; the Council should consider performing a penetration test on a quarterly basis.</p> <p>Management response</p> <p>Penetration testing is now scheduled annually. We will carry out as much penetration testing as our budget allows.</p> <p>Implementation Date</p> <p>by 24 December 2008</p>
<p>10. Windows patches</p> <p>Windows patches are released by Microsoft on a regular basis. However, we noted that these patches are only implemented in a PC when the machine is rebuilt. This process is usually performed every three years.</p> <p>There is a risk that Windows vulnerabilities may be exploited by intruders or "malware" (software designed to infiltrate or damage a computer system) due to patches not being applied on a regular basis.</p> <p>Risk Assessment: Low</p>	<p>Recommendation</p> <p>The Council should update patches in PCs on a more regular basis. We are aware that software has been recently implemented to assist in the identification of critical patches.</p> <p>Patches should be subject to an adequate level of testing before being implemented across the PC estate</p> <p>Management response</p> <p>We have a WSUS service available to deliver patches to desktops when required. There are WSUS servers in Kilmory and key locations. Rather than patch desktops when Microsoft release patches we use Centennial Security Advisor (CSA) to ascertain if a patch is considered critical and to check if desktops are vulnerable. There are currently no desktops reported as vulnerable by CSA. Patches are tested, and incorporated in the corporate build constantly, and desktops are built to the highest level of patch available.</p> <p>Indiscriminate patching (even after testing) has caused problems in the past, with non-standard desktops and departmental applications.</p> <p>Implementation Date</p> <p>not applicable</p>



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