

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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19 June 2009

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **MEMBERS ROOM, KILMORY, LOCHGILPHEAD** on **FRIDAY, 26 JUNE 2009** at **10:00 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 6 March 2009 (Pages 1 - 6)
4. **UNAUDITED ANNUAL ACCOUNTS 2008 - 2009**
Report by Head of Strategic Finance (Pages 7 - 76)
5. **INTERNAL AUDIT ANNUAL REPORT 2008 - 2009**
Report by Internal Audit Manager (Pages 77 - 90)
6. **AUDIT COMMITTEE ANNUAL REPORT 2008 - 2009**
Report by Internal Audit Manager (Pages 91 - 98)
7. **AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE**
Report by Internal Audit Manager (Pages 99 - 132)
8. **RISK MANAGEMENT AND BUSINESS CONTINUITY PLAN**
Report by Governance and Risk Manager (Pages 133 - 144)
9. **GOVERNANCE ARRANGEMENTS - FOLLOW UP AUDIT**
Report by Grant Thornton UK LLP (Pages 145 - 168)

- 10. IT SYSTEMS AND APPLICATIONS - PROGRESS REPORT**
Report by Grant Thornton UK LLP (Pages 169 - 182)
- 11. AUDIT COMMITTEE AWAY DAY**
Report by KPMG (to follow)
- 12. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2009 - 2010**
Report by Internal Audit Manager (Pages 183 - 200)
- 13. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2008 - 2009**
Report by Internal Audit Manager (Pages 201 - 372)
- 14. CONTRACT MANAGEMENT**
Report by Head of Strategic Finance (Pages 373 - 408)

AUDIT COMMITTEE

Councillor Gordon Chalmers
Councillor David Kinniburgh
Councillor James Robb
Christopher Valentine

Councillor Mary-Jean Devon
Councillor Andrew Nisbet
Ian M M Ross

Contact: Fiona McCallum

Tel. No. 01546 604401

**MINUTES of MEETING of AUDIT COMMITTEE held in the MEMBERS ROOM, KILMORY,
LOCHGILPHEAD
on FRIDAY, 6 MARCH 2009**

- Present:** Ian M M Ross (Chair)
- Councillor Gordon Chalmers Christopher Valentine
Councillor Andrew Nisbet
- Attending:** Iain Jackson, Governance and Risk Manager
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Murray Gard, Trainee Accountant
Gary Devlin, Grant Thornton UK LLP, External Auditors
Stephen Reid, KPMG
Charles Reppke, Head of Democratic Services and Governance
(for items 13, 14 and 15)
- Apologies:** Councillor Mary Jean Devon Councillor Roderick McCuish

Prior to discussion of business the Chair of the Committee advised of a couple of issues he was currently pursuing regarding Truancy, and whether or not this was a matter of concern for schools within Argyll and Bute, and a recent Consultation on Performance Indicators.

1. DECLARATIONS OF INTEREST

None declared.

2. MINUTES

The Minutes of the Audit Committee meeting held on 12 December 2008 were approved as a correct record subject to the following addition to the decision at Item 7 – Performance Management Quarterly Report:

To note the Audit Committee's ongoing concern regarding the content of information provided within the Quarterly Performance report, agreeing that it was important that Services highlighted specific targets and that if these are not being achieved information should be provided on what the Service is doing to rectify the situation.

3. AUDIT COMMITTEE - SELF ASSESSMENT EXERCISE

A report setting out a self assessment checklist and work plan framework was presented to the Audit Committee in December 2008 and it was agreed to consider a self assessment exercise at a separate meeting out with the cycle of Audit Committee meetings. A report setting out the proposed template of activities and issues for consideration prior to this self assessment exercise was considered along with a report from KPMG providing a suggested way to take

this forward.

The Committee also discussed their recent visit to East Renfrewshire Council's Audit Committee.

Decision

To note the contents of the reports and to request the Committee Services Officer to identify a suitable date sometime during the months of April/early May 2009 for the Audit Committee's away day facilitated by KPMG.

(Reference: Report by Internal Audit Manager dated 27 January 2009, submitted and Report by KPMG, tabled)

4. AUDIT COMMITTEE - DRAFT TERMS OF REFERENCE

In compliance with the Chartered Institute of Public Financial Accountants (CIPFA) guidance, a draft Terms of Reference (TOR) was presented to the Audit Committee in December 2008 for review. The Committee decided that further amendments should be made and a report introducing an updated draft Terms of Reference was before the Committee for consideration.

Decision

To agree the draft Terms of Reference and request the Director of Corporate Services to pick these up during the forthcoming Review of Political Management Arrangements subject to the following amendments:-

- a) Introductory paragraph to be reworded to read "The Committee's Terms of Reference are generally to promote good internal control, financial management, risk, governance and performance management, in order to provide reasonable regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice";
- b) Under Audit Activity – bullet point 7 to read "to facilitate training to support the role of Audit Committee Members; and
- c) Under Performance – bullet point 2 to read "to assess the effectiveness of the Council's Performance Management System".

(Reference: Report by Internal Audit Manager, submitted)

5. INTERNAL REPORTS TO AUDIT COMMITTEE 2008 - 2009

A report detailing report summaries and action plans for finalised audit work in respect of Corporate Governance and Catering Procurement 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, submitted)

6. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2008 - 2009

Audit Scotland issued an Accounts Commission report in November 2008 entitled "Priorities and Risks Framework". The Priorities and Risks Framework is a tool for external auditors to use when planning the audits of local government bodies in Scotland and is a document which summarises the key national priorities and risks which face Councils in the coming year. The key messages from this national report were before the Committee for consideration.

Decision

1. To note the contents of the report and that these will be followed up Internal Audit; and
2. To note that Audit Scotland have instructed External Auditors to make sure that Councils act on these national reports.

(Reference: Report by Internal Audit Manager, submitted)

7. EXTERNAL AND INTERNAL AUDIT 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 December 2008.

Decision

1. To note the contents of the report and that these will be followed up by Internal Audit.
2. To note that Actions A4, B4 and E1 detailed at Appendix 2 of the report will be removed from future reports as they have now been implemented;
3. To note that Actions C1 and B13 detailed at Appendix 4 of the report will be removed from future reports as they are now complete; and
4. To note that the Governance and Risk Manager will arrange for Register of Interest Forms to be provided to the Chair and Vice Chair of the Audit Committee.

(Reference: Report by Internal Audit Manager dated 11 February 2009, submitted)

8. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2008 - 2009

A report advising on progress with the Annual Audit Plan for 2008-2009 was considered.

Decision

To approve the progress made with the Annual Audit Plan for 2008-2009.

(Reference: Report by Internal Audit Manager, submitted)

9. ANNUAL AUDIT PLAN 2009 - 2010

The audit plan for 2009-2010 details year 2 of the 3 year Strategic Audit Plan approved by the Audit Committee on 27 March 2008 and ensures that Internal Audit resources are effectively planned and controlled. The plan, which outlines in detail the areas that will be audited in 2009-2010 and complies with a good practice CIPFA guideline to provide additional information to management was considered.

Decision

To approve the Annual Audit Plan for 2009-2010.

(Reference: Report by Internal Audit Manager dated 12 February 2009, submitted)

10. SUMMARY OF QUARTERLY PERFORMANCE REPORTS

A report providing a summary of the Service quarterly reports for the period October – December 2008, consisting of exceptional performance sections only was considered.

Decision

1. To note the contents of the report and that this will be last time the report will be before the Audit Committee in this format; and
2. To note that under the Democratic Services Governance heading the reported error rate of 80% correct was a typing error and should have read "98% correct"

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

11. PERFORMANCE MANAGEMENT

The Audit Committee noted at its meeting in December 2008 that the Chair and Vice Chair of the Audit Committee would be meeting with the Chief Executive to discuss performance management. The Chair reported on the outcome of this meeting which he attended with the Head of Strategic Finance on 23 January 2009 and advised that there had been a very good discussion and that the processes the Council have put in place to make future performance measuring and reporting more meaningful and less discretionary was very encouraging.

12. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY

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

Decision

1. To note the contents of the report;
2. To note that a demonstration on Risk Management within Pyramid would be provided to the next Audit Committee; and
3. To note that a report will be brought to a future meeting of the Audit Committee on the outcome of the exercise to test the Business Continuity Incident Management plan taking place on 11 March 2009.

(Reference: Report by Governance and Risk Manager, submitted)

Councillor Chalmers left the meeting.

13. AUDIT PLAN 2008/2009

Grant Thornton UK LLP had been appointed by the Accounts Commission for Scotland as the external auditor of Argyll and Bute Council for the five year period commencing 2006-2007. A Plan outlining how they will approach the audit of the Council in the third year of their appointment, reflecting their statutory duties and risk based approach, was considered.

Decision

To note the Audit Plan for 2008-2009.

(Reference: Report by Grant Thornton UK LLP dated January 2009, submitted)

14. ANNUAL ACCOUNTS 2008 - 2009 (IFRS REPORT)

A report advising the Committee on the plans in place for financial year end 31 March 2009 and the preparation of the Council's Financial Statements for 2008-2009 was considered.

Decision

To note that the plans are in place to prepare the Council's Annual Accounts, consistent with the Accounting Code of Practice, and submit them to Council prior to 30 June 2009 in line with the Scottish Government's requirements.

(Reference: Report by Head of Strategic Finance dated 25 February 2009, submitted)

15. IFRS

The Head of Strategic Finance had prepared a presentation on the introduction of International Financial Reporting Standards into Scottish Local Government and it was agreed that this would be presented to the Audit Committee at their away day.

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**ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE****COUNCIL
25 JUNE 2009**

2008/09 UNAUDITED ACCOUNTS

1. SUMMARY

- 1.1 The accounting surplus for the year per the Income and Expenditure Account is £9.149m. The balance on the General Fund has increased by £2.768m. Once contributions to PPP smoothing funds, second home council tax income awaiting distribution and funds earmarked during 2008-09 are adjusted the surplus for 2008-09 compared to budget amounts to £0.933m.
- 1.2 The free General Fund Reserve is £Xm. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £Xm giving a total balance on the General Fund of £33.774m.
- 1.3 The unallocated balance of £Xm represents X% of the Council's budgeted net expenditure for 2009-10. A separate report on earmarking of the General Fund balance and the "free" general fund balance is to follow.
- 1.4 The net worth of the Council has decreased by £18.182m from £113.842m at 31 March 2008 to £95.660m at 31 March 2009. This is merely a decrease in the accounting worth of the Council and does not represent a decrease in the spending power of the Council.
- 1.5 Fixed assets have increased in value by £15.586m. The Council had net short term borrowing at 31 March 2009 of £3.747m compared a net investment of cash, bank and short term borrowing of £38.849m at 31 March 2008. The Council used cash balances to repay debt during 2008-09 and reduce exposure to external investments.
- 1.6 The Roads and Lighting Trading Account met the requirement for a 3 year rolling breakeven position. The Catering and Cleaning Trading Account returned a surplus of £0.973m for the year, however failed to achieve a 3 year rolling breakeven position.
- 1.7 Council tax income has decreased from £46.493m in 2007-08 to £45,811m in 2008-09. However Council tax income exceeded budget by £0.474m after adjusting for the council tax on second homes.
- 1.8 Group Accounts are currently being prepared and it is anticipated these will be available on the day of the Council meeting.
- 1.9 The statement of internal control is prepared on a group basis and indicates areas for further development in the internal control systems of the Council. This cannot be finalised until the Group Accounts are complete and should be available on the day of the Council meeting.

2. RECOMMENDATIONS

2.1 Members note the unaudited accounts.

3. DETAIL

3.1 Introduction

3.1.1 There is a statutory requirement to prepare a set of Accounts and submit the Accounts to the Controller of Audit and the Council. The date set by the Scottish Government for submission of the Accounts is 30 June of each year.

3.1.2 It should be noted that the Accounts have still to be audited. The Audit Committee at its meeting in September will be advised by the external auditor of any material issues coming to light during the audit and any changes to the Accounts. The Audited Accounts, Audit Certificate and Auditors final report will be submitted to the November meeting of the Council. Figures are therefore subject to change.

3.1.3 In relation to the format of the Accounts the SORP requires presentation of an income and expenditure account which shows the surplus or deficit in accordance with the SORP and a separate statement that adjusts and reconciles this for central government regulation to give the movement on the General Fund Reserve which in crude terms is equivalent to the impact on council tax.

3.1.4 The Council is required to prepare group accounts. These will be presented towards the end of the Accounts and will be circulated separately for the Council meeting as they are still being prepared.

3.2 Income & Expenditure Account

3.2.1 The Council ended the year with an accounting surplus of £9.149m for 2008-09 compared to a surplus of £5.065m for 2007-08. This is the accounting surplus based on the SORP compliant accounts rather than the movement in the General Fund Balance.

3.2.2 Income from taxation and government grants totalled £254.916m for 2008-09 compared to £221.946m for 2007-08. An increase of £32.970m (12.9%). This includes revenue support grant up from £142.282m in 2007-08 to £174.047m in 2008-09, non domestic rates up from £33.171m in 2008-09 to £35.058m in 2008-09 and council tax down from £46.493m in 2007-08 to £45.811m in 2008-09.

- 3.2.3 Net operating expenditure increased from £216.881m in 2007-08 to £245.767m in 2008-09. An increase of £28.886m (13.3%).

Both central government funding in the form of revenue support grant and expenditure have increased substantially on the face of the income and expenditure account. This is not new funding/expenditure but a change in the way the Scottish Government release funding to Local Authorities. The 2008-09 Finance Settlement saw the mainstreaming into the general revenue support grant the majority of previously ring fenced specific grants, such as Supporting People and the National Priorities Action Fund (NPAF). This change in funding mechanism accounts for what appears to be a significant increase in expenditure.

3.3 General Fund Balance

- 3.3.1 The balance on the General Fund at 31 March 2009 stands at £33.774m compared to £31.006m at 31 March 2008. An increase of £2.768m. The "free" General Fund Balance stands at £Xm at 31 March 2009. This equates to X% of the budgeted net revenue expenditure for 2009-10. There are a range of balances earmarked within the General Fund Balance. These total £Xm.

- 3.3.2 The net surplus on the Income and Expenditure Account of £9.149m less the adjustments required to be excluded when determining the movement of the general fund balance of £6.381m equates to the increase in the balance on the General Fund of £2.768m.

- 3.3.3 The net adjustment to the surplus per the Income and Expenditure Account to reflect the impact on council tax is a debit of £6.381m. In summary this debit represents the difference between:

- Principal repayment to the loans fund and the depreciation on amortisation of fixed assets and government grant and any gain/loss on sale of assets
- Cash paid as pension contributions and the costs charged in accordance with FRS17.
- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the SORP.
- Capital element of schools NPDO Payment and build-up of debtor to reflect the residual value of the NPDO schools at the end of the contract.

- 3.3.4 The table below summarises the surplus for the year of £0.933m compared to budget. This is after adjusting for earmarked funds carried forward. In summary departmental expenditure was contained within budget and savings on loan charges and additional council tax income are the main factors giving rise to the surplus.

	£
Increase in council tax income	0.474
Savings in loan charges	0.465
Net overspend on departmental expenditure compared to budget	<u>(0.006)</u>
Surplus against budget 2008-09	0.933

- 3.3.5 The overall movement in the General fund is summarised in the table below. In addition to the surplus compared to budget of £0.933m funds have been earmarked which in total amount to £Xm. These together with the transfers to services during 2008-09 from the General Fund of £9.002m reconcile to the yearend General Fund balance.

	£m	£m
Balance on General Fund 31 March 2008		31.006
Less budgeted transfer to services 2008-09		<u>9.002</u>
		22.004
Add surplus against budget 2008-09		0.933
Add earmarked funds for 2008-09		
Council Tax on second homes	1.787	
Contribution to smoothing funds	2.920	
Funds earmarked by departments	x.xxx	
		<u>x.xxx</u>
Balance on General Fund 31 March 2009		<u>33.774</u>

- 3.3.6 A separate report on earmarking of the General Fund balance and the “free” general fund balance is to follow.

- 3.3.7 Despite a number of financial pressures identified during the year the Council has been able to maintain its General Fund Balance. In overall terms expenditure was contained within budget.

3.4 Statement of Total Recognised Gains and Losses

- 3.4.1 This analyses the decrease in the net worth of the Council from 31 March 2008 of £113.842m to £95.660m at 31 March 2009 based on the Balance Sheet. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council. The increase in pensions liability of £31.919m offset by an increase from revaluation of fixed assets of £7.753m are the main factors giving rise to the decrease in net worth. The increase in the pension liability is due to lower than expected returns from asset investment markets and this do not represent a change in the resources available to the Council.

3.5 Balance Sheet

3.5.1 As indicated above the accounting net worth of the Council has decreased by £18.182m from £113.842m at 31 March 2008 to £97.076m at 31 March 2009.

3.5.2 The value of fixed assets has increased from £333.828m at 31 March 2008 to £349.414m at 31 March 2009. An increase of £15.586m (4.7%). This comprises a net upward revaluation of fixed assets and capital expenditure less the value of fixed assets disposed of.

3.5.3 Current assets have decreased from £63.920m at 31 March 2008 to £36.097m at 31 March 2009. This is a decrease of £27.823m. The decrease is mainly in relation to a reduction of £35.216m in cash and bank reflecting the decision to make premature repayments of long term borrowing with surplus cash.

3.5.4 Current liabilities have increased from £40.211m at 31 March 2008 to £51.498m at 31 March 2009. The increase of £11.287m can largely be attributed to the need to arrange some short term borrowing around 31 March 2009 following the use of surplus cash to repay long term borrowing.

3.5.5. In comparing current assets and current liabilities then current liabilities at 31 March 2009 of £51.498m exceed current assets of £36.097m by £15.401m. Current liabilities are 143% of current assets. At 31 March 2008 the position was current assets at 31 March 2009 were £63.920m and this exceeded current liabilities of £40.211m by £23.709. Current liabilities are 63% of current assets.

3.5.6 Overall long term liabilities have decreased from £245.352m at 31 March 2008 to £241.582m at 31 March 2009. The decrease of £3.770m masks some significant movements.

- Long term borrowing has decreased from £187.476m to £145.724m as the Council repaid debt during the year and reduced its cash balances placed with financial institutions as a direct result of the “credit crunch”. A reduction of £41.752m.
- The FRS17 valuation of the pension scheme liability increased from £0.598m to £32.517m. An increase of £31.919m.
- There was also an increase in government grants of £12.935m in relation to fixed assets offset by a reduction in the provision of £4.897 to cover single status back pay resulting in a net increase in other long term liabilities of £6.063m.

3.5.7 It should be noted that at 31 March 2009 fixed assets valued at £349.414m exceed the level of long term borrowing and deferred government grants of £206.285m by a £143.129m. Long term borrowing and deferred government grants represent 59% of the value of fixed assets. The equivalent figures at 31 March 2008 were fixed assets of £333.828m with long term borrowing and deferred government grants of £236.961m representing 71% of the value of the fixed assets.

3.5.8 In summary capital expenditure and revaluations have increased the value of fixed assets but that is partially offset by an increase in deferred government grants, cash has been used to reduce long term borrowing and there has been an increase in the liability associated with the Strathclyde Pension Fund.

3.6 Cash Flow Statement

3.6.1 The Cash Flow Statement reports the flow of cash in and out of the Council. It covers revenue, capital and financing cash flows. The main points to note from this statement are as follows:

- The net decrease in cash of £37.094m is consistent with change in cash, bank and short term borrowing movement in the balance sheet.
- The net cash outflow from financing of £31.611m is consistent with the decrease in long term borrowing as per the movement in the balance sheet.
- The reduction in the net cash out flow from capital from £11.018m for 2007-08 to £7.431m for 2008-09 is due mainly to a reduction in the purchase of fixed assets.
- The net cost of servicing finance has reduced from £9.333m in 2007-08 to £8.424m in 2008-09 largely due to a significant year on year reduction of new loans raised and the repayment of debt during the year.
- The net cash flow from revenue activities fell from £30.591m in 2007-08 to £15.372 in 2008-09 and this is due to general increases in cash payments.

3.7 Notes to Accounts

3.7.1 The notes give further information and explanation to some of the key figures included in the accounts.

3.7.2 Notes 2.1 and 2.2 relate to trading accounts. The Council had previously decided to remove Waste and Leisure services from a trading account environment and the Building Maintenance trading account ended upon housing stock transfer. This leaves only Roads and Lighting and Catering and Cleaning.

3.7.3 Roads and Lighting achieved a surplus of £0.537m for 2008-09 and has met its 3 year breakeven targets with a rolling surplus 3 year of £0.813m.

3.7.4 Catering and Cleaning achieved a surplus of £0.973m for 2008-09. It has a rolling 3 year deficit of £1.099m. The large surplus reported during 2008-09 can be attributed to the reversal of the Single Status provision. All adjustments relating to Single Status have been processed, therefore it is anticipated that the service breakeven in future years.

3.7.5 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 9 and 10. The Council is committed to future payments of £105.846m over the period to 2027 for the Waste PPP and £383.192m over the period to 2035 for the Schools NPDO PPP.

- 3.7.6 Note 15 shows the Council's capital financing requirement (the amount of funding required to fully support its accumulated capital investment). This amounted to £192.089m at 31 March 2009 and this was financed as follows:

	£m
Long term borrowing	145.724
Short term borrowing	11.066
General Fund Balance	33.774
Other internal funds	1.525
Total CFR	192.089

3.8 Council Tax Income Account

- 3.8.1 Income taken to the General Fund for council tax in 2008-09 amounted to £45.811m compared to £46.493m in 2007-08. This is a decrease of £0.682m (1.5%). It is an increase of £0.474m compared to the budget of £46.285m adjusted for council tax on second homes.
- 3.8.2 In 2008-09 council tax rates were frozen at 2007/08 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.367m (0.7%) from £52.335m in 2007-08 to £52.702m in 2008-09.
- 3.8.3 Discounts, valuation and provision for bad and doubtful debts increased by £0.644m from £7.962m in 2007-08 to £8.606m in 2008-09.

3.9 Non Domestic Rate Income Account

- 3.9.1 Non Domestic Rate Income amounted to a share of £35.058m for 2008-09 allocated from the national pool. This compares to £33.171m in 2007-08. Our own net income amounted to £20.241m and we received a contribution from the national pool of £14.816m for 2008-09. These figures compared to income of £26.261m and a contribution from the national pool of £6.909m for 2007-08.

3.10 Group Accounts

- 3.10.1 For 2008-09 the Council is required to prepare Group Accounts. The Group Accounts comprises income and expenditure account, balance sheet, reconciliation statements and notes. The group accounts incorporate Common Good Funds as subsidiaries and Police, Fire and Valuation Joint Board as associates. At the time of preparing this report not all of the information is available to draft the Group Accounts. It is anticipated that the Group Accounts will be available for circulation at the Council meeting on 25 June 2009.

3.11 Statement on the System of Internal Control 2008/09

3.11.1 The Code of Practice on the Annual Accounts includes a requirement to prepare a statement on the system of internal control. My statement will appear on page 8 of the Accounts. The statement will cover the whole of the group accounts rather than just the Council on its own. The statement is drawn from the Internal Audit Manager's statement on the adequacy and effectiveness of the internal control system of the Council and also similar statements from other group bodies.

3.12 Budget Monitoring

3.12.1 A separate report on the year end monitoring position is to follow.

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

Bruce West
Head of Strategic Finance
17 June 2009



**ACCOUNTS FOR THE PERIOD
1 APRIL 2008 TO 31 MARCH 2009**

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

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

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

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

Strategic Finance
Argyll and Bute Council
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Lochgilphead
Argyll
PA31 8RT
Tel: 01546 604220

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INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2008-2009 are set out on pages 16 to 60. The Statement of Accounting Policies on pages 10 to 15 sets out the accounting policies adopted by the Council to ensure that the Accounts give a "true and fair view" of our financial performance.

THE FINANCIAL STATEMENTS

Core Financial Statements

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared and explains the accounting treatment of both general and specific items. The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LASAAC). The Annual Accounts for 2008/2009 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (SORP). The format of the Income and Expenditure Account reflects the requirements of the Best Value Accounting Code of Practice 2008 - Scotland (BVACOP).

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

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

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

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

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

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

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

Supplementary Financial Statements

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

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

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

The Group Accounts

The following statements make up the 'Group Accounts' for the Council:

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



Foreword by Head of Strategic Finance

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

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

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

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

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

Statement of Responsibilities for the Statement of Accounts

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

Statement on Internal Control

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

FINANCIAL PERFORMANCE

Income and Expenditure Account

The Council ended the year with an accounting surplus of £9.149m for 2008-09 compared to a surplus of £5.065m for 2007-08. This is the accounting surplus based on the SORP compliant accounts rather than the movement in the General Fund Balance.

Income from taxation and government grants totalled £254.916m for 2008-09 compared to £221.946m for 2007-08. An increase of £32.97m (12.9%). This includes revenue support grant up from £142.282m in 2007-08 to £174.047m in 2008-09, non domestic rates up from £33.171m in 2007-08 to £35.058m in 2008-09 and council tax down from £46.493m in 2007-08 to £45.811m in 2008-09. Much of the increase in revenue support grant arises from a change in how the Scottish Government makes payments to the Council and is not an increase in grant. From 2008-09 most funding that was previously paid as a specific grant is no longer ring fenced and is included in revenue support grant.

Net operating expenditure increased from £216.881m in 2007-08 to £245.767m in 2008-09. An increase of £28.886m (13.3%). A significant element of this increase relates to the change in payment of funds that were specific grants. As this income is now part of revenue support grant it is no longer accounted for as service income thereby increasing the net expenditure of services in the Income and Expenditure Account.

General Fund Balance

The balance on the General Fund at 31 March 2009 stands at £33.774m compared to £31.006m at 31 March 2008. An increase of £2.768m. The "free" General Fund Balance stands at £Xm at 31 March 2009. This equates to X% of the net revenue expenditure for 2009-10. There are a range of balances earmarked within the General Fund Balance. These total £Xm and are laid out in note 30.8.



Foreword by Head of Strategic Finance

The movement in the General Fund can be summarised as follows;

	£m	£m
Balance on General Fund 31 March 2008		31.006
Less budgeted transfer to services 2008-09		9.002
		22.004
Add outturn for 2008-09		
Increase in council tax income	0.474	
Savings in loan charges	0.465	
Net overspend on departmental expenditure compared to budget	x.xxx	
Surplus against budget 2008-09		0.933
Council Tax collection on second homes	1.787	
Contribution to PPP smoothing funds	2.920	
Funds earmarked by departments from budgets	6.130	
		10.837
Balance on General Fund 31 March 2009		33.774

The net adjustment to the surplus per the Income and Expenditure to reflect the impact on council tax is a credit of £6.381m. In summary this credit represents the difference between:

- Principal repayment to the loans fund and the depreciation or amortisation of fixed assets and government grant and any gain/loss on sale of assets
- Cash paid as pension contributions and the costs charged in accordance with FRS17.
- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the SORP.
- Capital element of the schools NPDO payment and build-up of the debtor to reflect the residual value of the NPDO schools at the end of the contract.

The net surplus on the Income and Expenditure Account of £9.149m less the adjustments to reflect impact on Council Tax at £6.381m equates to the increase on the balance on the General Fund of £2.768m.

Statement of Total Recognised Gains and Losses

This analysis the decrease in the net worth of the Council from 31 March 2008 of £113.842m to £95.660m at 31 March 2009 based on the Balance Sheet. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council. The reduction in net worth arises mainly from an actuarial loss on the pension plan of £35.084m offset by a gain on revaluation of fixed assets of £7.753m. These changes do not represent any change in the cash available to the Council.

Balance Sheet

As indicated above the accounting net worth of the Council has decreased by £18.182m from £113.842m at 31 March 2008 to £95.660m at 31 March 2009.

The value of fixed assets has increased from £333.828m at 31 March 2008 to £349.414m at 31 March 2009, an increase of £15.586m (4.7%). This comprises a net upward revaluation of fixed assets and capital expenditure less the value of fixed assets disposed of.

In terms of current assets and current liabilities the net of stock, debtors and creditors there was a decrease in current liabilities of £3.486m, decreasing from £15.140m at 31 March 2008 to £11.654m at 31 March 2009. The net cash, bank, short term borrowing and bank overdraft has moved from a net amount of cash invested by the Council of £38.849m at 31 March 2008 to a net cash deficit of £3.747m at 31 March 2009. This is a decrease of £42.596m. This reflects a pro-active decision to repay external borrowing and reduce cash investments thereby reducing the Council's exposure from external investments.



Foreword by Head of Strategic Finance

Overall long term liabilities have decreased from £245.352m at 31 March 2008 to £241.582m at 31 March 2009. The decrease of £3.770m masks some significant movements.

- Long term borrowing has decreased from £187.476m to £145.724m. This reflects the decision to repay external borrowing referred to above.
- The FRS17 valuation of the pension scheme liability increased from £0.598m to £32.517m.
- There were also government grants of £12.935m received in relation to fixed assets, and the provision of £4.897m to cover single status back pay was reversed as payments were made during the year.

Significant Trading Organisations

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 2 of the Notes to the Core Financial Statements. During 2008-09 the Roads and Lighting trading account achieved a surplus of £0.537m. It achieved a rolling breakeven position with a three year surplus of £0.813m. The Catering & Cleaning trading account returned a surplus of £0.973m for the year but failed to achieve a breakeven position over the rolling three year period as a result of accumulated deficits in 2006-07 and 2007-08. The accumulated deficit going forward is £1.099m. Any surplus or deficit is treated as part of the General Fund.

Capital Expenditure and Borrowing

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

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

The Council approved a set of prudential indicators for 2008-09 and managed capital expenditure and borrowing within these approved limits.

Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	28.975
Less: Capital Receipts	0.865
Government Grants and Other Contributions	13.648
Revenue Contributions	0.714
	13.748

The external borrowing of the Council at 31 March 2009 amounted to £156.79m. The majority of this was financed by the Public Works Loan Board (£98.066m), with the remainder coming mainly from the money market. During the year the Council completed £38.629m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also prematurely repaid loans of £69.884m.

The capital financing requirement at 31 March 2009 was £192.089m. This was financed as follows:

	£'m
Long Term Borrowing	145.724
Short Term Borrowing	11.061
General Fund Balance	33.774
Other Internal Funds	1.530
	192.089



Foreword by Head of Strategic Finance

PROPERTY VALUATIONS

In accordance with the 2008 Statement of Recommended Practice (SORP) all properties are required to be formally revalued at intervals of not more than five years. The current five year rolling programme of revaluation of all land and buildings, started in 2004-05, was completed during 2008-09.

PENSIONS LIABILITY

Pension costs have been recognised in accordance with FRS17. As a result of this a liability of £32.517m is recorded in the Council's balance sheet. This represents the Council's share of the shortfall on Strathclyde Pension Fund. This liability is offset by a Pensions Fund reserve of an equivalent amount.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2009. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17, issued by the Institute and the Faculty of Actuaries.

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

- Strathclyde Police Board
- Strathclyde Fire Board

Further information regarding these deficits can be found in Note 6 to the Group Accounts on pages 58 to 60.

STATEMENT ON INTERNAL CONTROL

In overall terms the Council has an adequate and effective system of internal control. There are however some areas where improvements are required and these are noted in the Statement on Internal Control on pages 8-9.

FUTURE OUTLOOK

The Council is not immune from the current economic climate. It is anticipated that the Council will face a significant challenge in terms of both service provision and funding over the next few years. A planning and performance management framework (PPMF) was adopted in 2008-09 and this will support the allocation of resources to priorities of the Council and help to drive improvement in performance. Risk management will be a key process for the Council going forward and a formal review of the financial risks facing the Council will be undertaken each quarter to assist in early identification and management of financial risks.

During 2009-10 the Council expects to complete the detailed design stage of its major change initiative, Process for Change. With a focus on customer management and workforce deployment this along with a revised efficiency plan and financial strategy will be critical to ensuring the Council is well prepared for the difficult times ahead.

Bruce West
Head of Strategic Finance
17 June 2009

**THE AUTHORITY'S RESPONSIBILITIES**

The Council is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year ended on that date.

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

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

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2009.

Bruce West
Head of Strategic Finance
17 June 2009



Statement on Internal Control

THIS PAGE IS INTENTIONALLY BLANK THE FULL STATEMENT OF INTERNAL CONTROL WILL BE AVAILABLE ON THE DAY OF THE COUNCIL MEETING.



Statement on Internal Control

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1. INTRODUCTION

The Financial Statements for the year ended 31 March 2009 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP). It is designed to “present fairly” the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

The accounting concepts of “materiality”, “accruals”, going concern” and “primacy of legislative requirements” have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where the information is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the financial statements for the year in which they occur, not in the period in which payment is made or income received. The going concern concept assumes that the Council will not significantly curtail the scale of its operations. Lastly, legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

The accounts have been prepared under the historic cost convention, other than changes resulting from the revaluation of certain categories of fixed assets. The following accounting policies used in its preparation been reviewed in line with changes made to the ACOP following the introduction of Financial Reporting Standard, FRS 18 “Accounting Policies”.

2. MAJOR CHANGES IN ACCOUNTING PRACTICE

There were no major changes arising from the 2008 SORP.

3. ACCRUALS OF INCOME AND EXPENDITURE

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

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

4. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 – Scotland (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

5. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

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

6. RETIREMENT BENEFITS

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

6.1 Teachers

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

6.2 Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years))

The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:

- Quoted securities – mid market value
- Unquoted securities – professional estimate
- Unitised securities – average of the bid and offer rates
- Property – market value

The change in the net pensions liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated to the revenue accounts of services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Income and Expenditure Account.

- Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer’s contributions to the pension fund.

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

6.3 Discretionary Benefits

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

7. INTANGIBLE FIXED ASSETS

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

8. TANGIBLE FIXED ASSETS

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

8.1 Recognition

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

8.2 Measurement

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

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

Net current replacement cost is assessed as:

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

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

8.3 Impairment

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

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

8.4 Disposals

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

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

8.5 Depreciation

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

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

Operational Buildings	-	20 – 50 years
Non-Operational Buildings	-	21 – 50 years
Infrastructure	-	40 years
Vehicles	-	4 – 20 years
Plant and Equipment	-	3 – 10 years
Vessels	-	25 years

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

8.6 Grants and Contributions

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

9. CHARGES TO REVENUE FOR FIXED ASSETS

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

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

- Amortisation of intangible fixed assets attributable to the service.

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

10. LEASES

10.1 Finance Leases

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

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

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

10.2 Operating Leases

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

11. FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

12. STOCK AND WORK IN PROGRESS

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

13. PROVISIONS

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

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

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

14. RESERVES

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

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

15. VALUE ADDED TAX (VAT)

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

16. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

17. PRIVATE FINANCE INITIATIVE (PFI)

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

17.1 Prepayments

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

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

17.2 Reversionary Interests

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

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

17.3 Residual Interests

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

17.4 PFI Credits

Government grants received for PFI Schemes, in excess of current level of expenditure, are carried forward as an earmarked reserve within the General Fund Balance to fund future contract expenditure.

Income and Expenditure Account

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

2007/08 Net Expenditure £'000	Service	Note	2008/09		
			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
88,422	Education Services		108,053	8,520	99,533
1,794	Housing Services (Non-HRA)		38,145	24,988	13,157
9,831	Cultural and Related Services		11,404	2,426	8,978
15,595	Environmental Services		22,195	4,393	17,802
16,810	Roads and Transport Services		20,112	1,434	18,678
1,676	Trading Services		5,962	4,921	1,041
4,048	Planning and Development Services		7,909	3,190	4,719
42,971	Social Work		56,738	9,410	47,328
	Central Services:				
4,780	- Corporate and Democratic Core		5,797	308	5,489
870	- Non Distributed Costs		734	11	723
2,373	- Central Services to the Public		3,206	1,385	1,821
1,272	- Other Operating Income and Expenditure	1	1,290	-	1,290
9,823	Strathclyde Police Joint Board		10,144	-	10,144
5,456	Strathclyde Fire and Rescue Joint Board		5,829	-	5,829
205,721	Net Cost of Services		297,518	60,986	236,532
5,291	Net (Gain)/loss on Disposal of Fixed Assets				1,429
-	(Surplus)/deficit on trading undertakings				(93)
11,249	Interest Payable and Similar charges				9,888
(1,535)	Interest and Investment Income				(1,415)
(3,845)	Pension Interest Cost and Expected Return on Pension Assets				(574)
216,881	Net Operating Expenditure				245,767
142,282	General Government Grants				174,047
33,171	Non-domestic Rates Redistribution				35,058
46,493	Council Tax Income				45,811
221,946	Total Income				254,916
5,065	Surplus for the Year				9,149



Statement of Movement on the General Fund Balance

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

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

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

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

2007/08 £'000		2008/09	
		£'000	£'000
5,065	Surplus for the Year on the Income and Expenditure Account		9,149
888	Net Additional amount required by statute or non-statutory proper practice to be (debited) or credited to the General Fund for the year <i>(See Supplement)</i>		(6,381)
5,953	Increase/(Decrease) in General Fund Balance for the Year		2,768
24,798	Closing General Fund Balance at 31 March	31,006	
(7,528)	Transition Adjustments to comply with SORP 2007	-	
7,528	Transfer from the Financial Instruments Adjustment Account	-	
30,751	Restated General Fund Balance at 1 April 2007		31,006
255	Transfer of HRA Balance	-	
31,006	Balance on General Fund Carried Forward		33,774

Statement of Movement on the General Fund Balance

Supplement Note to the Statement of Movement on the General Fund Balance

2007/08 £'000		2008/09	
		£'000	£'000
	<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</i>		
38	Amortisation of Intangible Fixed Assets	75	
18,559	Depreciation and Impairment of Fixed Assets	18,523	
(1,850)	Amortisation of Deferred Government Grants	(1,859)	
(398)	Capital Element of Finance Lease Payments	(356)	
(650)	Capital Element of Schools NPDO Payment	(1,615)	
5,291	Net Gain or Loss on Sale of Assets	1,429	
(414)	Expenditure Accounts and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt.	(364)	
(2,436)	Net Charges made for retirement benefits in accordance with FRS 17	(3,165)	
18,140			12,668
	<i>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</i>		
(17,793)	Loans fund principal repayments	(19,222)	
-	Capital expenditure charged in year to the General Fund Balance	(714)	
(17,793)			(19,936)
	<i>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i>		
541	Transfer to/from Other Funds	887	
541			887
888	Net Additional amount required to be credited/(debited) to the General Fund Balance for the year		(6,381)



Statement of Total Recognised Gains and Losses

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

2007/08 £'000		2008/09 £'000
5,065	Surplus / (Deficit) on the Income and Expenditure Account	9,149
13,559	Surplus/ (Deficit) Arising on Revaluation of Fixed Assets	7,753
33,164	Actuarial (Loss)/Gain on Pension Assets and Liabilities	(35,084)
(7,528)	Any Other Gains and (Losses) required to be included	-
44,260	Total Recognised Gains for the Year	(18,182)

31 March 2008 £'000	Note	31 March 2009	
		£'000	£'000
	Fixed Assets		
194	<i>Intangible Assets</i>		308
	<i>Tangible Fixed Assets</i>		
	Operational Assets	14.1	
169,347	- Other Land and Buildings		173,719
6,206	- Vehicles, Plant, Furniture and Equipment		5,550
112,629	- Infrastructure Assets		132,244
1,964	- Community Assets		2,051
	Non-operational Assets	14.2	
6,682	- Investment Property		6,656
21,233	- Assets Under Construction		14,568
15,573	- Surplus Assets, held for Disposal		14,318
333,828	Total Fixed Assets		349,414
1,657	Long-Term Debtors	17	3,229
335,485	Total Long Term Assets		352,643
	Current Assets		
245	Stocks and Work in Progress		108
20,295	Debtors	18	22,825
5,000	Investments		10,000
38,380	Cash and Bank		36,097
399,405	Total Assets		388,740
	Current Liabilities		
(559)	Borrowing Repayable on Demand or within 12 Months	20	(11,061)
(35,680)	Creditors	19	(34,587)
(3,972)	Bank Overdraft		(5,850)
359,194	Total Assets less Current Liabilities		337,242
(187,476)	Borrowing Repayable within a Period in Excess of 12 Months	20	(145,724)
(49,485)	Government Grants - Deferred	21	(60,561)
(5,971)	Provisions	22	(1,191)
(1,822)	Deferred Liabilities	23	(1,589)
(598)	Liability related to Defined Benefit Pension Schemes	28	(32,517)
113,842	Total Assets less Liabilities		95,660
	Financed by:		
13,559	Revaluation Reserve	30.1	21,312
72,050	Capital Adjustment Account	30.2	75,664
2,681	Useable Capital Receipts Reserve	30.3	2,762
1,356	Capital Fund	30.4	871
(598)	Pensions Reserve	30.5	(32,517)
(7,114)	Financial Instruments Adjustment Account	30.6	(6,750)
902	Repairs and Renewals Funds	30.7	544
31,006	General Fund Balance	30.8	33,774
113,842	Total Net Worth		95,660

Bruce West
Head of Strategic Finance
17 June 2009

2007/08 In/(Out) £'000		Note	2008/09 In/(Out) £'000
	REVENUE ACTIVITIES		
	<i>Cash outflows</i>		
126,550	Cash Paid to and on Behalf of Employees		136,580
106,688	Other Operating Cash Payments		123,137
17,857	Housing Benefit Paid Out		18,848
16,843	Precepts Paid		17,107
-	National Non-domestic Rate Payments to National Pool		2,112
267,938			297,784
	<i>Cash inflows</i>		
1,046	Rents (after rebates)		1,010
39,732	Council Tax Income		40,577
33,345	Non-domestic Rate Receipts		34,852
142,283	Revenue Support Grant		171,945
22,435	DWP Grants for Benefits		24,810
29,763	Other Government Grants	31	7,444
22,035	Cash Received for Goods and Services		22,090
1,213	National Non-domestic Rate Payments from National Pool		-
6,677	Other Operating Cash Receipts		10,428
298,529			313,156
30,591	Net Cash Inflow From Revenue Activities	32	15,372
	SERVICING OF FINANCE		
	<i>Cash outflows</i>		
10,598	Interest paid		11,182
20	Interest element of finance lease		108
10,618			11,290
	<i>Cash inflows</i>		
1,285	Interest received		2,866
1,285			2,866
(9,333)	Net Cash (Outflow) From Servicing of Finance		(8,424)
	CAPITAL ACTIVITIES		
	<i>Cash outflows</i>		
27,676	Purchase of Fixed Assets		20,393
-	Other Capital Cash Payments		-
27,676			20,393
	<i>Cash inflows</i>		
2,616	Sale of Fixed Assets		786
13,999	Capital Grants Received		12,157
43	Other Capital Cash Receipts		19
16,658			12,962
(11,018)	Cash (Outflow) From Capital		(7,431)
10,240	Net Cash Inflow / (Outflow) Before Financing		(483)
	MANAGEMENT OF LIQUID RESOURCES		
(5,000)	Net (Increase) / Decrease in Short Term Deposits		(5,000)

Continued from previous page.

2007/08 In/(Out) £'000		Note	2008/09 In/(Out) £'000
	FINANCING		
	<i>Cash outflows</i>		
68,795	Repayments of Amounts Borrowed		69,884
398	Capital element of Finance Lease Rental Payments		356
69,193			70,240
	<i>Cash inflows</i>		
98,626	New Loans Raised		38,629
98,626			38,629
29,433	Net Cash Inflow / (Outflow) From Financing		(31,611)
34,673	Net Increase / (Decrease) in Cash	33	(37,094)

1. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.290m shown in the Other Operating Income and Expenditure line on the Income and Expenditure Account consists entirely of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board.

2. SIGNIFICANT TRADING ORGANISATIONS

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

2.1 Roads and Lighting Trading Account

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

Roads and Lighting Trading Account	2006/07	2007/08	2008/09	2008/09
	Actual £'000	Actual £'000	Actual £'000	3 year Cumulative £'000
Turnover	11,621	13,229	16,008	40,858
Expenditure	11,413	13,161	15,471	40,045
Net Deficit/Surplus	208	68	537	813

2.2 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning Service to external clients such as Police Stations and Outdoor Centres. The trading objective is to break-even over a three year period. A deficit has arisen over the three year period due to equal pay settlements and single status implementation which were budgeted for centrally rather than against each cost centre.

Catering and Cleaning Trading Account	2006/07	2007/08	2008/09	2008/09
	Actual £'000	Actual £'000	Actual £'000	3 year Cumulative £'000
Turnover	7,106	7,002	8,010	22,118
Expenditure	8,165	8,015	7,037	23,217
Net Deficit/Surplus	(1,059)	(1,013)	973	(1,099)

3. LOCAL GOVERNMENT ACT 1986 – SEPARATE PUBLICITY ACCOUNT

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.459m was incurred during 2008/09 and is included within service expenditure as follows:

Publicity	2008/09	2007/08
	Actual £'000	Actual £'000
Staff Advertising	217	273
Leaflets and publications	17	11
Statutory notices	118	133
Other	107	147
Total	459	564

4. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2008/09 income from this agreement amounted to £0.239m.

Agency Income	2008/09 Actual £'000	2007/08 Actual £'000
Scottish Water	239	229
Total	239	229

5. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £0.731m and the related expenditure was £0.760m. The goods and services provided during the year were as follows:

Name of Body	Purpose of Work	Income £'000	Expenditure £'000
North Lanarkshire Council	Cleaning and Catering - Kilbowie OC	206	173
Strathclyde Police	Cleaning of Police Stations	121	71
Various Public Bodies	Grounds Maintenance	22	19
Various Councils	Provision of SEN Assistant Support	63	63
NHS Highland	Provision of Care for the Elderly	132	241
Glasgow City Council	Provision of Care for the Elderly	37	47
West Dunbartonshire Council	Section 23 Payments - Out of Authority Pupils	150	146
Total		731	760

6. COMMUNITY CARE HEALTH (SCOTLAND) ACT 2002

The Council has a joint working arrangement with NHS Highland whereby it provides certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2008/09 income from this source amounted to £3.956m and the related expenditure was £5.452m. These sums can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	1,130	1,707
Provision of Services for People with Learning Disabilities	2,189	3,106
Provision of Services for People with Mental Health Needs	637	639
Total	3,956	5,452

7. MEMBERS' ALLOWANCES

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

Members Allowances	2008/09 Actual £'000	2007/08 Actual £'000
Basic Allowance	381	359
Special Responsibility Allowance	272	259
Total Allowances	653	618

8. OFFICERS' EMOLUMENTS

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

Range £	2008/09 Number of Officers	2007/08 Number of Officers
£50,000 - £59,999	14	14
£60,000 - £69,999	12	12
£70,000 - £79,999	4	3
£80,000 - £89,999	3	2
£90,000 - £99,999	1	1
£100,000 - £109,999	1	-
Total	35	32

9. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

The Council has paid a service charge of £5.401m which represents the value of the service provided from 1 April 2008 to 31 March 2009. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2009 - 2012	16,205
2012 - 2017	28,265
2017 - 2022	31,396
2022 - 2027	29,980
Total	105,846

This equates to £5.880m per annum over the life of the contract.

10. SCHOOLS NON PROFIT DISTRIBUTING ORGANISATION

During 2007-08 the ten schools on five sites developed as part of the non profit distribution organisation (NPDO) variant of a public private partnership became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

The Council has paid a service charge of £12.706m which represents the value of the service provided from 1 April 2008 to 31 March 2009. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2009 - 2014	67,077
2014 - 2019	70,507
2019 - 2024	74,387
2024 - 2029	78,777
2029 - 2034	83,744
2034 - 2035	8,700
Total	383,192

This equates to £11.466m per annum over the life of the contract.

11. FEES PAYABLE TO AUDIT SCOTLAND

In 2008/09 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2008/09 £'000	2007/08 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	288	293
Total Remuneration	288	293

12. RELATED PARTY TRANSACTIONS

During the year transactions with related parties arose as follows:

Central Government and Agencies		Income £'000	Expenditure £'000
Revenue Grants:	Revenue Support Grant	174,047	
	Scottish Government Specific Grants	1,668	
	Non-Domestic Rates	35,058	
	Housing Benefit Subsidy	18,546	
	Council Tax Benefit Subsidy	5,645	
	Other Government Grants	2,165	
Total		237,129	
Capital Grants:	European Grants	613	
	AIE - Argyll Air Services	1,049	
	Community Council	95	
	General Capital Grant	5,618	
	Other Government Capital Grants	5,560	
Total		12,935	

12. RELATED PARTY TRANSACTIONS CONT'D

Related Bodies:	Income £'000	Expenditure £'000
Transactions with related bodies during the year totalled	795	21,472
<i>Of these, transactions with the following exceeded £10,000:</i>		
Joint Boards		17,329
Strathclyde Partnership for Transport		715
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board		205
Convention of Scottish Local Authorities (COSLA)		83
Cowal Council on Alcohol and Drugs		113
Dunoon and Cowal Youth Project		15
Helensburgh Addiction Rehabilitation Team		87
Islay and Jura Community Enterprise		98
Kintyre Alcohol and Drugs Advisory Service		24
Mid Argyll Community Enterprise		47
Criminal Justice Partnership	795	771
NHS		1,495
Oban Addiction Support and Information Services (OASIS)		44
Oban and Lorn Community Enterprise - Atlantis Leisure		400
Oban Youth and Community Association		15
Total	795	21,441

Transactions in which Members have a significant interest	Income £'000	Expenditure £'000
During the year there was one company in which members had a significant interest and where the total of transactions exceeded £10,000.		
<i>This was as follows:</i>		
Trident Taxis		69

13. MOVEMENT IN INTANGIBLE FIXED ASSETS

	Purchased Software Licences 2008/09 £'000
Cost or Valuation	
At 1 April 2008	260
Additions	79
Reclassifications	110
At 31 March 2009	449
Depreciation and Impairments	
At 1 April 2008	(66)
Charge for 2008/09	(75)
At 31 March 2009	(141)
Balance Sheet amount at 1 April 2009	308
Balance Sheet amount at 1 April 2008	194

14. FIXED ASSETS

14.1 Movement in Operational Fixed Assets

	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Total 2008/09 £'000
Cost or Valuation					
At 1 April 2008	184,897	14,357	139,499	1,964	340,717
Additions	10,055	1,269	12,793	5	24,122
Disposals	(1,713)	(1,093)	-	-	(2,806)
Reclassifications	(1,933)	354	12,522	90	11,033
Revaluations	(3,358)	-	-	-	(3,358)
At 31 March 2009	187,948	14,887	164,814	2,059	369,708
Depreciation and Impairments					
At 1 April 2008	(15,550)	(8,151)	(26,870)	-	(50,571)
Charge for 2008/09	(8,801)	(2,190)	(5,034)	-	(16,025)
Disposals	394	1,004	-	-	1,398
Reclassifications	674	-	(666)	(8)	-
Revaluations	9,054	-	-	-	9,054
At 31 March 2009	(14,229)	(9,337)	(32,570)	(8)	(56,144)
Balance Sheet amount at 1 April 2009	173,719	5,550	132,244	2,051	313,564
Balance Sheet amount at 1 April 2008	169,347	6,206	112,629	1,964	290,146

14.2 Movement in Non-Operational Fixed Assets

	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets Held for Disposal £'000	Total 2008/09 £'000
Cost or Valuation				
At 1 April 2008	6,682	21,233	23,228	51,143
Additions	41	4,675	54	4,770
Disposals	(123)	(251)	(4,917)	(5,291)
Reclassifications	(44)	(11,089)	(10)	(11,143)
Revaluations	287	-	38	325
At 31 March 2009	6,843	14,568	18,393	39,804
Depreciation and Impairments				
At 1 April 2008	-	-	(7,655)	(7,655)
Charge for 2008/09	(233)	-	(587)	(820)
Disposals	-	-	4,159	4,159
Reclassifications	46	-	8	54
Revaluations	-	-	-	-
At 31 March 2009	(187)	-	(4,075)	(4,262)
Balance Sheet amount at 1 April 2009	6,656	14,568	14,318	35,542
Balance Sheet amount at 1 April 2008	6,682	21,233	15,573	43,488

14.3 Valuation of Operational Fixed Assets

During the current year, revaluations on operational land and buildings were carried out by Hugh Blake, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies.

The following statement shows the progress of the Council's rolling programme for the revaluation of operational fixed assets:

	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Total 2008/09 £'000
Valued at historical Cost		5,550	132,244	2,051	139,845
Valued at Current Value in:					
2008/2009	70,383				70,383
2007/2008	29,026				29,026
2006/2007	16,485				16,485
2005/2006	22,906				22,906
2004/2005	34,919				34,919
Total	173,719	5,550	132,244	2,051	313,564

14.4 Valuation of Non-Operational Fixed Assets

During the current year, revaluations on non-operational land and buildings were carried out by Hugh Blake, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies.

The following statement shows the progress of the Council's rolling programme for the revaluation of non-operational fixed assets:

	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets Held for Disposal £'000	Total 2008/09 £'000
Valued at Historical Cost		14,568		14,568
Valued at Current Value in:				
2008/2009	1,647		280	1,927
2007/2008	763		616	1,379
2006/2007	2,441		3,322	5,763
2005/2006	1,219		9,658	10,877
2004/2005	586		442	1,028
Total	6,656	14,568	14,318	35,542

14.5 Fixed Assets Information on Assets Held on 31 March 2009

	Number of Properties	
	2008/09	2007/08
OPERATIONAL BUILDINGS		
Administrative Buildings	47	48
Depots	33	33
Social Work Homes for the Elderly	7	7
Social Work Children's Homes	4	4
Hostels	5	6
Primary Schools	74	74
Secondary Schools	6	6
Special Schools	2	2
Nursery Schools	3	4
Halls	7	8
Swimming Pools	5	5
Museums and Libraries	10	10
Community Centres	8	8
Crematoria	1	1
Public Conveniences	74	77
Airports	1	1
OPERATIONAL EQUIPMENT		
Vehicles and Heavy Plant	243	260
INFRASTRUCTURE ASSETS		
Highways (miles)	1,406	1,406
Bridges	954	954
Car Parks	138	138
Vessels	5	5
COMMUNITY ASSETS		
Parks/Play Areas	62	62
Civic Regalia (Provosts' Chains)	4	4
Civic Regalia (Bailies' Chains)	1	1
Cemeteries	126	126
War Memorials	55	55
Works of Art	299	299

The above is a selection from the asset register of the main asset categories.

15. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

	2008/09 £'000	2007/08 £'000
Opening Capital Financing Requirement	198,988	199,721
<i>Capital Investment:</i>		
Operational Assets - Expenditure	23,999	13,363
Operational Assets - Finance Leases	123	-
Non-Operational Assets	4,770	20,776
Intangible Assets	79	76
Deferred Charges - Long Term Debtor	4	-
Total Capital Investment	28,975	34,215
<i>Sources of Finance:</i>		
Capital Receipts	(865)	(2,688)
Government Grants	(12,935)	(13,999)
Capital Financed from Current Revenue	(714)	-
Repayment of External Loans	(19,222)	(17,793)
Capital Element of Finance Lease Payments	(356)	(398)
Capital Element of Schools NPDO Payments	(1,615)	(650)
Capital Receipts transferred to Capital Fund	860	1,356
Capital Receipts Used from Capital Fund	(713)	-
Other	(314)	(776)
Total Funding	(35,874)	(34,948)
Closing Capital Financing Requirement	192,089	198,988

16. FINANCE AND OPERATING LEASES

16.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.464m.

	2008/09 £'000	2007/08 £'000
Vehicles	464	418
Total	464	418

16.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2008/09 were as follows:

	2008/09 £'000	2007/08 £'000
Land and Buildings	219	193
Vehicles	1,530	1,598
Plant and Equipment	166	232
Total	1,915	2,023

16.3 Assets Held Under Finance Leases

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

	Plant and Equipment £'000
Value at 1 April 2008	1,072
Additions	123
Depreciation	(356)
Value at 31 March 2009	839

Outstanding obligations to make payments under these finance lease (excluding finance costs) as at 31 March 2009, accounted for as part of long-term liabilities are as follows:

	Plant and Equipment £'000
Obligations payable within 1 year	351
Obligations payable between 1 and 5 years	488
Obligations payable after 2012/2013	-
Total Liabilities at 31 March 2009	839

16.4 Assets Held Under Operating Leases

The authority was committed at 31 March 2009 to making payments of £1.730m under operating leases in 2008/09 comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	11	154
Leases expiring between 1 and 5 years	27	1,350
Leases expiring after 5 years	163	25
Value at 31 March 2009	201	1,529

17. LONG TERM DEBTORS

	31st March 2009 £'000	31st March 2008 £'000
House Loans	210	257
Car Loans	3	-
NPDO Residual Value (see note below)	2,266	650
Waste PPP Historic Contamination Fund	750	750
Total Long Term Debtors	3,229	1,657

It is estimated that at the end of the schools NPDO contract the net depreciated construction cost of premises returning to the Council will be £43.427m. Accounting arrangements require this sum to be recognised in the Council's balance sheet over the life of the contract, initially as a long-term debtor with the full value transferring to fixed assets at the end of the contract.

18. DEBTORS

		31 March 2009		31 March 2008	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	12,285		13,375	
	Less: Provision for Bad Debts	(9,855)		(10,204)	
			2,430		3,171
	Community Charge	7,554		7,559	
	Less: Provision for Bad Debts	(7,554)		(7,559)	
			-		-
	Non-Domestic Rates	1,041		1,123	
	Less: Provision for Bad Debts	(629)		(683)	
			412		440
Housing Benefits Overpayments		787		701	
Less: Provision for Bad Debts		(454)		(414)	
			333		287
Debtor Accounts		4,713		4,713	
Less: Provision for Bad Debts		(958)		(670)	
			3,755		4,043
VAT Recoverable			2,638		2,480
Other Debtors			13,257		9,874
Total Debtors			22,825		20,295

19. CREDITORS

	31st March	31st March
	2009	2008
	£'000	£'000
Loans Fund Interest	1,536	1,727
Accrued Payrolls and Superannuation	5,973	5,593
Accrued Employer's National Insurance Contributions and PAYE	2,423	2,618
Payables Liability	7,468	9,653
Accrued Expenditure	4,436	4,781
Other Creditors	12,751	11,308
Total Creditors	34,587	35,680

20. FINANCIAL INSTRUMENTS DISCLOSURES**20.1 Types of Financial Instruments**

Accounting regulations require the "financial instruments" (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of "financial instruments":

	Long Term 31st March 2009 £'000	Current 31st March 2009 £'000	Long Term 31st March 2008 £'000	Current 31st March 2008 £'000
Investments and Lending				
Loans and Receivables	963	35,898	1,007	63,714
Available-for-sale financial assets	-	-	-	-
Borrowing				
Financial Liabilities at amortised cost	145,724	51,498	187,113	39,995
Financial Liabilities at fair value through profit and loss	-	-	-	-

20.2 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) and are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2009 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31st March 2009		31st March 2008	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	36,952	45	64,721	64,726
Borrowing				
Financial Liabilities	197,222	235,850	227,108	263,665

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

The fair value is greater than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

20.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments.

20.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

20.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2009 £'000	Historical Experience of Non- payment adjusted for Market Conditions at 31 March 2009 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks, Building Societies and Local Authorities	13,164	-	-

The information in respect of the Council's debtors can be found in note 17 and 18.

20.6 Liquidity Risk

The Council main source of borrowing is the Treasury's Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year and 60% within a rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity analysis of financial liabilities is as follows:

	31st March 2009 £'000	31st March 2008 £'000
The maturity analysis of financial liabilities is as follows:		
Less than one year	11,061	559
Between one and two years	12,003	68
Between two and five years	9	5
More than five years	133,712	187,040

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

20.7 Market Risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

Changes in market rates also affect the notional “fair value” of lending and borrowing. For example, a rise in interest rates would reduce the “fair value” of both lending and borrowing at fixed rates. Changes in “fair value” of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government’s grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for “loan charges”.

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2009, with all other variables held constant.

	31st March 2009 £'000	31st March 2008 £'000
Impact on tax-payer		
Increase on interest payable on variable rate borrowings	123	162
Increase in interest receivable on variable rate lending	(100)	(50)
Increases in government grant receivable for “loan charges”	-	-
Net effect on Income & Expenditure Account	23	112

	31st March 2009 £'000	31st March 2008 £'000
Other accounting presentational changes		
A decrease in the “fair value” of fixed rate lending (disclosed in the STRGL)	-	-
A decrease in the “fair value” of fixed rate borrowing (disclosure confined to notes to the core financial statements)	16,230	31,332

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

20.8 Price Risk

The Council has no investment classified as “available-for-sale”.

20.9 Foreign Exchange Risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

20.10 Short-Term Deposits

The short-term investments arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31st March 2009 £'000	31st March 2008 £'000
Banks	13,164	38,380

20.11 Short-Term Borrowing

The Common Good and the various trust administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2009 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and trusts are shown in notes 26 and 27 on pages 40-41.

	31st March 2009 £'000	31st March 2008 £'000
Common Good	241	239
Trust Funds	959	908

21. DEFERRED GOVERNMENT GRANTS

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

	Applied £'000	Unapplied £'000	Total £'000
Balance at 1 April 2008	(39,087)	(10,398)	(49,485)
Adjustment to Opening Analysis	(2,748)	2,748	-
Revised Opening Balance at 1 April 2008	(41,835)	(7,650)	(49,485)
Grants Received During the Year to Finance Capital Projects	(11,009)	(1,926)	(12,935)
Transfer to Applied Government Grants	(6,264)	6,264	-
Credit to Revenue Account During the Year	1,859	-	1,859
Balance at 31 March 2009	(57,249)	(3,312)	(60,561)

22. PROVISIONS

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.06m. Full provision for this amount has been made.

A provision was created at the end of 2005/06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. No further employees settled during the year.

The Council reduced the discount on council tax from second homes to 10% during 2005/06. The additional council tax income invoiced during 2008/09 amounted to £1.787m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.062m.

Notes to the Core Financial Statements

As within previous years, liabilities have also arisen in respect of employees who will be made redundant as a result of restructuring. In line with the SORP, the authority has raised valid expectations to those affected by announcing the features of the plan or actually starting to implement it.

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

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

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

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

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
SRC Insurance Claims	(60)	-	(60)
Equal Pay Claims	(168)	-	(168)
Single Status Provision	(4,897)	4,897	-
Income due to Registered Social Landlords (Additional Council Tax on Second Homes)	(64)	2	(62)
Reorganisation Redundancy Costs	(201)	(119)	(320)
Operational Services - various provisions	(581)	-	(581)
Total Provisions	(5,971)	4,780	(1,191)

23. DEFERRED LIABILITIES

Deferred liabilities consist of liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. Deferred liabilities total £1.589m as at 31 March 2009 and comprise the following:

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
Finance Lease Liability (See note 16.3 - Finance Leases)	(1,072)	233	(839)
Land Contamination	(750)	-	(750)
Total Deferred Liabilities	(1,822)	233	(1,589)

24. CONTINGENT GAINS AND LIABILITIES

The Council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcomes of these applications are unknown at this time, although there is the possibility that the Council may lose at least some of these cases. There is also the potential for other equal pay claims whose costs may be met by the Council. No financial provision has been made in the 2008/09 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

During the 2006-07 financial year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. A price has yet to be negotiated with the landowners and therefore a reliable estimate cannot be made of the obligation at this stage.

25. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2009, the Council had commitments on capital contracts of £8.629m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

	£'000
ICT and Financial Services	95
Community Services	4,459
Infrastructure and Transport	3,803
Operational Services	272
Total	8,629

26. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 75 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

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

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	16	9	306	306
GM Duncan Trust	4	1	89	89
McDougall Trust	22	-	597	597
Various Other Trust Funds	21	2	514	514
Total Trust Funds	63	12	1,506	1,506

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

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

27. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray and Helensburgh. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2009. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

27.1 Common Good Income and Expenditure Account for the year ended 31 March 2009

	Actual £'000
Expenditure	107
Income	(95)
Deficit for the Year	12

27.2 Common Good Balance Sheet at 31 March 2009

	Actual £'000
Tangible Fixed Assets	50
Investments	1,301
Current Assets	171
Current Liabilities	(14)
Total Assets less Liabilities	1,508
Revaluation Reserve	38
Common Good Fund	1,470
Total Net Worth	1,508

28. PENSIONS ASSETS AND LIABILITIES – FRS17 DISCLOSURE

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

28.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2009. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2009. The amounts are as follows:

- Local Government Pension Scheme – £1.024m
- Teachers’ scheme – £0.610m

28.2 Transactions in Respect of the Local Government Pensions Scheme

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

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2008. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer’s pensionable payroll over the year to 31 March 2009 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	2008/09 £'000	2007/08 £'000
Net Cost of Services:		
Current Service Cost	7,654	10,293
Past Service Cost	279	221
Settlements and Curtailments	175	498
Net Operating Expenditure:	8,108	11,012
Interest Cost	22,607	20,018
Expected Return on Employer Assets	(23,181)	(23,863)
Net Charge to the Income and Expenditure Account	7,534	7,167
Statement of Movement on the General Fund Balance:		
Reversal of net charges made for retirement benefits in accordance with FRS17	3,165	2,436
Actual Amount charged against Council Tax for pension in the year:		
Employer's Contributions Payable to the Scheme	10,699	9,603

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £35.084m (£33.164m gain in 2007/08 as restated) were included in the Statement of Total Recognised Gains and Losses.

28.3 Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of defined benefit obligation:

	2008/09 £'000	2007/08 £'000
Defined Benefit Obligation at 1 April	325,814	368,549
Current Service Cost	7,654	10,293
Interest Cost	22,607	20,018
Contributions by Scheme Participants	3,268	2,996
Actuarial (Gains) and Losses	(56,347)	(67,159)
Estimated Unfunded Benefits Paid	(1,474)	(1,403)
Estimated Benefits Paid	(12,295)	(8,199)
Losses on Curtailments	175	498
Past Service Costs	279	221
Defined Benefit Obligation at 31 March	289,681	325,814

Reconciliation of fair value of the scheme assets:

	2008/09 £'000	2007/08 £'000
Fair Value of Employer Assets at 1 April	325,216	332,321
Expected Rate of Return	23,181	23,863
Actuarial Gains and (Losses)	(91,431)	(33,965)
Employers Contributions	10,699	9,603
Contributions by Scheme Participants	3,268	2,996
Estimated Unfunded Benefits Paid	(1,474)	(1,403)
Estimated Benefits Paid	(12,295)	(8,199)
Fair Value of Employer Assets at 31 March	257,164	325,216

The above asset values are at bid value as required under FRS17. The historic asset figures have been restated at bid value.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £23.1m (2007/08: £23.9m).

28.4 Scheme History

Local Government Pension Scheme	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000
Present Value of Scheme Liabilities	(322,136)	(374,999)	(368,549)	(325,814)	(289,681)
Fair Value of Assets	240,665	307,978	332,321	325,216	257,164
Surplus / (Deficit) in the Scheme	(81,471)	(67,021)	(36,228)	(598)	(32,517)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2010 is £9.7m.

28.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Long Term expected rate of return on assets in the scheme:	2008/09 %	2007/08 %
Equity Investments	7.0%	7.7%
Bonds	5.4%	5.7%
Property	4.9%	5.7%
Cash	4.0%	4.8%

Mortality assumptions	2008/09 Years
Longevity at 65 for current pensioners:	
Men	20.3
Women	23.2
Longevity at 65 for future pensioners:	
Men	21.7
Women	24.6

Financial Assumptions	2008/09 %	2007/08 %
Rate of Inflation	3.1%	3.6%
Rate of Increase in Salaries	4.6%	5.1%
Rate of Increase in Pensions	3.1%	3.6%
Rate for discounting scheme liabilities	6.9%	6.9%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%

28.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories:

Local Government Pension Scheme	2004/05	2005/06	2006/07	2007/08	2008/09
Scheme	£'000	£'000	£'000	£'000	£'000
Experience gains and losses on assets	8,139	48,769	255	(33,965)	(91,431)
Experience gains and losses on liabilities	(3,449)	9,656	1,071	146	35,766

29. TEACHERS PENSIONS – ADMINISTERED BY SCOTTISH PUBLIC PENSIONS AGENCY

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

	2008/09	2007/08
Amount Paid Over (£'000)	4,768	4,672
Rate of Contribution (%)	12.50%	12.50%
Amount of Added Years Awarded by the Council (£'000)	528	559

30. DETAILS OF MOVEMENTS ON RESERVES

30.1 Revaluation Reserve

The revaluation reserve records unrealised revaluation gains arising since 1 April 2007 from holding fixed assets.

Revaluation Reserve	£'000
Balance at 1 April 2008	13,559
Revaluations of Fixed Assets	7,753
Balance at 31 March 2009	21,312

30.2 Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.

Capital Adjustment Account	£'000	£'000
Balance at 1 April 2008		72,050
Appropriations:		
Amortisation of Intangible Fixed Assets	(75)	
Depreciation and Impairment of Fixed Assets	(18,523)	
Amortisation of Deferred Government Grants	1,859	
Capital Element of Finance Lease Payments	356	
Capital Element of Schools NPDO Payment	1,615	
Write off of Net Book Value on Disposal of Fixed Assets	(2,289)	
Capital Financed from Current Revenue	714	
Loans fund principal repayments	19,222	
		2,879
Transfer from Capital Fund		713
Transfer from Useable Capital Receipts Reserve		22
Balance at 31 March 2009		75,664

It should be noted and stressed that both the Capital Adjustment Account and the Revaluation Reserve are matched by fixed assets within the Balance Sheet; they are not resources available to the authority.

30.3 Useable Capital Receipts Reserve

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006 the receipts from the sale of council houses were transferred to the Useable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure. The movement in the Useable Capital Receipts Reserve during 2008/09 is as follows:

Useable Capital Receipts Reserve	£'000
Balance at 1 April 2008	2,681
Interest Earned	103
Transfer to Capital Adjustment Account	(22)
Balance at 31 March 2009	2,762

30.4 Capital Fund

During the 2007/08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008. The movement in the Capital Fund during 2008/09 is as follows:

	£'000
Balance at 1 April 2008	1,356
Proceeds of Disposals	860
Transfer to Capital Adjustment Account	(713)
Contribution to Loans Fund Charges	(675)
Interest Earned	43
Balance at 31 March 2009	871

30.5 Pensions Reserve

The movement in the Pensions Reserve during 2008/09 is as follows:

Pension Reserve	£'000
Balance at 1 April 2008	(598)
Transfer to Revenue	3,165
Actuarial Loss in Pension Plan	(35,084)
Balance at 31 March 2009	(32,517)

30.6 Financial Instruments Adjustment Account

The financial Instruments Adjustment Account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early payment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

Financial Instruments Adjustment Account	£'000
Balance at 1 April 2008	(7,114)
Additional Interest on Borrowings for Amortised Cost Basis	(5)
Re-measurement of "soft" loans	
Annual Release of Debt Premiums / Discounts on Statutory Basis	369
Balance at 31 March 2009	(6,750)

It should be noted and stressed that both the Financial Instrument Adjustment Account is matched by borrowings and investments within the Balance Sheet; they are not resources available to the authority.

30.7 Repairs and Renewals Funds

	Balance at 31 March 2008 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2009 £'000
Repairs and Renewals Funds:					
Education	836	213	18	(592)	475
Vehicles	66	-	3	-	69
Total	902	213	21	(592)	544

30.8 General Fund Balance

THIS NOTE IS INTENTIONALLY MISSING; THE NOTE GIVING DETAILS OF THE EARMARKED AND “FREE” GENERAL FUND BALANCE WILL BE AVAILABLE ON THE DAY OF THE COUNCIL MEETING.

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

	2008/09 £'000	2007/08 £'000
Associated Schools Group	-	25
Community Planning Partnership	826	-
Community Regeneration Funding	330	1,000
Discipline Task Group	-	178
DWP Other Grants	817	1,003
Education Maintenance Allowance	501	433
Fairer Scotland Fund	152	167
Gaelic Education Grants	377	334
Housing Stock Transfer	-	714
Housing Support Grant	192	172
National Priorities Action Fund	-	4,382
Other Educational Grants	753	3,830
Other Grants (e.g. Civil Defence)	172	1,232
Other Social Work Grants	125	589
Pre-school Gaelic Education Grants	-	88
Private Sector Housing Grant	3,182	2,395
Public Transport Grants	17	999
Supporting People	-	12,222
Total	7,444	29,763

32. NET CASH FLOW RECONCILIATION

	2008/09 £'000	2007/08 £'000
Surplus / (Deficit) for Year	9,149	5,065
Adjustments Not Involving Movement in Funds	14,645	23,094
(Increase) / Decrease in Stocks	137	8
(Increase) / Decrease in Debtors	(1,678)	(3,693)
Increase / (Decrease) in Creditors	(6,881)	6,117
Revenue Activities Net Cash Flow	15,372	30,591

33. ANALYSIS OF NET DEBT

	31st March 2009 £'000	31st March 2008 £'000	Cash Flow £'000
Cash at Bank and in Hand	3,164	38,380	(35,216)
Bank Overdraft	(5,850)	(3,972)	(1,878)
Net Increase / (Decrease) in Cash	(2,686)	34,408	(37,094)
Debt due within one year	(11,061)	(559)	(10,502)
Debt due after one year	(145,356)	(187,113)	41,757
(Increase) / Decrease in Debt Financing	(156,417)	(187,672)	31,255
Movement in Debt in Period			(5,839)
Capital Element of Finance Lease			356
Net Cash Inflow from Debt and the Capital Element of Finance Leases			(5,483)

34. RECONCILIATION OF MOVEMENT IN CASH TO NET DEBT

	2008/09 £'000	2007/08 £'000
Increase / (Decrease) in Cash in Period	(37,094)	34,673
(Increase) / Decrease in Debt Financing	31,255	(29,831)
Movement in Debt in Period	(5,839)	4,842
Net Debt as at 1 April 2008	(153,264)	(158,106)
Net Debt as at 1 April 2009	(159,103)	(153,264)

Council Tax Income Account

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

2007/08 Actual £'000		2008/09 Actual £'000
52,335	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	52,702
	Add Back:	
1,687	RSL Second Home Discount Additional Income	1,734
	Less:	
(6,984)	Other Discounts and Reductions	(7,436)
(978)	Provision for Bad and Doubtful Debts	(1,170)
46,060	Total	45,830
433	Adjustment to Previous Years' Community Charge and Council Tax	(19)
46,493	Transfers to General Fund	45,811

1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2008/09 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	785.33
B	£27,000 - £35,000	78%	916.22
C	£35,000 - £45,000	89%	1,047.11
D	£45,000 - £58,000	100%	1,178.00
E	£58,000 - £80,000	122%	1,439.78
F	£80,000 - £106,000	144%	1,701.56
G	£106,000 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

2. CALCULATION OF THE COUNCIL TAX BASE 2008/09

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,767	9,551	9,299	5,755	6,982	3,789	2,563	226	45,932
Less - Exemptions / Deductions	920	664	961	485	548	215	136	35	3,964
Less - Adjustment for Single Chargepayers	923	1,033	783	439	389	174	96	7	3,844
Effective Number of Properties	5,924	7,854	7,555	4,831	6,045	3,400	2,331	184	38,124
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	3,949	6,109	6,716	4,831	7,388	4,911	3,885	368	38,157
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									442
Nominal Tax Yield									38,599
Less Provision for Non-Collection - 4.22%									1,628
Council Tax Base 2008/09 - Number of Band D equivalents									36,971

Non Domestic Rate Income Account

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

2007/08 Actual £'000		2008/09 Actual £'000
30,653	Gross rates levied	24,928
	Less:	
(4,191)	Reliefs and other deductions	(4,407)
(9)	Payment of Interest	(223)
(192)	Provision for Bad and Doubtful Debts	(57)
26,261	Net Non-Domestic Rate Income	20,241
1	Adjustment for years prior to introduction of national non-domestic rate pool	1
6,909	Contribution from national non-domestic rate pool	14,816
33,171	Transfers to General Fund	35,058

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2008/09 £	2007/08 £
Industrial and freight transport subjects	3,311,290	3,384,840
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	41,625,892	39,817,777
Commercial subjects:		
Shops	10,666,800	10,794,190
Offices	4,648,320	4,693,060
Hotels, Boarding Houses etc.	7,381,625	7,218,505
Others	5,899,510	5,904,185
Formula valued subjects	297,564	297,432
Total Rateable Value	73,831,001	72,109,989

2. NON-DOMESTIC RATE CHARGE

	2008/09 Pence	2007/08 Pence
Rate Per Pound	45.8p	44.1p
Supplementary Rate Per Pound for Properties over £25,000	0.4p	0.3p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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



Group Income and Expenditure Account

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Reconciliation of the Single Entity Surplus to the Group Deficit

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Group Statement of Total Recognised Gains and Losses

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Notes to the Group Accounts

THIS PAGE IS INTENTIONALLY BLANK THE FULL GROUP ACCOUNTS WILL BE AVAILABLE ON THE DAY OF THE COUNCIL MEETING.

This statement is given in respect of the statement of accounts for Argyll and Bute Council for the financial year ended 31 March 2009. The statement also covers the other bodies whose activities are incorporated into our Group Accounts, i.e.

- Strathclyde Joint Police board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

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

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

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

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

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

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

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

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

- Implementation of the Council Improvement Plan approved in January 2009;
- Development of the Planning and Performance Management Framework including improved alignment of budgets and priorities, implementation of performance scorecards and embedding risk management;
- Implementation of the action plan on the Best Value Review of Strategic Finance which will further improve financial management and reporting;
- Improvements to arrangements for Asset Management including capital planning and monitoring;
- Improvement to project management based around use of Prince2 principles and a business case gateway approach;



Statement on Internal Control

- The ongoing development in accordance with the Code of Practice – Following the Public Pound;

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

Bruce West
Head of Strategic Finance
17 June 2009

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
26 JUNE 2009**

INTERNAL AUDIT ANNUAL REPORT 2008 - 2009

1. SUMMARY

Internal Audit has the responsibility to provide to the Audit Committee an Annual report that comments on the duties and audits carried out by the section throughout the financial year. The Annual Report for 2008 – 2009 is attached in Appendix 1.

2. RECOMMENDATION

2.1 That the Internal Annual Audit Report for 2008 - 2009 is approved.

3. DETAILS

3.1 The objective of the report attached in Appendix 1, is to advise members of internal audit standards, current practices and comment on the performance of Internal Audit throughout the financial year 2008 - 2009.

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

- Core Financial Audits;
- Non Core Financial Audits;
- Special Investigations/Contingency; and
- Other Areas.

The Assessment of Audit days for 2006 – 2007 Annual Audit Plan is provided in Appendix 2 and is a progress statement on the audits planned for 2008 – 2009.

4. CONCLUSION

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

5. IMPLICATIONS

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

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

Ian Nisbet
Internal Audit Manager 27 May 2006.
27Mayreport27May



Annual Internal Audit Report
2008 - 2009

June 2009

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APPENDIX 2

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1. FOREWORD

The annual audit plan for 2008 – 2009 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code'). As well as complying with the Code, Internal Audit has to comply with its Mission Statement and Terms of Reference, both of which have previously been approved by the Audit Committee and are outlined below.

2. INTERNAL AUDIT - MISSION STATEMENT

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

3. INTERNAL AUDIT - TERMS OF REFERENCE

Objectives

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

Scope

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

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

4. INTERNAL AUDIT – ACTIVITY AREAS

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

Core Financial Audits

In order to provide an opinion on the Council's internal controls, Internal Audit is required to take cognisance of the Council's main financial systems and their support systems. The main financial audit areas are:

APPENDIX 1

- Payroll Systems;
- Council Tax and Non-Domestic Rates;
- Main Accounting Systems;
- Creditor Payments Systems;
- Debtors
- Unified Benefits; and
- Asset Management.

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

Internal Audit in agreement with Grant Thornton UK LLP in 2008 – 2009 adopted the CIPFA Systems Based Audit (SBA) control matrices. This is a methodology developed by CIPFA for identifying weaknesses and risks in systems and evaluating the controls management have established, and for testing the controls to check they are working effectively in order to provide assurance to management.

The SBA control matrices cover the main fundamental financial systems such as creditors, debtors, payroll, etc. The adoption of the CIPFA control matrices is helping the section further develop its quality standards, compliance with the Code and enabling departments to gain from participating in the audit methodology. The introduction and use of CIPFA SBAs complements a goal set out in the 'Corporate Plan 2007 – 2011 and beyond' of introducing self assessment tools to strengthen the drive for continuous improvement.

The core financial audits undertaken in 2008 – 09 were selected using an Audit Needs Assessment methodology of risk ranking. These audits enabled Internal Audit to provide an assurance statement on the Council's overall internal control framework.

Non Core Financial Audits

The Code requires that Internal Audit not only audit financial systems controls but also other systems of management control used to ensure the Council's objectives are being properly managed. That control arrangements have been established and operate within the Council to ensure that the Council's core values are being addressed.

Internal Audit in complying with the Code, prepare this section of the annual audit plan incorporating high risk areas identified by all Heads of Service through an operational risk exercise. This exercise is supported by both the Corporate Services Department – Democratic Services and Governance section, and KPMG UK LLP. In addition, regular discussions take place with departmental Directors and Heads of Service in order to afford them the opportunity to identify any specific issues that would benefit from Internal Audit review.

The non-financial section of the strategic audit plan also recognises activities that require to be reviewed on an annual basis. These include corporate governance, computer audit, risk management, business continuity and statutory performance indicators. CIPFA has developed a number of systems based audit (SBA) control matrices for non financial control areas, and these were utilised in 2008 - 2009.

Contingency and Other Areas

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

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

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

Internal Audit Reporting

Audit Committee

In 2008 – 2009, the Audit Committee continued to be provided with responses from departmental management regarding recommendations that had not been implemented within agreed deadlines. This process provided the opportunity for the Audit Committee to focus its time on areas of non implementation by management of agreed external and internal audit recommendations. However, the process is becoming increasingly time consuming and efforts are under way to develop a reporting method that will integrate with Pyramid. Guidance from Grant Thornton UK LLP provided scope for the Audit Committee to develop its role further in terms of influence and responsibility which Internal Audit will continue to actively support.

The Audit Committee holds quarterly meetings at which they review:

- The annual internal audit programme in terms of audits planned and completed with the number of days expended;
- Internal Audit reports issued;
- The progress made by management in implementing external and Internal audit report recommendations; and
- Audit Commission national reports which report on issues pertinent to Local Authorities.

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

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

Auditees

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

APPENDIX 1

within an action plan recording management agreement to address the point within an agreed timescale. During the financial year Internal Audit as a result of a request by Grant Thornton UK LLP revised its evaluation criteria for the Auditee. This therefore changed the original importance classification from Fundamental, Material and Minor to High, Medium and Low. The definition for each grading classification is set out below: -

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

5. EXTERNAL AUDIT

The relationship operated by Internal Audit with the Council's External Auditors is one of joint working where we try to either avoid areas of duplication and in other areas work jointly on large system control issues. Consultations are held on a regular and informal basis to co-ordinate work. In particular this co-ordinated approach allows External and Internal Audit the opportunity to discuss major issues and agree a way forward, thus saving time and effort. In 2008 – 2009 External and Internal Audit, worked jointly on the Council's Statutory Performance Indicators and more joint working is planned in 2009 – 10.

On an annual basis External Audit carry out an evaluation of Internal Audit work, the outcome of which is published in their Annual Accounts report.

Grant Thornton UK LLP, the Council's External Auditors will place reliance on the work of Internal Audit in the following areas for 2008 - 09:

- IT audit, including reviews of data protection and information security;;
- Political governance;
- Corporate procurement;
- Budget monitoring;
- Grant claim reviews;
- National Fraud Initiative (NFI);
- Statutory Performance Indicators (SPIs);
- Council tax;
- Debtors;
- Asset management;
- Payroll; and
- Risk Management.

6. STATEMENT of INTERNAL CONTROL (SIC)

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

The SIC has 2 sections in which Internal Audit is required to give an opinion on the Council control environment. The first is on matters brought forward from last year. The second section is for any new matters arising in 2008 – 2009.

7. PROGRESS OF THE ANNUAL AUDIT PLAN 2008 – 2009

Strategic Audit Plan 2008 – 2009

During the preparation of the Strategic Audit Plan for 2008 – 11, meetings were held with Departmental Management Teams to discuss audit areas identified by our risk analysis process, and obtain feedback with regard to how Internal Audit could improve delivery.

With regard to Core Financial Audits, management requested that consideration be given to how audit days were allocated. In response and with the agreement of Grant Thornton UK LLP, Internal Audit introduced interim and full audits linked to the CIPFA Systems Based Audit (SBA) control matrices for 2008 - 11.

The introduction of the CIPFA Systems Based Audit (SBA) control matrices in 2008 – 09, has allowed Internal Audit to broaden its audit approach within a defined quality methodology. Using the SBA approach has allowed focus on financial control, service delivery, and risk identification along with performance improvement. The use of the SBA approach will also support the development of a Code of Governance which will be additional to the Statement of internal Control in 2009 - 10.

A total of 34 audits were planned for the financial year 2008 – 09 and these were allocated into the following categories:

- 19 Core Financial Systems Audits and
- 15 Non Financial Audits.

Adjustments were made to annual plan and these were reported to the Audit Committee as they occurred, with the Annual Audit Plan for 2008 – 2009 effectively delivered by the end of May 2009.

With regard to Special Investigations, 100 estimated direct audit days were allocated within the plan however, only one day was expended. This resulted in a balance of 99 audit days unused. It should be recognised that if investigations work had arisen during the financial year then, additional contract audit resources would have been obtained. After a fallow year in 2008 – 09 already 2 special investigation assignments are under way in 2009 – 10.

The Other Areas section of the Annual Audit Plan saw continued involvement of Internal Audit resources being deployed in Follow Up activities both in terms of gathering from management evidence of recommendation implementation but also in preparing exception reports for the Audit Committee.

APPENDIX 1

Appendix 2, lists all audits planned by Internal Audit for the financial year 2008 – 09 inclusive of reported changes. Throughout 2008 - 09, Internal Audit resources were under pressure due to days lost as a result of secondment and an unfilled post. Additional resource was brought in to address the position through the engagement of additional contract auditors, the allocation of 4 audits to KPMG UK LLP and the employment of another Trainee Accountant. This allowed the annual audit plan to be delivered in terms of audits planned.

Resource Allocation 2008 – 2009

On the 27th of March 2008 the annual internal audit plan was presented and approved by the Audit Committee. This outlined an estimated direct audit day total of 1,105. This figure was reduced by the following factors:

- Secondment of an Internal Audit Manager to the Shared Services Diagnostic team from April to August 2008. This reduced estimated direct audit days by 93.
- One Trainee Accountant resigned in June 2008 and was not replaced until the first week in January 2009. This reduced the estimated direct audit days by a further 129.

In order to correct the shortfall, the decision was taken to engage additional contract auditor days. This added 91 days back into the estimated direct audit days. KPMG UK LLP was assigned 4 audits from the annual audit plan. They were as follows:

- Computer Audit – Help Desk;
- Budgetary Preparation and Control;
- Capital Contracts; and
- Risk Plan Testing.

KPMG UK LLP assigned 15 days to each of the 4 audits. This allocation of audit days was compatible with 2 of the audits at 15 days each. The remaining 2 audits had 28 and 30 days assigned to them in the annual plan. As a result 28 days were reduced for the number of original estimated days for the 2 audits of 13 and 15 days respectively. This reduction of 28 audit days was reported to the Audit Committee on the 6th of March 2009, as a revised estimated audit day total of 1,077, from the original figure of 1,105.

Within the overall annual plan, 28 direct audit days was set aside for computer audit under a separate heading in the estimated direct audit day total of 1,105. The engagement of an external party was envisaged for the computer audit work. KPMG UK LLP carried out the computer audit work and another 3 audits. Therefore out of the total of 60 days provided by KPMG UK LLP, 28 days were already included within the original estimated audit day total resulting in KPMG UK LLP providing an additional 32 direct audit days. In total 978 actual audit days were delivered. The table below provides the final total of direct audit days expended in 2008 – 09.

2008 - 2009	Days Lost/Added	Sub- Total	Reported TOTAL
Original Estimated Audit Days			1,105
Reduction in direct audit days reported March 6 th to Audit Committee.	-28		
New Revised Estimated Audit Days			1,077
Secondment Manager	-93		
Resignation of Trainee Accountant	-129	855	
Extra Contract Auditor Days	+91		
Additional KPMG UK LLP days	+32		
Total Actual Audit Days Expended		978	
Special Investigations/Contingency Days Balance Total		99	1,077

Audit Opinion

Based on audit work carried out in 2008 – 2009 by Internal Audit, I am of the opinion that from the audit work carried out by Internal Audit, except for the matters listed in my Statement of Internal Control (SIC) that the Council's systems provide reasonable assurance regarding the effective and efficient achievement of the Council's objectives. Audit reports have indicated certain matters which are currently being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented. Additional assurance has been given in my SIC which is the subject of a separate report to the Audit Committee.

In conclusion, the Annual Audit Plan for 2008 – 2009 was completed for the end of May 2009, with finalisation of remaining draft reports imminent. Appendix 2 indicates that in total 913 direct audit days for both core and non core audits were expended. This indicates that 41 days were expended over that budgeted. This was in part due to the Trainee Accountants assisting on audits. The Audit Committee is asked to accept the assurances provided by Internal Audit, based on the audit work completed in 2008 – 2009.

8. AUDIT ANALYSIS of 2008 - 2009

Apart from the reported deferment of one audit and its replacement by another plus other adjustments, the planned work programme has been completed and in particular:

- Quarterly reports have been prepared for the Audit Committee advising of progress with the Annual Audit plan;
- Joint audit work was completed between Internal Audit and Grant Thornton UK LLP;
- The percentage of audits carried out by qualified staff in 2008 – 2009 remained the same as in 2007-2008. This was as a result of 2 Trainees being recruited.; and
- Analysis of returned client questionnaires indicated that an average approval score of 3.7 has been achieved by Internal Audit in 2008 – 2009. The highest achievable approval score is 4.

9. INTERNAL AUDIT PERFORMANCE MEASUREMENT

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

- **6 Input;** and
- **5 Output** indicators.

The tables below set out the performance for both sets of indicators for 2008 - 09. A comment has been made for each performance indicator. Internal Audit will strive to maintain the quality standards achieved and will endeavour to make improvements.

APPENDIX 1

INPUT PERFORMANCE MEASURES 2008 - 2009

Ref	Performance Indicator	Target	Performance in 2008- 2009	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%	68%	This percentage figure has remained the same as last year and is reflective of the 2 Trainee Accountants.
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%	82.4%	The percentage figure achieved has fallen short of the 100% target due to the issue of 4 audit reports by KPMG UK LLP after the 10 day period. KPMG experienced internal difficulties which resulted in the late release of the 4 reports. This has resulted in the 100% figure not being achieved.
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	100%	Achieved.
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion; contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.	100%	As last year all of the target requirements have been met.
5.	Management's feed back on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (i.e.: a mean score of '3' or more for each question	3.7	Management are asked to provide an opinion on the work carried out by Internal Audit and it can be reported that the level of achievement has risen from last year's figure of 3.4. This represents good performance for the section given the resource issues faced throughout the year.
6.	Percentage of direct audit time expended against planned.	Target 81%	76%	This percentage figure has remained the same as last year.

APPENDIX 1

OUTPUT PERFORMANCE MEASURES 2008 - 2009

Ref	Performance indicator	Target	Performance in 2008- 2009	Comment
1.	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)	Achieved	The Strategic Audit Plan for 2008 – 11 was presented to the Audit Committee as was the 2008 - 09 Annual Audit Plan on the 6 th of March 2008.
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year	Achieved	Follow-ups are carried out as a routine task for the quarterly meetings of the Audit Committee and Strategic Management Team (SMT).
3.	Completion of the Annual Audit Plan subject to variations agreed by Audit Committee, and if appropriate, Audit Managers.	100%	Achieved	The planned audits in the Annual Audit Plan have been completed. There was deferment of a planned audit for Transportation to 2009 – 2010 which was replaced by a Procurement audit. There are audits remaining for which Draft reports have been issued and their finalisation is imminent.
4.	Recommendations accepted compared to recommendations made.	Fundamental/High – 100% Material/Medium – 100% Minor/Low – 100%	Achieved Achieved Achieved	During the financial year Internal Audit as a result of a request by Grant Thornton UK LLP revised its evaluation criteria and has agreed to rank audit recommendations in terms of importance as High, Medium and Low.
5.	Internal audit costs are within budget (including in-year budget variations)	Total costs were within budget.	Achieved	Achieved.

APPENDIX 2

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	2007-08	2	15	15	9	6
Tendering Procedures	2007-08	1	15	15	18	-3
Stocktaking/ Work in Progress	2007-08	2	25	25	18	7
Treasury Management	2007-08	2	15	15	14	1
Government & European Grants	2007-08	1	35	35	30	5
Car Allowances	2007-08	2	15	15	18	-3
Purchasing	2007-08	2	15	15	13	2
Cash Income and Banking	2007-08	2	40	40	39	1
Capital Accounting	2007-08	1	15	15	12	3
Council Tax and Non-Domestic Rates	2007-08	2	40	40	40	0
Debtor Accounts	2007-08	2	15	15	16	-1
Payments to Voluntary Bodies (Following the Public Pound)	2007-08	2	15	15	16	-1
General Ledger Operations	2007-08	2	15	15	14	1
Asset Management	2007-08	1	40	40	37	3
Budgetary preparation and control	2007-08	1	15	15	18	-3
Capital Contracts - Assigned to KPMG LLP	2007-08	1	15	15	18	-3
Contract Hire and Operating Leases	2007-08	2	15	15	15	0
Unified Benefits System	2007-08	2	40	40	61	-21
Payroll	2007-08	2	40	40	48	-8
Section Total			440	440	454	-14
Non-financial Audits						
Complete						
Performance Indicators/Single Outcome Agreement	2007-08	1	52	52	36	16
Corporate Governance ICS	2007-08	1	30	30	36	-6
Health & Safety	2007-08	1	30	30	32	-2
Procurement for Fleet	2007-08	1	30	30	32	-2
Procurement Processes for Catering	2007-08	2	30	30	34	-4
Recruitment and Retention of Staff	2007-08	1	20	20	34	-14
Stress Management Exercise	2007-08	1	30	30	29	1
New Legislation	2007-08	1	30	30	27	3
Computer Audit	2007-08	2	28	15	26	-11
Pre-School Education Provision	2007-08	1	30	30	31	-1
SW Commissioning & Contracting	2007-08	2	30	30	29	1
Parking Income	2007-08	1	30	30	35	-5
Department Risk Plan Testing	2007-08	1	30	15	18	-3
Department Business Continuity Plan Testing	2007-08	1	30	30	30	0
Policy & Strategy - Best Value	2007-08	1	30	30	30	0
Section Total			460	432	459	-27
Actual Direct Audit Time			900	872	913	-41
Special investigations contingency						
Council Wide	-	-	100	100		99
Chief Executive's Unit					1	
Community Services						
Corporate Services						
Development Services						
Operational Services						
Section Total			100	100	1	99
Other Areas						
Follow-up External & Internal Audit Management Letter Points			85	85	54	31
Risk Assessment, Strategic Plan, Annual Plans			20	20	10	10
Section Total			105	105	64	41
TOTAL			1105	1077	978	99

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
26 JUNE 2009**

ANNUAL REPORT BY 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 further revised in 2006. In May 2007, Grant Thornton UK LLP the Council's external auditors carried out a Code compliance review. This resulted in a report with recommendations. One recommendation required the Audit Committee to produce an Annual Report to the Council. This report summarises the work of the Audit Committee during the year and outlines its view of the Council's internal control framework, risk management and governance arrangements. The annual report is attached in Appendix 1.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and approved by the Audit Committee for submission to the Council.

3. DETAILS

3.1 Following the Council's external auditor recommendation that the Audit Committee prepare an annual statement, attached in Appendix 1, is the statement for the financial year ended 31 March 2009.

3.2 Over the past year, the Committee has evolved an agreed framework of reporting which now allows immediate assessment of the Council's progress in addressing identified issues of governance, risk management and internal control. With a solid base established in this regard, the Committee is now moving to a more pro-active posture on the Council's operations.

3.3 Having now established a mechanism for post completion audits on capital projects, the Audit Committee will be involved in the selection of projects to be reviewed and reported on by Internal Audit.

3.4 The inception of the Single Outcome Agreement, the move to stage two of Best Value and the increasing emphasis on self assessment, identify the Audit Committee as an important resource for the Council in addressing these challenges.

3.5 Over the past year the Committee has identified a process which will allow a formal audit and assessment of its own efficacy. This is the subject of a separate report to the Audit Committee by KPMG UK LLP.

4. CONCLUSIONS

The Audit Committee is in good heart and relishing its role and contribution. The annual report has been prepared and is attached in Appendix 1.

5. IMPLICATIONS

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

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

25mayfinalreport25may 25th May 2009

DRAFT

Annual Report by Audit Committee for the Financial Year 2008 - 2009

Background

Grant Thornton UK LLP, External Auditors, have evaluated the extent to which the Council's Audit Committee arrangements complied with the principles set out in the CIPFA guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note" and found that the Audit Committee operated effectively and complied with the majority of good practice principles outlined in the CIPFA guide. 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.

The evaluation determined that although the Audit Committee Terms of Reference presently met many of the best practice guidelines set out under CIPFA guidance, further improvements could be made.

Grant Thornton UK LLP also provided recommendations in their resultant Interim Management Report of 30 September 2008 and identified areas of development for the Audit Committee namely, self assessment, the establishment of an annual work and training plan, and further development of the Audit Committee Terms of Reference.

Terms of Reference of the Audit Committee

Draft Terms of Reference were submitted to the Audit Committee meeting on 12 December 2008, updated and presented again on 6 March 2009 and agreed. The amended version included a section on Performance and clarified the Committee's role to oversee the production of the Council's Statement of Internal Control.

In addition, the Committee agreed that:

- The Director of Corporate Services be requested to include these Terms of Reference in the revised Council Constitution to go to the Council for approval, and
- The Terms of Reference will be reviewed annually by the Committee.

The Terms of Reference are included as Appendix 1 to this report, and were approved by Council on 22 May 2009.

Self Assessment

In complying with CIPFA guidelines, it is recognised that the Audit Committee will need to identify, prioritise, assess, scope and plan out a programme to achieve their training needs. This will be informed by identifying key tasks that the Audit Committee have to annually undertake. A report setting out a self assessment

checklist and workplan framework was presented to the Audit Committee in December 2008 by Internal Audit.

The checklist template had been extracted from the Chartered Institute of Public Finance report, "A Toolkit for Local Authority Audit Committees," amended for Scotland, and the work plan framework template provided an initial document to enable the Audit Committee to look at developing an annual workplan with key events and meetings recorded.

It was agreed to consider a self assessment exercise at a separate meeting outwith the cycle of Audit Committee meetings. A further report setting out the proposed template of activities and issues for consideration prior to this self assessment exercise was considered on 6 March 2009 along with a report from KPMG UK LLP providing a suggested way to take this forward. A workshop facilitated by KPMG UK LLP to consider further the work and training plan, terms of reference and self assessment exercise was arranged for 29 May 2009. The results of which is the subject of a separate report from KPMG UK LLP.

It was also agreed by the Audit Committee on 6 March 2009 that a presentation on the introduction of International Financial Reporting Standards into Scottish Local Government prepared by the Head of Strategic Finance would be presented to the Audit Committee at the workshop on 29 March 2009.

On 26 February the Audit Committee visited East Renfrewshire to attend a meeting of their Audit Committee. This provided an opportunity to compare political and operational arrangements for a Council with a similar population but very different geographical area.

Summary of the work of the Audit Committee during 2008/2009

The composition of the Audit Committee has been virtually unchanged throughout 2008/2009 with only Councillor Ron Simon resigning and being replaced by Councillor Andrew Nisbet from 12 December 2008. Ian Ross acted as Chair, with Christopher Valentine acting as Vice-Chair, throughout the year.

The Audit Committee meets quarterly i.e. March, June, September, and December; and are normally also attended by the Head of Democratic Services & Governance, the Head of Strategic Finance, the Internal Audit Manager and Grant Thornton, the Council's external auditors together with officers requested to attend by the Audit Committee.

The Audit Committee agreed at their meeting on 12 December 2008 that a draft of their annual report will be considered by the Committee at their June meeting with the final report submitted to their September meeting for approval.

During the year various reports are submitted to the Audit Committee. The reports are;

- The 3 Year Strategic Audit Plan (every 3 years);
- The Internal Audit Annual Plan;

- Progress Report on Internal Audit Plan
- Internal Audit Annual Report
- External and Internal Audit Report Follow up
- Review of Internal Audit by Grant Thornton
 - Risk Management and Business Continuity Strategy
- Summary of Quarterly Performance Reports
- Annual Audit Plan for External Auditors
- Annual Accounts – Financial Statements
- External Audit reports
- National Reports from Audit Scotland / Accounts Commission
- Briefing note on Performance of Strathclyde Pension Fund
- Update on Legal Services Review

In addition, the Audit Committee has requested reports from Officers as a result of issues arising from Internal Audit follow up reports, Quarterly Performance reports etc.

The Audit Committee have, after reviewing the reports submitted to them, requested updates where they have concerns about issues arising from the reports. Management have been requested to prepare reports and attend the Audit Committee in person to provide explanations.

The Audit Committee robustly challenged and investigated failures to meet agreed actions in response to audit findings.

The Audit Committee also requested explanations on performance as detailed in the Quarterly Performance Reports.

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 of 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. A report with a proposed Internal Audit Secondment policy was considered and approved by the Audit Committee on 19 September 2008.

Audit Committee's views on the internal control framework, risk management and governance arrangements

It is the opinion of the Audit Committee that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2009.

The Council is making good progress in risk management with further development and regular review of Strategic and Operational Risk Registers and Business Continuity Plans.

Conclusion

The terms of reference which guide the activities of the Audit Committee are soundly based and are being reviewed and revised as necessary on an annual basis. The Committee has evolved an agreed a framework of reporting which now allows immediate assessment of the Council's progress in addressing identified issues of governance, risk management and internal control. With a solid base established in this regard, the Committee is now moving to a more pro-active posture on the Council's operations.

The evolution of the wider performance environment of the Single Outcome Agreement, and the move to phase two of Best Value place an increasing emphasis on self assessment, which identifies the importance of the Audit Committee as a Council resource in addressing these new challenges.

A mechanism having now been established for post completion audits on capital projects, it has been agreed that the committee will be involved in the selection of projects to be reviewed and reported on by Internal Audit.

Progress is being made to enable the Committee to identify a process which will allow a formal audit and self assessment of its own efficacy.

The committee is in good heart and relishing its role and contribution.

APPENDIX 1

ARGYLL and BUTE COUNCIL

Audit Committee – Terms of Reference

The Committee's Terms of Reference are generally to promote good internal control, financial management, risk, governance and performance management, in order to provide reasonable assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.

The specific terms of reference are as follows –

Audit Activity

- To agree the internal audit strategic plan, oversee and review action taken on internal audit recommendations;
- To consider the annual report, opinion, and summary of Internal Audit activity (actual and proposed) including the level of assurance it can give over the Council's corporate governance arrangements and other specific internal audit reports;
- To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance and other specific External Audit reports;
- To comment on the scope and depth of External Audit work and to ensure it gives value for money;
- To commission work from Internal and External Audit;
- To consider the performance of Internal and External Audit;
- To facilitate training to support the role of Audit Committee Members;
- To develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability;
- To promote good financial practice within the Council;
- To be consulted on the External Audit strategy and plan, review reports from the Council's External Advisors and review action on External Audit recommendations; and
- To review the Council's financial performance as contained in the Annual Report, and to report annually to the Council on the internal control environment.

Regulatory Framework

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- To monitor the effective development and operation of risk management and corporate governance in the Council;
- To monitor the Anti fraud and corruption strategy and the Council's arrangements for dealing with any allegations of fraud or similar improper behaviour;

- To oversee the production of the Council's Statement on Internal Control; and
- To consider the Council's compliance with its own and other published standards and controls.

Accounts

- To examine the activities and accounts of the Council and exercise a governance role over management efforts to ensure that;
 - (a) The expenditure approved by the Council has been incurred for the purposes intended;
 - (b) Services are being provided efficiently and effectively;
 - (c) Value for money is being obtained, all in accordance with Best Value requirements; and
 - (d) The Council/Executive has appropriate information and advice available to them to make decisions.
- To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council; and
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Performance

- To promote good performance management practice within the Council;
- To assess the effectiveness of the Council's Performance Management System;
- To regularly review outputs from the Council's performance management system;
- To consider performance and inspection reports from internal audit, external audit and other relevant agencies;
- To commission specific performance reviews to be carried out where necessary;
- To review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;
- To overview key performance indicator outcomes, including quarterly service performance reporting and Statutory Performance Indicator outcomes;
- To comment on proposals for developing a performance management framework, systems and processes; and
- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans for performance work to be undertaken by both external and internal audit

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
26 JUNE 2009**

AUDIT SCOTLAND NATIONAL 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 and further revised in 2006 sets out good practice in delivering internal audit services. Grant Thornton UK LLP, in May 2007 carried out a Code compliance review and in their resultant report recommended that external audit reports (including Audit Scotland reports) be reported to the Audit Committee. Attached in Appendix 1 is the most recent report from Audit Scotland.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 On the 26th of February 2009 the Accounts Commission released a report entitled, "Overview of the local authority audits 2008". The annual overview report on local government looks at how councils performed in 2008, how they plan and deliver services and how they use resources. It also identifies priorities and risks that will be tracked during 2009.

The Accounts Commission conclude that there is evidence of improving services, but councils face significant challenges from the recession and financial pressures, and in making partnership working achieve its full potential. The key areas for improvement are:

- Performance management and monitoring
- Culture
- Competitiveness of key services
- Shared services
- Making partnership working real and effective
- Continuous development of elected members

The key messages from this report are attached in Appendix 1.

3.2 Audit Scotland on the 26th of March 2009 published a report entitled, Drug and alcohol services in Scotland, providing further evidence of Scotland's growing problem with drug and alcohol misuse. Drug and alcohol-related death rates are among the highest in Europe and have doubled in the past 15 years. The report says the Scottish Government needs to work with the NHS, councils and other partners to ensure all public bodies are clear about their collective responsibilities. Last year the public sector in Scotland spent £173 million directly on drug and alcohol services for prevention, treatment and enforcement activities. The wider costs to society are estimated at £5 billion a year, including costs associated with drug and alcohol-related crime, hospital admissions, and workplace absences. The key messages from this report are attached in Appendix 2.

- 3.3 Asset Management has in recent years become a high profile aspect of Public Sector management and local authorities have been subjected to increasing government pressure to ensure good practice in this area. Within Argyll and Bute Council the 2007/08 Internal Audit plan included a major capital audit to identify general good practice, compare this to current practice and set out a list of actions required to achieve a good practice performance. The review listed a large number of actions and matters for consideration. A further review was carried in 2008/09 by Internal Audit, with the objective of setting out a structured action plan that can be assessed with timescales, targets and resources.
- 3.4 This work has been timely as the Accounts Commission issued a report on the 7th of May 2009 entitled, "Asset management in local government", following their study to evaluate the extent to which councils manage their assets. Their report urges councils to take a serious look at their property across all services and put together a long term plan that addresses both the immediate and the long term needs of a council. The key messages from this national report are attached in Appendix 3.
- 3.5 The full reports can either be viewed at http://www.audit-scotland.gov.uk/work/local_national.php 2008/09 and 2009/10 or viewed in the Members room where copies of the above reports are available for review.

4. CONCLUSIONS

This report is 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 604216). 18mayfinalreport18may

Overview of the local authority audits 2008



 AUDIT SCOTLAND

Prepared for the Accounts Commission
February 2009

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- Issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 41 joint boards (including police and fire and rescue services). Local authorities spend over £19 billion of public funds a year.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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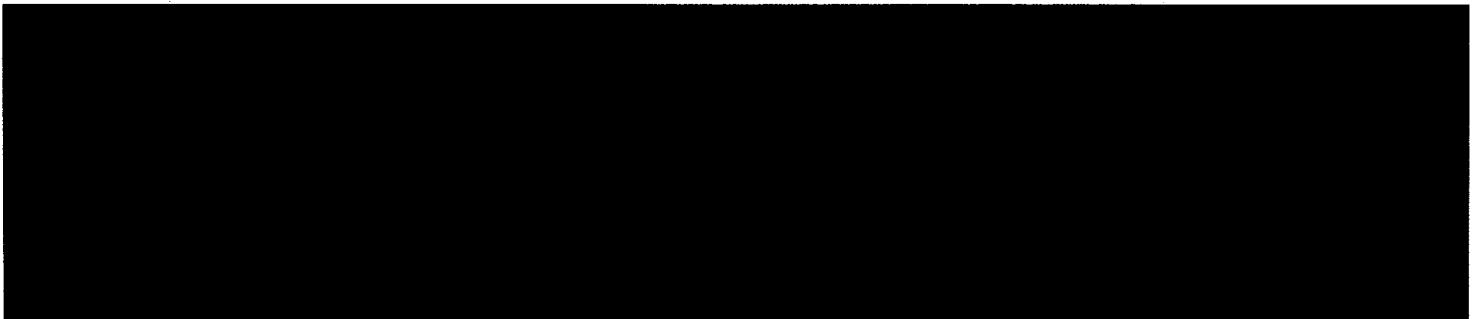
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Commission findings



The Commission acknowledges the progress achieved and considers it crucial that councils now focus on key areas to meet the significant challenges they face.



The Commission welcomes the evidence of improving local authority services across a range of areas. However, this latest report has been produced at a time when councils face significant challenges in dealing with fast changing economic circumstances and financial pressures, and in implementing Single Outcome Agreements with community planning partners.

We acknowledge the progress achieved and consider it crucial that councils now focus on a number of key areas to ensure they are fully equipped to address these challenges. In particular, we urge them to take action on the following matters:

- Performance management and monitoring – the focus on outcomes does not remove the need for good management processes and robust information about the quality, cost, accessibility and value for money of services.
- A culture of continuous improvement – councils should ensure that there is a strong culture of continuous improvement across services, with an even greater emphasis on efficiency and the effective use of resources.
- Competitiveness of key services – it is essential that councils take a more systematic and rigorous approach to demonstrating service competitiveness and value for money, by market testing activities and by making more use of benchmarking and other comparative information.
- Shared services – we are disappointed at the slow progress in securing efficiencies from shared service initiatives and, in light of the continuing financial pressures, all councils should consider this as a high priority.

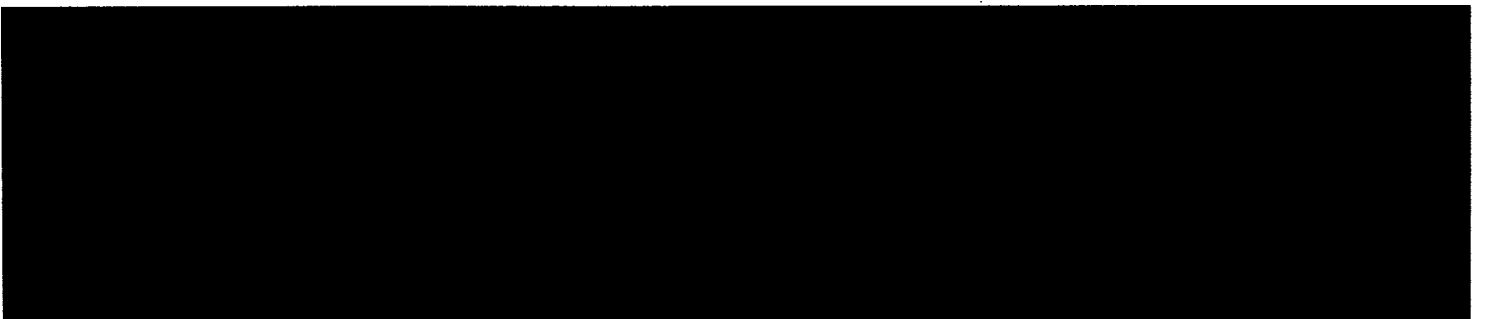
- Making partnership working real and effective – the development of Single Outcome Agreements is a challenge for councils and their partners and will require further and quicker development of accountability, governance and public performance reporting arrangements.
- Continuous development of elected members – personal development is now established as essential to support elected members in carrying out their demanding and complex roles. All councillors should have a personal development plan which sets out training needs and progress.

Action by local authorities in response to these findings will contribute to improved public services for the people of Scotland. This also depends, however, on corresponding improvements by other public bodies and the Commission hopes that these bodies will address these matters, particularly in relation to partnership working and shared services.

Summary



This report provides an overview of the main issues identified from our local government audit work in 2008.



1. This report provides an overview of the main issues identified from our local government audit work in 2008, which includes:

- annual audits of the 32 councils and 41 other local authority bodies, such as police and fire and rescue authorities
- Best Value audit reports on Aberdeen City, Aberdeenshire, Falkirk, Midlothian, North Lanarkshire, Orkney Islands and Perth & Kinross, and the progress report on Argyll & Bute
- statutory reports on property transactions at Aberdeen City and on audit qualifications at Aberdeen City and Shetland Islands
- Statutory Performance Indicator (SPI) information published in December 2008
- national performance study reports on the schools estate, the national fraud initiative, fire and rescue authorities, the impact of the race equality duty and on energy efficiency.

2. The report also draws on a range of other sources and seeks to highlight issues of general importance for the local government sector in Scotland. It is organised in five parts:

- Part 1. The national context sets the scene.
- Part 2. Supporting continuous improvement looks at the role of elected members and senior managers in leading and directing councils.
- Part 3. Using resources considers how councils manage money, people and property.
- Part 4. Service performance looks at aspects of service delivery.

- Part 5. Looking ahead considers the key issues facing councils and how audit will support public scrutiny.

Key messages

- At a time of increasing demands on services, councils face difficult decisions in allocating resources and providing financially sustainable services. Current economic conditions necessitate even greater emphasis on efficiency and the effective use of resources.
- The outcomes-based approach is developing, and Single Outcome Agreements (SOAs) should now be the main vehicle for councils and their partners to plan and achieve better outcomes for their communities and continuous improvement in their services. The SOAs bring new challenges for councils in governance, public accountability and performance management.
- The effectiveness of governance and accountability has a direct impact on the quality of services. Development is essential to support elected members in carrying out their complex role and to enhance governance and scrutiny. Effective performance management has been a requirement under Best Value for some time, and it is now critical to support SOA implementation and development.
- Councils generally reported a better financial position than predicted for 2007/08, mainly due to underspending in some services and lower than expected financing costs. However, they continue to face significant financial pressures and some councils are experiencing difficulty in maintaining reserves in line with their policies. Those councils

that have yet to implement single status need to do so as a matter of urgency.

- Evidence from sources, including the Statutory Performance Indicators and audit and inspection reports, indicates that services are improving across a range of areas.
- We are committed to developing more risk-based and proportionate scrutiny of local government with our partners in the inspectorates, and this is fundamental to the development of Best Value 2. The annual financial audits are increasingly important in the current economic environment, providing independent assurance on the financial position and on financial governance and management.

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COMMENTS ON OVERVIEW OF LOCAL AUTHORITY AUDITS 2008

Audit Scotland have published an overview of their findings from the audits on local government for 2007-08. This note picks out the key messages in each section of the Audit Scotland report and identifies the position or action in Argyll and Bute. In general terms the Council has already identified the important issues flagged by Audit Scotland and put arrangements in place to develop/improve these. There is an element of repetition as some of the actions in place/planned by the Council cover more than one of the key messages.

Ref No.	KEY Messages	ARGYLL & BUTE COMMENT
1	At a time of increasing demands on services, councils face difficult decisions in allocating resources and providing financially sustainable services. Current economic conditions necessitate even greater emphasis on efficiency and the effective use of resources.	Revised efficiency plan for 2009-10 to 2012-13 and more strategic approach to budget being developed.
2	The outcomes-based approach is developing, and Single Outcome Agreements (SOAs) should now be the main vehicle for councils and their partners to plan and achieve better outcomes for their communities and continuous improvement in their services. The SOAs bring new challenges for councils in governance, public accountability and performance management.	The Improvement Plan contains commitments to implement revised governance structures for Community Planning and implement the PPMF for Community Planning.
3	The effectiveness of governance and accountability has a direct impact on the quality of services. Development is essential to support elected members in carrying out their complex role and to enhance governance and scrutiny. Effective performance management has been a requirement under Best Value for some time, and it is now critical to support SOA implementation and development.	Council has developed PPMF and performance scorecards will be in place during 2009-10. This includes implementing performance scorecards for Community Planning.
4	Councils generally reported a better financial position than predicted for 2007/08, mainly due to under spending in	Single status already implemented. General fund contingency maintained for 2008-

	<p>some services and lower than expected financing costs. However, they continue to face significant financial pressures and some councils are experiencing difficulty in maintaining reserves in line with their policies. Those councils that have yet to implement single status need to do so as a matter of urgency.</p>	<p>09. Overall costs contained within overall budget for 2008-09 but there are clear areas of significant pressures. Financial outlook being monitored.</p>
5	<p>Evidence from sources, including the Statutory Performance Indicators and audit and inspection reports, indicates that services are improving across a range of areas.</p>	<p>The Council has received positive feedback from both follow up inspections in Education and Social Work. In terms of SPI's the follow up report on best value contained the following:</p> <p>“Between 2005/06 and 2007/08, the council's performance improved by five per cent or more on 24 measures and worsened by five per cent or more on 16 measures. This gives a ratio of improvement to decline of 1.5. This compares to a ratio of improvement to decline of 0.77 at the time of our original audit in 2005. We are not yet in a position to compare this against the national average for the latest SPIs. However, between 2004/05 and 2006/07 the national average for the ratio of improvement to decline was 1.4”.</p>
6	<p>We are committed to developing more risk-based and proportionate scrutiny of local government with our partners in the inspectorates, and this is fundamental to the development of Best Value 2. The annual financial audits are increasingly important in the current economic environment, providing independent assurance on the financial position and on financial governance and management.</p>	<p>Noted.</p>
7	<p>Local government has a key community leadership role and provides a range of vital social and economic services. Increasing costs, demands from service</p>	<p>Revised efficiency plan for 2009-10 to 2012-13 and more strategic approach to budget being developed</p>

	users and the focus on national priorities are leading to increasingly difficult decisions for councils in allocating resources and are necessitating an even greater emphasis on efficiency and the effective use of resources.	
8	The concordat between the Scottish Government and COSLA provides the basis for a new relationship between central and local government. Single Outcome Agreements (SOAs) are developing and bring new challenges for councils and their partners in governance, public accountability and performance management.	The Improvement Plan contains commitments to implement revised governance structures for Community Planning and implement the PPMF for community Planning.
9	The outcomes-based approach, embodied in SOAs, makes it more important than ever that councils and their partners work together to achieve continuous improvement in their services and for their communities. There is still a good deal to be done to make sure SOAs fulfil their potential, in terms of planning and securing improvements on both high-level strategic priorities set out in SOAs and in supporting services provided by councils and their partners. Accountability and governance, performance management, and public performance reporting in particular, will need further development during 2009.	The Improvement Plan contains commitments to implement revised governance structures for Community Planning and implement the PPMF for community Planning.
10	Effective performance management has been a requirement under Best Value for some time and is now critical to support SOA implementation and development.	Council has developed PPMF and performance scorecards will be in place during 2009-10. This includes implementing performance scorecard for community Planning.
11	Councils need to be more systematic in consulting communities and could make better use of area committee structures where these are in place. In general, they need better information about the make-up of their communities and their needs.	Developing a community engagement strategy as per Improvement Plan. Customer satisfaction and feedback is one aspect measured in the performance scorecard. The Improvement Plan contains a

		commitment to develop an external and internal communications strategy.
12	Leadership by elected members and senior officers is central to creating a culture that promotes improvements in outcomes for communities. Development is essential to support elected members in carrying out their complex role and to enhance governance and scrutiny.	An extensive training programme for members was delivered after the 2007 election. Members will receive training on PPMF and performance scorecard.
13	Councils generally reported a better financial position than predicted for 2007/08, mainly due to under spending in some services and lower than expected financing costs. However, they continue to face significant financial pressures, particularly from workforce costs and service demands in education, social work and waste management.	Single status already implemented. General fund contingency maintained for 2008-09. Overall costs contained within overall budget for 2008-09 but there are clear areas of significant pressures. Financial outlook being monitored.
14	General Fund reserves have increased but around two- thirds of the amounts held are earmarked for future expenditure. Some councils are experiencing difficulty in maintaining reserves in line with their policies.	Council has successfully maintained its general fund contingency.
15	There is continuing slippage in capital spending. The current economic position means it is more difficult for councils to generate income from the disposal of property to finance capital and they may have to reassess their capital programmes.	The Council incurred slippage of £4.5m during 2007/08 out of a budget of £22.1m.
16	More work is required to develop a strategic and corporate approach to the management of operational assets linked to financial strategies and plans.	Revised remit for Asset Management Board and commitment to deliver improved asset management in Improvement Plan.
17	Councils have been slow to develop workforce management plans because of their focus on single status and dealing with equal pay claims. Those councils that	Single status implemented. Commitment and Improvement Plan to implement HR Strategy, develop Employee Development

	have yet to implement single status need to do so as a matter of urgency.	<p>Strategy and begin Workforce Planning in terms of</p> <ul style="list-style-type: none"> • review and extend Growing Our Own • Protocol for chief officer appointment • Develop recruitment strategy
18	Councils are giving more emphasis to the needs of the people who use their services. They are making progress in improving customer care but there needs to be more consistency across service areas.	<p>Developing a community engagement strategy as per Improvement Plan. Customer satisfaction and feedback is one aspect measured in the performance scorecard.</p> <p>The Improvement Plan contains a commitment to develop an external and internal communications strategy.</p>
19	Evidence from sources, including the Statutory Performance Indicators and audit and inspection reports, indicates good services across a range of areas.	<p>The Council has received positive feedback from both follow up inspections in Education and Social Work. In terms of SPI's the follow up report on best value contained the following:</p> <p>“Between 2005/06 and 2007/08, the council's performance improved by five per cent or more on 24 measures and worsened by five per cent or more on 16 measures. This gives a ratio of improvement to decline of 1.5. This compares to a ratio of improvement to decline of 0.77 at the time of our original audit in 2005. We are not yet in a position to compare this against the national average for the latest SPIs. However, between 2004/05 and 2006/07 the national average for the ratio of improvement to decline was 1.4”.</p>

20	Councils generally respond positively to findings from audits and inspections and seek to address areas highlighted as in need of improvement.	Noted
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Key messages

Drug and alcohol services in Scotland



Prepared for the Auditor General for Scotland and the Accounts Commission
March 2009

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Government or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Government and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- directorates of the Scottish Government
- government agencies, eg the Prison Service, Historic Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

Note:

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.

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 41 joint boards (including police and fire and rescue services). Local authorities spend over £19 billion of public funds a year.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Acknowledgements:

Audit Scotland would like to thank everyone who provided information and assisted us with this study.

Sally Thompson managed the project, with support from Mike McCarron (consultant), under the general direction of Claire Sweeney.

Key messages

Background

1. The impact of drug and alcohol misuse in Scotland is widespread. Both individuals and society more widely are affected in terms of health, child protection, crime, community safety, housing, employment and social exclusion. Drug and alcohol misuse are problems across the whole of Scotland but particularly affect people living in deprived areas.¹

2. The links between drug and alcohol misuse and efforts to address them are complex and inter-related, and many services are aimed at both drug and alcohol misuse. Numerous public sector organisations are involved in providing services, including the NHS, councils, the police and the prison service. The voluntary sector is a key partner in delivering services for drug and alcohol misuse. Multi-agency partnership working for drug and alcohol problems has been in place for around 20 years.

3. The Scottish Government has launched new strategies for drugs and alcohol in the last 12 months: *The Road to Recovery: A new approach for tackling Scotland's drug problem* in May 2008 and *Changing Scotland's Relationship with Alcohol: A framework for action* in March 2009.

The study

4. The aim of our study was to identify how much the public sector spends on 'labelled' drug and alcohol services.² We also assessed whether evidence of need or what works

determines how this money is used and what impact the money has had. We examined:

- the extent and impact of drug and alcohol problems in Scotland
 - the main areas of spend on drug and alcohol services
 - how effectively this money has been spent
 - joint working to plan and deliver drug and alcohol services.
- 5.** In this study, we:
- analysed published information on services and reviewed national documents
 - collected and analysed expenditure data from all NHS boards and councils. In the absence of cost information from police services, we collected activity data from all police forces in Scotland to give an indication of expenditure
 - carried out focus groups with people who have problems with drugs and alcohol, families directly affected by drug and alcohol misuse, local drug and alcohol partnership support staff and voluntary and private sector service providers
 - interviewed staff and reviewed documents from agencies commissioning or providing drug and alcohol services.

6. We did not collect information on the wider costs associated with drug and alcohol misuse as existing research is available and referred to in our report. This research covers costs relating to generic services such as accident and emergency (A&E) departments, and wider economic and human costs such as the estimated cost of lost earnings and deaths due to drug and alcohol misuse.

Key messages

1 Scotland has high levels of drug and alcohol misuse compared to the rest of the UK. Drug and alcohol-related death rates are among the highest in Europe and have doubled in the last 15 years. Drug and alcohol misuse are found across society but people who are likely to be excluded from society and those living in deprived areas are most affected.

7. Scotland has high levels of drug and alcohol misuse compared to the rest of the UK. The levels of problematic drug misuse in Scotland are double that of England and the levels of alcohol dependency are a third higher.^{3,4}

8. Alcohol misuse is a bigger problem than drug misuse both in terms of the number of people misusing and the harm caused to health. Almost two per cent of the population are estimated to be problematic drug users while almost five per cent of the population are estimated to be dependent on alcohol.^{5,6,7}

1 *Drug misuse and the environment*, The Advisory Council for the Misuse of Drugs, 1998.

2 We have defined labelled expenditure as direct identifiable expenditure for drug and/or alcohol specific-services or specific drug and alcohol-related contributions for use in other services, for example, a dedicated addictions worker in a housing project.

3 *2007 National Report to the EMCDDA*, UK Focal Point on Drugs, October 2007.

4 *Psychiatric morbidity among adults living in private households 2000*, Office of National Statistics, 2002.

5 Drug misuse figures relate to people aged between 15 and 54-years-old specifically misusing opiates such as heroin and benzodiazepines.

6 *Estimating the National and Local Prevalence of Problem Drug Misuse in Scotland*, Gordon Hay, Maria Gannon, Neil McKeganey, Sharon Hutchinson and David Goldbery, 2004.

7 *Psychiatric morbidity among adults living in private households 2000*, Office of National Statistics, 2002.

9. Drug and alcohol-related death rates are among the highest in Europe and have doubled in the last 15 years.^{8,9} Scotland has the highest recorded rate of drug and alcohol-related deaths in the UK.¹⁰

10. There is a clear link between poverty and problematic drug use, particularly heroin and crack cocaine.¹¹ The relationship between alcohol and deprivation is more complex. People in professional households are more likely to exceed the recommended weekly limits, but those living in the most deprived communities experience more health problems because of their drinking.¹² People living in the 20 per cent most deprived communities are around six times more likely to be admitted to hospital and to die due to alcohol misuse than those from the most affluent areas.¹³

11. People who are likely to be excluded from society, such as prisoners, homeless people and people with mental health problems are more likely to have problems with drugs and alcohol than the rest of society. Up to three in four people using drugs have mental health problems, and up to one in two people with alcohol problems may have a mental health problem.¹⁴ Audit Scotland is publishing an overview report of mental health services in Scotland in May 2009.

2 In 2007/08, the public sector spent £173 million on drug and alcohol services in Scotland, £84 million specifically on drug services and £30 million on alcohol services. The remainder was spent on joint drug and alcohol services. Funding arrangements are complex and projects can have a number of separate funding streams, each with different timescales and reporting criteria. This is an added difficulty for those planning and providing services.

12. It is currently estimated that the wider economic and social costs of drug and alcohol misuse in Scotland are almost £5 billion a year, £2.6 billion for drug misuse and £2.25 billion for alcohol misuse.^{15,16} Both figures are believed to be under-estimates.

13. These estimates include wider health economic costs and the cost to the Scottish economy. For example, criminal justice costs of £2.7 billion include estimates of police time dealing with alcohol misuse (£288 million) and the costs of dealing with drug-related crime (£684 million). Health costs include A&E attendances (£46 million) and hospital inpatient care (£273 million). The health costs for alcohol misuse are greater than those for drug misuse. Costs to the economy include people being absent from work (£286 million).

14. Using locally provided data, plus national labelled spend, we estimate that a total of £173 million was spent in 2007/08 on drug and alcohol

services by the public sector, including NHS boards, councils, police, the Scottish Prison Service and the Scottish Government.

15. There are, however, differences in the way budgets are recorded in each local area and the way that services are provided. Many services for people misusing drugs and alcohol are delivered as part of general services and funding will not be labelled as specifically for drug or alcohol services. This makes it difficult to give comprehensive figures for what is spent on drugs and alcohol.

16. Sixty-eight per cent of direct expenditure on drug and alcohol services is spent on treatment and care, including residential treatment and community treatment such as methadone. The recent Scottish Government strategies for drugs and alcohol emphasise the importance of prevention. However, in 2007/08, only six per cent of direct spend was on preventative activities. This includes interventions for children affected by parental substance misuse.¹⁷ Enforcement and regulation activities account for five per cent of the direct spend on drugs and alcohol.^{18,19}

17. In 2007/08, almost half of the money spent by NHS boards and councils was on dedicated drug services (£77 million) and a sixth on dedicated alcohol services (£26 million).²⁰ This does not reflect the scale of the respective problems, for example the number of alcohol-related deaths in Scotland in 2007 (1,399) was three times higher than

8 <http://gro-scotland.gov.uk/statistics/deaths>

9 Although nationally drug and alcohol-related deaths are increasing, there is local variation.

10 *Trends and geographical variations in alcohol-related deaths in the United Kingdom 1991-2004*, Office of National Statistics Health Statistics Quarterly 33, 22 February 2007.

11 *Drug Misuse and the Environment*, The Advisory Council for the Misuse of Drugs, 1998.

12 <http://www.drugscope.org.uk/resources/faqs>

13 *Alcohol Statistics Scotland 2008*, Information Services Division (ISD) Scotland, 2009.

14 *Mind the Gaps; Meeting the needs of people with co-occurring substance misuse and mental health problems*, Scottish Executive, 2003.

15 Due to the absence of Scottish estimates of the wider economic and social costs of drug misuse we have used the methodology from *Social and economic costs of Class A drugs in England and Wales 2003/04*, Home Office, 2006 and applied Scottish prevalence figures.

16 *Costs of alcohol use and misuse in Scotland*, Scottish Government, May 2008.

17 Figure includes NHS and council spend, the cost of police campus and liaison officers and Scottish Government labelled expenditure (eg, Know the Score and Choices for Life).

18 The Association of Chief Police Officers in Scotland (ACPOS) highlight that this is likely to be a significant under-estimate as it does not include work undertaken by operational uniformed officers or plain clothes divisional units who will deal with drug offenders or make routine licensed premises visits as part of their routine activities.

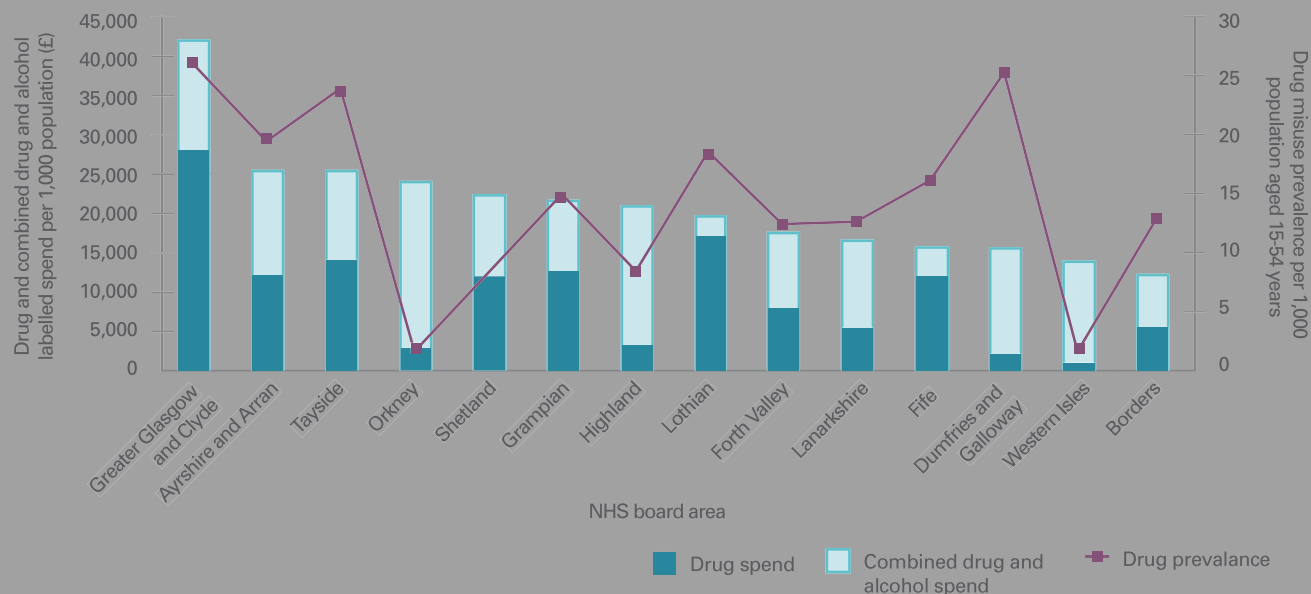
19 The remaining 21 per cent was spent on criminal justice services (nine per cent), essential services (three per cent) and other costs such as administration and capital (nine per cent).

20 The remaining £53 million was spent on joint drug and alcohol services.

Exhibit 1

NHS and council spend on drug and combined drug and alcohol services per 1,000 population, 2007/08

Spend on drug specific and combined drug and alcohol services does not reflect drug misuse prevalence rates.



Note: Combined drug and alcohol spend is spend on joint services that cannot be differentiated.
Source: Audit Scotland, 2008

the number of drug-related deaths (455). The amount spent on alcohol services should increase as the Scottish Government has allocated an additional £85.3 million for alcohol misuse over the three years from 2008/09 to 2010/11; most of this money will go to NHS boards (£24.8 million in 2008/09).

18. The amount that NHS boards and councils spend on drug and alcohol services varies across the country, from almost £14 per head of population in the Borders to just over £53 in Greater Glasgow and Clyde.²¹ The scale of this variation in spend is not explained by differences in the levels of drug and alcohol misuse in a local area or by the levels of harm caused as a result of the misuse, for example, spend does not reflect local levels of drug misuse (Exhibit 1).

19. Funding for drug and alcohol services is complex and can be short

term with money coming from a variety of sources. Funding can come from NHS ring-fenced allocations, NHS unified budgets, council general allocations, specific grant funding, the voluntary sector, the police and the Scottish Prison Service. This can make transparency of funding, planning and long-term stability for services difficult and creates a significant administrative burden on service managers.

20. The voluntary sector provides many drug and alcohol services. In 2007/08, around a third of direct expenditure on treatment and care was spent on services provided by the voluntary sector. In our focus group, voluntary sector representatives reported that the funding arrangements are particularly challenging for them, as projects are often supported by numerous funding streams with different timescales and

reporting mechanisms. The funding arrangements of the voluntary sector project Greater Easterhouse Alcohol Awareness Project (GEAAP) in Glasgow highlight the complexity of these arrangements. This is despite the Addictions Partnership in Glasgow coordinating funding on behalf of a range of statutory agencies in an attempt to streamline arrangements (Exhibit 2, overleaf).

21. The introduction of the concordat between the Scottish Government and COSLA in April 2008 has given councils, with their partners, greater discretion to allocate resources according to perceived local needs and priorities.^{22, 23} This has been achieved through the removal of ring-fenced funding. However, there is a risk that without good information systems in place it will be difficult to know whether drug and alcohol projects secure the necessary funding.

21 Figures expressed by NHS board area but include NHS and council spend.

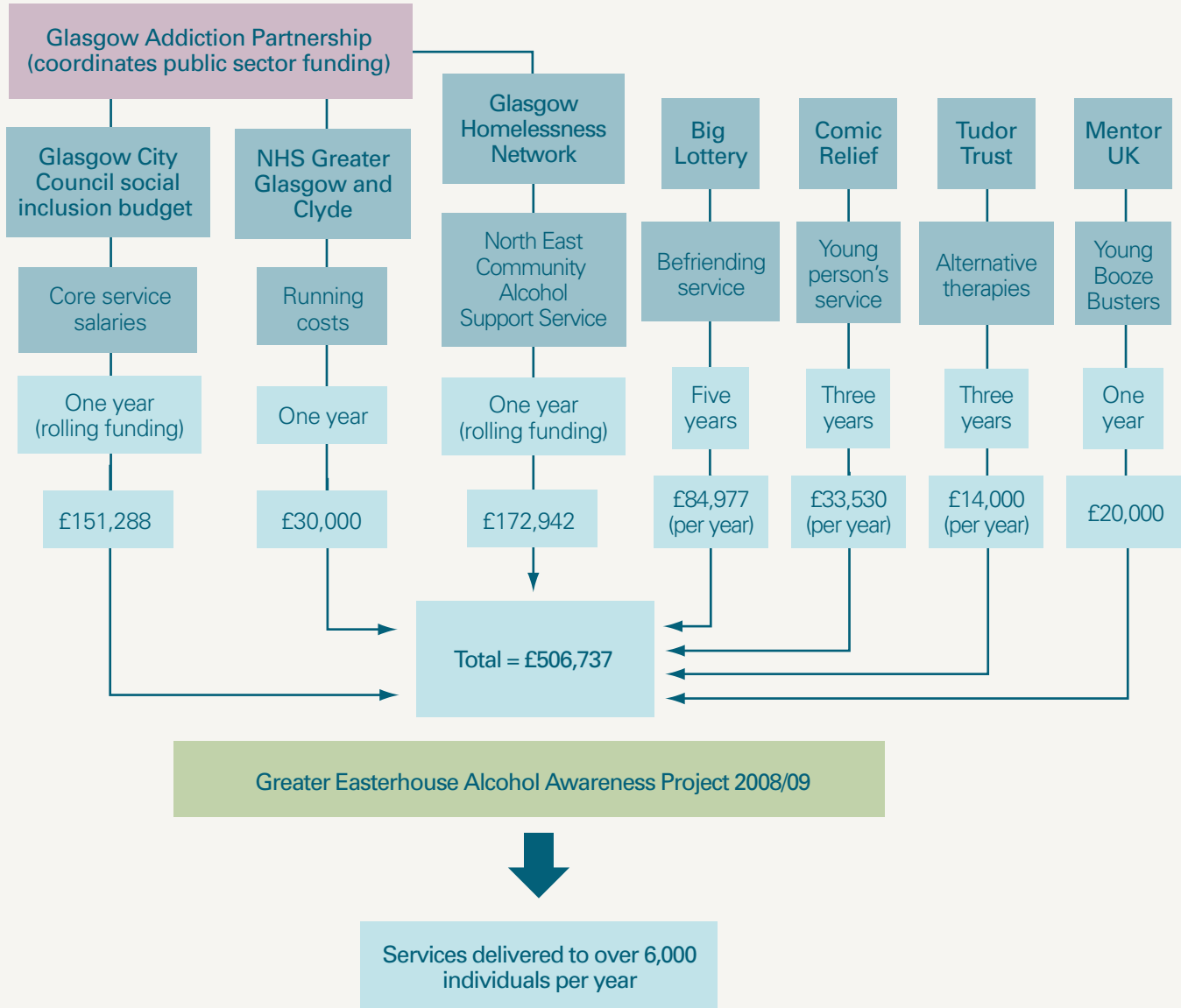
22 The Convention of Scottish Local Authorities (COSLA) is the representative voice of Scottish local government and also acts as the employers' association on behalf of all Scottish councils.

23 The concordat also introduced Single Outcome Agreements (SOAs) between councils, and their local partners, and the Scottish Government on priority areas for improvement and the expected outcomes.

Exhibit 2

Funding for the Greater Easterhouse Alcohol Awareness Project in Glasgow, 2008/09

Local projects often receive funding from numerous different sources, and for different time periods.



Source: Audit Scotland, 2008

3 There is variation across Scotland in the range and accessibility of drug and alcohol services. The Scottish Government has not set out minimum standards in terms of range, choice and accessibility that service users and their families can expect to receive. Spending decisions are not always based on evidence of what works or on a full assessment of local need.

22. The drug and alcohol services that people receive vary depending on where they live. There is no direction from the Scottish Government on what money for drug treatment and care services should deliver. Although the Scottish Executive developed *National Quality Standards for Substance Misuse Services* in 2006 there is no national monitoring of whether they have been implemented. A different approach is taken in England where

the government has set out and monitors a required range of drug services which should be in place and minimum standards of access.

23. There is direction from the Scottish Government on what additional money for alcohol services should deliver. The Scottish Government's additional allocation of £24.8 million on alcohol services to the NHS in 2008/09 has come with a clear instruction to use some of the money to provide screenings and brief interventions

Case study 1

Comprehensive review of addiction services in Greater Glasgow

Before the review: In 2003, addiction services in Greater Glasgow were run across three agencies: NHS Drug Problem Service, NHS Alcohol and Drug Directorate and Social Work Addiction services. The service people received depended on where they lived.

The review: A series of strategic reviews focused on different services such as council services, homeless services and services paid for by the NHS and council but delivered by others (eg, residential services). Each strategic review included needs assessments, an analysis of levels of current use and service user views and a literature review of effectiveness. All this information was shared across agencies.

After the review: There is now a single partnership with responsibility for the planning and performance of drug and alcohol services across Greater Glasgow. There are 13 Community Addiction Teams across Greater Glasgow with a single management structure, for both NHS and council, and single accountability. The service has 580 staff and a budget of £42 million per year which is managed through a joint financial framework.

Source: Audit Scotland, 2008

to prevent people from developing serious problems with alcohol and the remainder on supporting additional treatment and prevention services.²⁴

24. Information on the activity, cost or impact of services designed to reduce drug and alcohol problems exists in some local areas but the type and quality of data collected vary across Scotland. National information on cost, activity and quality of services is not available.

25. The lack of consistent, comparable and shared information makes it difficult to plan and commission prevention, treatment and care services, and to influence how services develop based on evidence.

26. Local monitoring of services generally focuses on numbers of people in a service and activity rather than on the quality of the service delivered or the outcomes achieved. Public bodies do not routinely evaluate the effectiveness of drug and alcohol services to ensure they meet local needs. There are, however, some

examples of good practice where there has been a comprehensive review of all drug and alcohol services in an area (Case study 1).

27. There are no comparable unit costs for drug and alcohol services in Scotland (with the exception of criminal justice interventions) to help local areas evaluate cost-effectiveness of services.

4 Given the scale of drug and alcohol problems in Scotland and the range of agencies involved, clarity of roles and accountability is essential. It is important for the Scottish Government to set out the direction and the roles and responsibilities of partner agencies and how performance will be assessed.

28. Partnerships for drugs and alcohol have been in place since the late 1980s. Limited national guidance has been issued to partners, despite the creation of new partnership bodies

and advances in understanding the problems of drug and alcohol misuse.

29. Given the limited guidance, drug and alcohol partnerships have evolved to work in different ways across Scotland. Some partnerships have operated strategically while others have had a more detailed focus on specific services.

30. Although in general a lack of coordinated information about needs, funding and the effectiveness of services has limited the ability of partnerships to achieve their aims, there is some evidence of good practice.

31. The Scottish Government plans to issue revised guidance on drug and alcohol partnerships in spring 2009. This guidance will be the result of four years' work at a national level to review local partnership arrangements for drugs and alcohol. The guidance originally planned to be published in November 2008.

32. Under the new proposals, drug and alcohol partnerships will sit within Community Planning Partnerships (CPPs). If there is more than one drug and alcohol partnership in a NHS board area the partnerships will be expected to coordinate activity. The local partnerships will be held accountable for Single Outcome Agreement commitments through CPPs and for health targets through NHS partners. A health target for alcohol, introduced in 2008, relates to brief interventions. A health target for waiting times for drug services will be introduced in 2009/10, although the details of this are still unclear.

33. There are 32 councils, 14 NHS boards, eight police forces and eight Community Justice Authorities, each with different boundaries.²⁵ There is a risk that drug and alcohol partnerships may continue to find it difficult to ensure that drugs and alcohol are priorities in each local area, not least because of the variety of agencies they must work with.

²⁴ An alcohol brief intervention is a discussion aimed at motivating or supporting someone to try to change their behaviour. It is often a discussion between a GP and their patient.

²⁵ Community Justice Authorities (CJAs) were established by The Management of Offenders, etc. (Scotland) Act 2005. The eight CJAs are: Fife and Forth Valley, Glasgow, Lanarkshire, Lothian and Borders, North Strathclyde, Northern, South West Scotland and Tayside.

Key recommendations

The Scottish Government should:

- set clear national minimum standards for drug and alcohol services including their range, quality and accessibility; receive assurance that these standards are implemented in line with set timescales; and ensure performance is regularly monitored and publicly reported
- clarify accountability and governance arrangements for the delivery of drug and alcohol services in Scotland and set out clearly the responsibilities of all organisations and partnerships involved in planning or delivering these services.

Public sector bodies should:

- ensure that all drug and alcohol services are based on an assessment of local need and that they are regularly evaluated to ensure value for money. This information should then be used to inform decision-making in the local area
- ensure that service specifications are in place for all drug and alcohol services and set out requirements relating to service activity and quality. Where services are contracted, this specification should be part of the formal contract
- set clear criteria of effectiveness and expected outcomes for the different services that they provide and undertake regular audits to ensure services adhere to expected standards
- use the Audit Scotland checklist detailed in [Appendix 4](#) of the full report to help improve the delivery and impact of drug and alcohol services through a joined-up, consistent approach.

Drug and alcohol services in Scotland

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www.audit-scotland.gov.uk



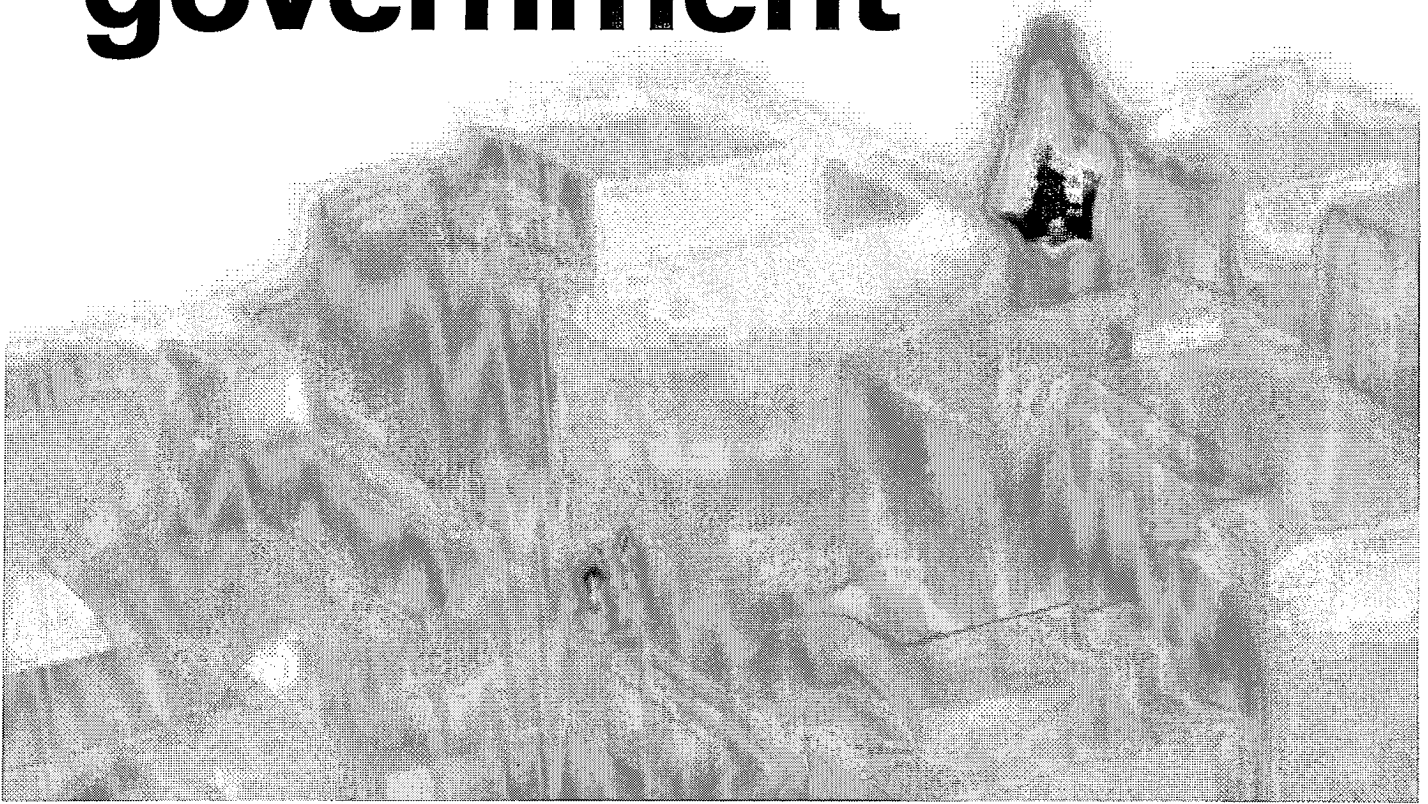
Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 F: 0845 146 1009
www.audit-scotland.gov.uk

ISBN 978 1 906752 37 8 AGS/2009/3

Printed on Revive 100 Uncoated, a recycled grade, containing 100% post consumer waste and
manufactured at a mill accredited with ISO 14001 environmental management standard. The pulp
used in this product is bleached using an Elemental Chlorine Free process (ECF).

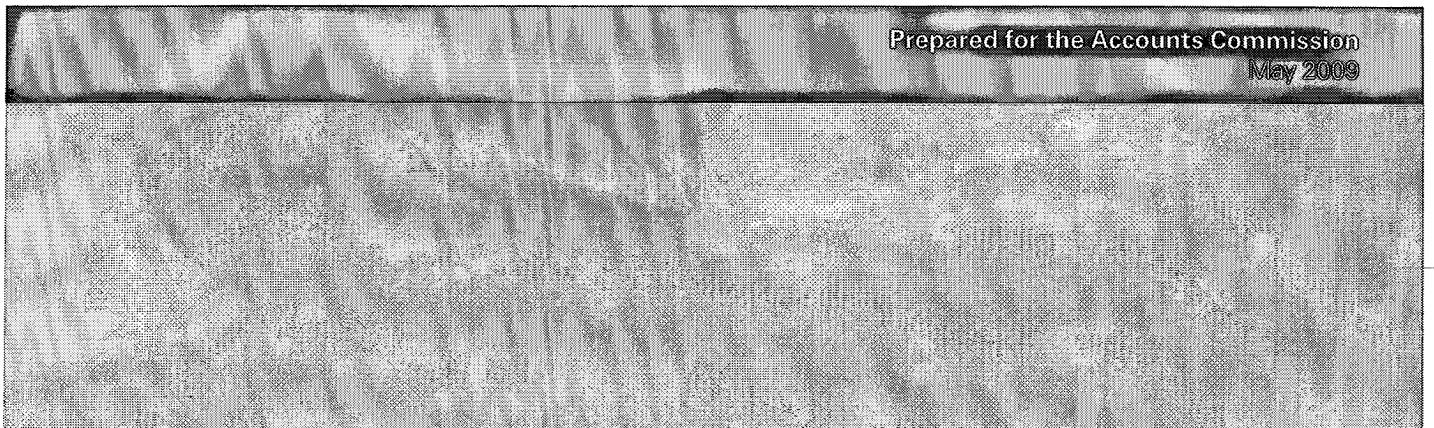
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Asset management in local government



 **AUDIT SCOTLAND**

Prepared for the Accounts Commission
May 2009



The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 41 joint boards (including police and fire and rescue services). Local authorities spend over £19 billion of public funds a year.

Acknowledgements:

Audit Scotland prepared this report for the Accounts Commission for Scotland. We would like to thank:

- all 32 councils for their helpful responses and in particular the five councils where we carried out detailed fieldwork: Clackmannanshire, City of Edinburgh, Fife, Highland and Renfrewshire
- Alan Tyler and Susan Robinson of the Federation of Property Societies for their help and support
- David Bentley of the Institute of Public Finance, for help in analysing councils' responses to our survey
- George Street Consulting for conducting our survey of members of the public
- the study advisory group, which comprised a range of experts from councils, the Scottish Government and other organisations, for providing valuable advice and guidance to the project team throughout the study. Appendix 2 lists the members of the group.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Scottish councils own a large amount of property...

...but a significant proportion is in poor condition
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Fourteen per cent of buildings are neither in good condition, nor suitable for their current purpose
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The people we surveyed are generally satisfied with council buildings... and consider ease of access to be the most important factor
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Councils need to ensure buildings are accessible for people with disabilities
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Less than half of councils have an approved corporate asset management strategy

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Only half of councils have complete property strategies

Many councils do not have effective elected member scrutiny of property assets
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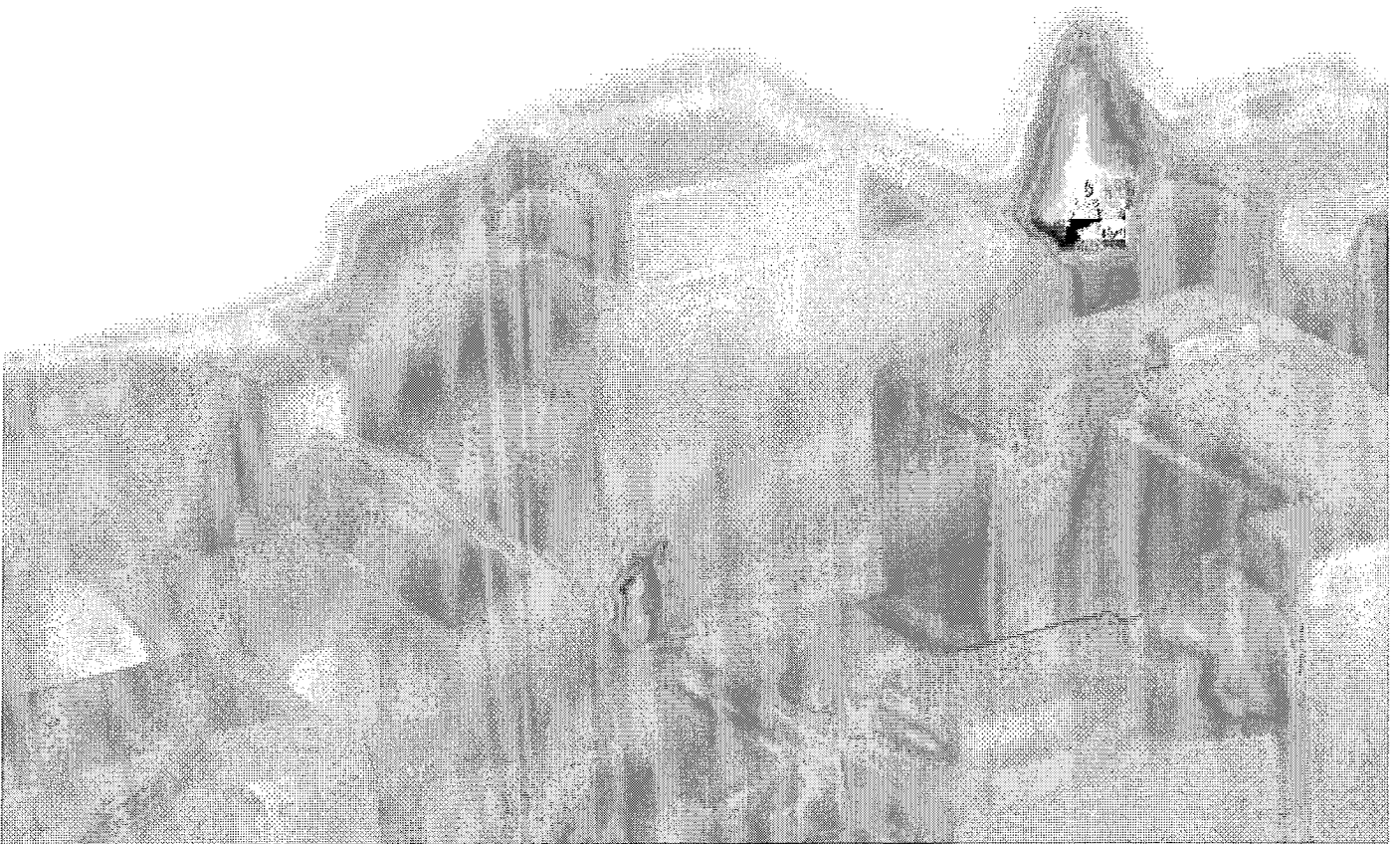
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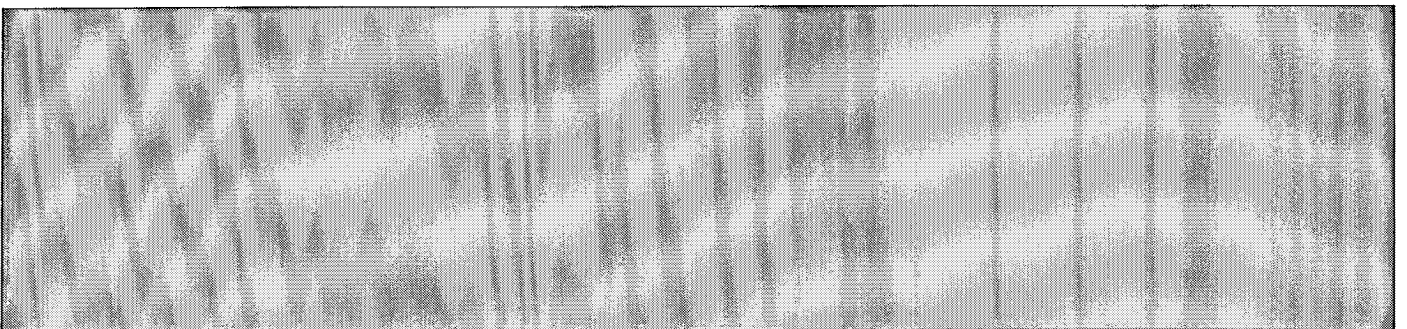
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Summary



Good asset management can make council buildings work better for the people using them – but this needs active participation from all council departments and partner agencies.



About the study

1. Assets are anything owned by an organisation that have a monetary value. Councils' fixed assets include property assets (buildings and the land they occupy), vacant land, infrastructure assets (mainly roads and bridges), vehicles, plant and machinery, and Information Technology (IT) hardware.

2. After employee costs, the largest cost to public sector bodies is what they spend on their fixed assets – councils spent around £1.1 billion on property running costs in 2007/08. Good asset management is therefore critical to a council being able to demonstrate that it is providing Best Value.

3. The overall aim of our study was to evaluate the extent to which councils manage their assets to ensure effective service provision and achieve value for money, and to make recommendations for improvement. Our report includes an overview of councils' arrangements for corporate asset management and a detailed examination of how councils manage property assets.

4. We focus on property assets in particular because they make up the majority (81 per cent) of councils' asset value (50 per cent if council housing is excluded). Property assets are important for effective service delivery, for example, by providing a welcoming, safe and secure environment for delivering services. Councils also have an opportunity to actively manage their property assets by acquisition, disposal and change of use to make improvements. Best Value audits and local audit work have shown that there is room for improvement in asset management

in many councils. We did not examine council housing or roads and infrastructure because:

- councils' housing asset management is currently subject to scrutiny by the Scottish Housing Regulator
- the Accounts Commission published a report on roads asset management (*Maintaining Scotland's roads*)¹ in 2004 and follow-up work will be conducted later this year.

The principles of good asset management can be applied to all fixed assets. Our study focuses on property for the reasons outlined above. Although we draw comparisons with the management of roads and other assets at appropriate points, the main messages included in the report refer to property assets.

5. This report was prepared on behalf of the Accounts Commission and seeks to answer the following questions:

- What assets do councils own, what is their value and what information do councils hold about their condition and suitability?
- How well are councils organised to ensure that service needs drive their asset management strategies?
- Do councils' asset management arrangements lead to increased efficiency?
- Do councils have effective arrangements for managing the performance of their assets?

6. A range of methods was used to obtain evidence, including:

- desk research and analysis – drawing on existing data sources and previously published research
- questionnaires to gather information from councils about their asset management arrangements
- fieldwork visits to five councils (Clackmannanshire, City of Edinburgh, Fife, Highland and Renfrewshire) and interviews with elected members, senior managers and practitioners, and site visits to find out the views of people who use council buildings.

7. The report also draws on material available from previous Audit Scotland work, such as national performance studies on improving the Scottish school estate, maintaining Scotland's roads, asset management in the NHS and energy efficiency in the public sector, as well as council Best Value audits and local external audit work.

8. We also make use of the work of other relevant organisations, for example, the Improvement Service,² the Audit Commission³ and the work of York Consulting on behalf of the UK government.⁴

9. In addition to this report and key messages document, we have produced:

- a checklist for elected members (Appendix 1)
- technical information for practitioners about the more detailed data we collected, such as the variation in condition and suitability of different types of council properties.

¹ *Maintaining Scotland's roads*, Auditor General and Accounts Commission, November 2004.

² *Property Asset Management in Scotland's Councils: Moving Forward*, Improvement Service, March 2008.

³ *Hot Property; getting the best from local authority assets*, Audit Commission, 2000.

⁴ *Evaluation of Corporate Capital and Asset Planning in Local Authorities*, York Consulting, November 2007.

Key messages

- Overall, councils own around 12,400 property assets. Councils report that 27 per cent are in a poor or bad condition, 23 per cent are not sufficiently suitable for the services delivered from them, and 14 per cent fail in both respects.
- The people we surveyed consider access to buildings to be their most important feature, highlighting disabled access and facilities for people with disabilities as being highly important.
- Councils have good information on how accessible their buildings are for people with disabilities, but not all are acting on that information by producing access plans for their buildings quickly enough.
- Almost two-thirds of all councils report that their property maintenance backlogs are increasing. Only 23 councils were able to report the size of their backlog; this totalled £1.4 billion, and £376 million of this is described as maintenance that is urgently required. Unless councils manage this backlog, there is a risk that buildings currently in satisfactory condition will deteriorate.
- More than half of councils do not have an approved corporate asset management strategy, although many councils are in the process of developing individual strategies and plans for their fixed assets. Almost two-thirds of councils have an approved IT asset management strategy in place, but less than half have asset management strategies for roads, property and vehicle fleets.

- The majority of councils report good arrangements for collecting data about assets, and for working across services to ensure a corporate approach to asset management; but they need to improve their performance management arrangements and ensure strategies, policies and plans are up to date and coordinated, and property asset management is implemented systematically.
- There are large variations in the cost of holding property among councils. In most councils, property costs are between five per cent and 12 per cent of councils' gross revenue budget, but in some councils costs are higher.
- Although councils are reducing energy use in their buildings, environmental sustainability is not a key factor in building design. Most councils are missing opportunities for incorporating environmentally friendly features into the design of new buildings.
- Some councils gave examples of savings from rationalising office space, but few were able to provide details of significant efficiencies arising from property review and rationalisation.
- Many councils find rationalising property assets difficult to manage well. The role of elected members is of crucial importance; however, many councils do not have effective elected member scrutiny of property assets and only half provide regular information to elected members on property performance.

- Councils and health boards have a high-level commitment to joint working on property asset management. However, joint working does not appear to be widely embedded across services at a planning or operational level.
- There has been some well-planned joint working reported between social work and primary care services. Many joint property projects are developed in an opportunistic way, rather than as part of a long-term joint strategy.
- In three out of the five councils we visited, national policies on the sale of assets are seen as a barrier to joint working. For example, a health board may wish to use surplus council land for a community facility, but is not able to meet the market price which the council is required to achieve.
- Although there have been a number of national initiatives to facilitate joint working between councils, the NHS, and other partners, the impact to date on asset management has been limited.

Key recommendations

Councils should:

- work together to implement a consistent methodology for measuring building suitability
- ensure they have effective asset management plans and strategies for their property, IT, vehicles, roads and associated infrastructure. These should:
 - set out how each type of asset will contribute to council objectives and service aims
 - set targets for assessing progress, including the condition and suitability of each asset
 - describe an overall plan for achieving this
- ensure that asset information is up-to-date, complete, and held in a form which allows the production of appropriate management reports
- establish robust monitoring and reporting procedures for asset performance, to assess progress against their strategies
- formulate a long-term capital strategy, linked to achieving the aims of their asset management strategies; this should include a formal corporate approach to options appraisal for proposed capital projects
- ensure that whole-life costs are taken into account in capital and revenue planning
- consider issues of sustainability, such as CO₂ emissions, in their whole-life costing model for proposed capital projects

- ensure that elected members and council officers have transparent mechanisms for scrutinising property use and the cost of holding property; elected members should regularly consider reports on the condition, suitability and use of assets, property costs, and estimates of the maintenance backlog
- where significant changes are planned to assets in an area, or to a particular type of asset, for example school buildings, ensure consultation with residents is open about the issues the council is facing and provides clear information about the options for change
- agree with community planning partners arrangements for joint planning, management and property sharing. This should include identifying and tackling the barriers to strategic joint working around public assets and developing shared property databases to facilitate joint working.

Councils, Community Planning Partnerships and the Scottish Government should:

- make use of legislation which allows councils to sell assets at below market value if it is for public benefit, where this is consistent with a published policy objective, and would achieve Best Value for the public sector overall.

Asset management in local government

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ISBN 978 1 906752 45 3

Printed on Revive 100 Uncoated, a recycled grade containing 100% post consumer waste and manufactured at a mill accredited with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

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 Registers**

The Strategic Risk Register can now be viewed within Pyramid and the links to the Operational Risk Registers for all Services will be completed by the end of June.

The Operational Risk Registers are on course to be inputted into Pyramid by the end of the first quarter of 2009/10.

A full review and update of the Strategic Risk Register and the Operational Risk Registers is to be undertaken during the second quarter of 2009/10.

3.2 Business Continuity

The exercise which tested the Business Continuity Incident Management Plan, the Emergency Planning Generic Plan and some of the Departmental Recovery Plans was carried out on 11 March.

A Post Exercise Report has been received from Glen Abbot (copy attached) which concluded that the incident was managed well and if it had been a real incident it would have been managed successfully. The report highlighted several issues which will be taken forward by the Risk Management Group.

3.3 Risk Management Audit

KPMG recently undertook an audit of Risk Management on behalf of internal audit and the report will be presented to the Committee by internal audit.

Iain Jackson
Governance and Risk Manager



Business Continuity Programme

“Ocean Drive”

Post Exercise Report



Prepared for: Iain Jackson
Business Continuity Manager

Author: Julian May
Managing Consultant
Glen Abbot Limited

Date: 26th March 2009

Version: 0.1 DRAFT

Revision History

Document Version	Status	Date	Reason for issue	Author
0.1	Draft	26/03/09	Initial Draft	Julian May

Distribution List

Issue date	Issued to	Version

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1 Executive Summary

1.1 Overview and Concept of the Exercise

A scenario exercise was conducted by Glen Abbot on 11th March 2009 for Argyll & Bute Council. Exercise "Ocean Drive" was a three hour exercise involving members of the Council's combined Business Continuity and Incident Response teams reacting to an incident in the centre of Lochgilphead. Members of the Strategic, Corporate Recovery and Operational teams of the combined response were represented.

1.2 Objectives

The objective of the exercise was to practice the staff response to an incident using their combined Business Continuity and Emergency Planning response. The full aims of the exercise are detailed in section 2.1.

1.3 Summarised Results

- 1.3.1 17 members of staff took part directly in the exercise by attending the incident teams in Kilmory Council Offices. Other members of staff were involved remotely.
- 1.3.2 This was the first time many of the staff had taken part in an exercise and all learned from the experience.
- 1.3.3 This was the first time a joint Business Continuity/Emergency Planning response has been tested.
- 1.3.4 Several specific learning points were identified. These are detailed later in this report. However, those that were commonly identified by the majority of participants were:
 - Administrative support was very useful and aided the decision making process, but needs to be more structured and staffing increased
 - The need for clear and precise communication within the teams is paramount
 - Equally, communications between teams requires to be improved and controlled
 - All incoming information needs to be recorded accurately
 - Although Final plans were not completely issued, this exercise highlighted the need for full BC documentation to be available in the battlebox
 - There was a lack/proper use of equipment, e.g. inadequately equipped rooms.

1.3.5 The Exercise Director addressed the participants after the exercise and commented that they had done well, especially considering the immaturity of the plans. He went on to make the following observations:

- Activity was very uncoordinated at the start of the exercise, but settled down quickly.
- Communications within the Corporate Recovery teams was poor to start with, but after experimentation with physical layouts of the room improved dramatically, with every member being able to make their point and be considered.
- Communications between teams was regular, but not always at the level required – i.e. the Strategic team communicated what it wanted to happen, but then went on to say how it should be done.
- Once in the flow of the incident, decision making was clear, considered and decisive.
- Focus on Business Continuity rather than the cause of the incident was handled well.
- Media was handled well in the circumstances of the exercise.

1.4 Conclusion

The exercise was important as it helped educate those named in the plans as to their roles, and helped raise a number of issues which are difficult to foresee unless you are responding to a specific scenario. In consideration of the exercise aims detailed in Section 2.1 of this document, the Exercise Director considers this exercise to have been very successful with all aims met.

Overall, the incident was managed well. It is the opinion of the Exercise Director that had this been a real incident, it would have been managed successfully.

The effort that has been expended to get the response to this level demonstrates a clear commitment to Business Continuity by Argyll & Bute Council. This is to be commended, along with the clear intention that this positive progress will continue. However, the lack of attendees at the exercise was a cause for concern, and steps must be taken to ensure training is attended by all relevant staff members.

Observations and learning points will be taken on by Argyll & Bute, and incorporated into the BC programme.

Further exercises must now be scheduled, both to ensure lessons learned from Ocean Drive have been included, and to test different parts of the organisation. Whilst Ocean Drive was specifically designed to test the Incident Teams and Plans, areas such as IT Disaster Recovery, Telephony and Departmental Recovery Plans require specific exercising.

2 Exercise Information

2.1 Exercise Aims

1. Fulfil the project requirement to exercise the Corporate Incident Management Plan
2. Fulfil the internal review requirements to exercise the Incident Management Structure
3. Familiarise council staff with the range of plans – particularly the Departmental Recovery Plans.
4. To be able to demonstrate during any audit that the Business Continuity Plans have been exercised
5. Practice decision making
6. Practice combined Business Continuity/Emergency Planning Team dynamics
7. Provide those who would manage an incident confidence and practice in responding to an incident.

2.2 Exercise Timings, Dates and Locations

- 2.2.1 The exercise took place on 11th March 2009 in the Council Chamber, Argyll & Bute Council, Kilmory between 10:00 and 12:30.

2.3 Exercise Attendees

The following council staff attended Exercise Ocean Drive:

Exercise Facilitators	
Iain Jackson	Governance & Risk Manager
Carol Keeley	Emergency Planning Officer
Strategic Team	
George Harper	Director of Development
Douglas Hendry	Director of Community Services
Andy Law	Director of Operational Services
Sally Reid	Chief Executive
Nigel Stewart	Director of Corporate Services
Corporate Recovery Teams	
Ernie Brown	Training and Health & Safety Manager
Stephen Harper	Social Worker (Community Care)
Karen Henderson	Asst. Public Transport Officer
Laura MacBrayne	Risk Management Assistant
Samantha MacBrayne	Clerical Assistant
Jennifer MacNab	Admin Assistant

Terry Markwick	Central services Manager Operational services Dept
Fiona McCallum	Committee Services Officer
C Repper	Head of Democratic Services and Governance
D Tomlinson	Performance & Support Services Manager
Stewart Turner	Head of Roads & Amenity Services
Alison Younger	Area Corporate Services Manager
External Agencies	
C/Insp K Boyter	Strathclyde Police
Grp Cmdr S McLean	Strathclyde Fire & Rescue
Donald Morrison	Area Service Manager, Scottish Ambulance Service

2.4 Exercise Scenario

The exercise scenario was run in real time. The weather was cloudy & cold in Lochgilphead with snow forecast for early afternoon. The snow is forecast to worsen over the next 24 hours, and turn to rain within 48 hours.

At 10:00 an articulated lorry carrying gas cylinders crashed into the Stag Hotel, Argyll Street, Lochgilphead. The crash caused a fire.

Fire & Rescue attended the scene and very quickly established a cordon due to the gas cylinders being exposed to heat. As there is a direct line of blast running North / South, both the A83 and Manse Brae / Oban Road were closed. This effectively bisects Lochgilphead preventing travel East / West.

The Manse Brae council offices were to be evacuated, along with any other buildings within the cordon.

There was a high profile wedding scheduled at the registry office for mid-day, with guests coming from both Glasgow and the Crinnan area.

2.5 Exercise Concept

Exercise Ocean Drive was a desktop scenario exercise. The exercise was played in real time dealing with the first hours of the incident. The existing Emergency Contact List was used to cascade information that Business Continuity Plans had been invoked. There were also injects from Police, Fire & Rescue and Ambulance Service personnel.

2.6 Exercise Details

The Exercise Manual is treated as confidential in order to allow sections to be re-used, whilst preserving an element of secrecy and surprise. If required it may be accessed on request to Argyll & Bute Council's Business Continuity Manager.

3 Observations, Findings and Action Points

3.1 Exercise "Ocean Drive"

No	Observations/Finding	Action	Priority	Owner
1103-01	Lack of attendees at the exercise	Team members must attend training sessions to ensure correct response during actual incidents	Critical	
1103-02	Admin teams require specific training	Dedicated BC Admin team should be set up and trained. Roles identified for logging, telephones etc.	High	
1103-03	No-one was delegated to brief team members as they entered the room	Specific roles to be identified within teams	High	
1103-04	Call cascade was very time consuming with variable results	Investigate electronic callout method	Medium	
1103-05	Clear communication within and between teams must be maintained	Ensure team chairs allow for structured discussion	Medium	
1103-06	Insufficient BC Incident Log forms were supplied, and the design was not fully understood	Ample supply of customised BC Incident log forms to be placed in Battlebox. Admin teams to be trained in usage. Investigate electronic logging.	Medium	
1103-07	BC/EP Combined structure was not initially successful. Structure worked well after re-organisation.	Review structure and possibly alter. Documentation to be updated to reflect any changes.	Medium	
1103-08	There was a lack/proper use of equipment, e.g. inadequately equipped rooms.	Room setup to be reviewed Appropriate equipment to be ordered and installed and checked to ensure correct working order/equipment is still available	Medium	
1103-09	Few Deputies are indentified leading to gaps in teams	Deputies to be nominated and trained	Medium	

No	Observations/Finding	Action	Priority	Owner
1103-10	Strategic Team inclined to pass on Strategic direction, then give Tactical directions	Teams to be trained to stick to their designated roles	Low	
1103-11	Some tasks were duplicated across teams e.g. Contacting West Coast Motors was performed by both Strategic & Corporate Recovery	Clear direction and division of tasks to be practised	Low	

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Grant Thornton

Argyll and Bute Council

Governance Arrangements - Follow up Audit

June 2009

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Appendices

- A Progress in implementation of prior year recommendations**

1 Executive Summary

1.1 Introduction

The Council is required to have arrangements in place to ensure propriety, regularity and best value in its stewardship of public funds. It is the responsibility of management to have adequate systems of internal control in place to ensure that resources are applied to the activities intended, fraud is prevented and detected, and resources used economically, efficiently and effectively.

As part of our 2008-09 interim audit, we have followed up the Council's progress in implementing agreed recommendations from our prior year audits of the following aspects of governance:

- the effective operation of internal audit
- the effective operation of the audit committee
- arrangements to prevent and detect fraud and irregularity.

1.2 Key findings

Our overall conclusion is that the Council continues to operate with generally sound governance arrangements. The Council has made further progress in improving its governance arrangements during the year, although further work is required in some areas. In particular, Council should consider the future strategic direction of internal audit, and consider whether current arrangements for the management of the department are effective and provide value for money.

We are pleased to note that management have implemented most of the outstanding recommendations from our 2007-08 governance audit as illustrated in Table 1.

Table 1: Summary of implementation of prior year recommendations

Area	Original recommendations	Implemented	Not Implemented	Partially Implemented	Not yet due
Internal audit	12	10	1	1	-
Audit Committee (1- need to confirm)	8	6	-	-	2
Fraud	5	4	1	-	-
Total	25	20	2	1	2

The agreed action plan points that remain outstanding are:

- the Council's constitution has not been updated to include revised procedures for reporting fraud to internal audit. The Council is expected to finalise the constitution in June 2009
- the Council has not yet appointed a 'head of internal audit'. This does not comply with the requirements of the Code and there is a risk that the status and independence of internal audit is undermined as a result
- key staff have not yet completed the online training modules within the National Fraud Initiative application. This increases the risk that data matches will not be processed in line with Audit Scotland requirements.

1.3 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. We have summarised management's progress of implementation on recommendations made in Appendix B. Management should seek to ensure that the outstanding recommendations that have not been implemented within the specified timeframe are prioritised for completion.

1.4 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.

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 systems and work practices.

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

Grant Thornton UK LLP
June 2009

2 Internal audit

2.1 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 and followed up progress in implementing our recommendations in 2007-08. This report reports the progress of implementation on those recommendations that remain outstanding.

2.2 Findings

Our review of progress found that 6 out of the 8 outstanding recommendations have now been fully implemented. Of the remaining recommendations, 1 is in the process of being implemented and 1 remains under consideration by management. Table 2 summaries the progress in implementation across each of the Code standards.

Table 2: Progress in implementation of internal audit recommendations

Standard	Recommendations			
	2006-07 Report	Fully Implemented- May 2008	Fully Implemented- May 2009	Ongoing
Scope of Internal Audit	1	-	-	1
Independence	2	-	1	1
Audit Committees	3	2	1	-
Staffing, Training and Continuing Professional Development	1	-	-	-
Audit Strategy and Planning	1	-	-	-
Undertaking Audit Work	1	1	1	-
Reporting	3	1	3	-
TOTAL	12	4	6	2

Source: Grant Thornton

We are pleased to note that management have now taken action on most of the agreed recommendations from our original 2006-07 report. Of the recommendations that are not yet fully implemented, both are categorised as medium risk:

Scope of internal audit

The Council has not yet updated the constitution to recognise the role of internal audit in the investigation of frauds. We are aware that the relevant section has been completed for inclusion in the constitution, and the updated constitution is expected to be published in August 2009.

Independence

The Council has not yet created a 'head of internal audit' position. The Council had planned to review the structure of Internal Audit at the end of the internal audit partnership with KPMG in 2007-08. However the partnership has since been extended and this decision has been delayed.

Internal audit continues to be headed by two managers, one of whom takes lead responsibility for the department. This Code requires a 'head of internal audit' position in order to ensure internal audit has sufficient status and independence in the organisation. The Council should consider the future strategic direction of internal audit, and consider whether current arrangements for the management of the department are effective and provide value for money.

Looking forward

The role of internal audit in the public sector is changing as more emphasis is placed on performance and risk monitoring and management. Councils are also being increasingly challenged on the adequacy and transparency of governance arrangements, and the introduction of Annual Governance Statements will place greater disclosure requirements on councils going forward.

The Council has not yet, however, developed a clear strategy setting out its vision for the future role, remit and structure of the internal audit section that meets the new challenges facing local government.

Action Plan Point 1

3 Audit committee

3.1 Introduction

To assist audit committees in local government in effectively discharging their function, CIPFA issued guidance in 2004 *Audit committee principles in local authorities in Scotland: a guidance note*. This outlined principles in respect of:

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

We performed a full review of the Council's audit committee arrangements in 2007-08. Our report made 6 recommendations to improve the arrangements, and we have followed up the Council's progress in implementing the agreed action plan.

3.2 Follow up review

Terms of reference

Our 2007-08 review found that improvements could be made to the terms of reference by including 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
- training arrangements for committee members.

The audit committee's terms of reference were updated in December 2008 and formally agreed at the March 2009 committee meeting. The terms of reference adequately cover all the areas noted above.

Annual report

We recommended that the audit committee should prepare an annual report to the Council, which sets out the committee's work and performance during the year. The audit committee produced an annual report for the 2007-08 financial year which was presented to the June 2008 committee meeting. Going forward, the committee intends to provide an annual report each year.

The Committee's first annual report did well in summarising the work of the committee during the financial year and providing a clear opinion on financial controls. In our view, there is scope to further enhance the annual report and consideration could be given to reporting on the following:

- key themes emerging from work undertaken
- impact of the committee in improving the internal control framework
- performance assessment of internal and external audit and of the committee itself
- pointing forward to key areas for improvement in internal controls and to the focus of audit committee work in the coming year.

Action Plan Point 2

Membership

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. However, during our 2007-08 review we noted that the composition of the audit committee included a Deputy Spokesperson. That member has since resigned from the committee, and a new member who meets the specified criteria has been appointed.

Induction and training

We noted that there is no formal training programme for audit committee members to ensure they continue to receive adequate training and support for their role. Since our report, the Council has taken the following action to provide training for committee members:

- a report on a self assessment exercise was presented to the December 2008 committee detailing a self assessment checklist and an annual work plan for the year
- an assessment of the skills required to serve on the audit committee
- a training day has been organised for 29 May 2009, part of the agenda will include a discussion of future training and support provision.

We will review the committee's self assessment checklist and consider the adequacy of their training provisions in our 2009-10 audit.

Meetings

Our 2007-08 audit found that there had been no annual declaration of interests for the two non-Councillor members of the audit committee. The Council has now discussed arrangements for an annual declaration of interests for the non-Councillor members of the committee, and a new regime for recording and reporting interests will be implemented from 1 April 2009.

The Committee had also not arranged a private meeting with internal or external audit as recommended by good practice guidelines. The committee has now updated its workplan for the year and has scheduled private meetings with internal and external audit prior to its September 2009 meeting.

Internal and external audit

The audit committee continues to have a good relationship with both internal and external audit. The committee reviews all internal and external audit plans and strategies on an annual basis and receives copies of all audit reports during the year.

In 2007-08, we noted that the audit committee does not assess or formally consider the performance of internal and external audit. The committee's work plan, agreed at their meeting in December 2008, includes proposals to address this recommendation for 2008-09, with a review of the effectiveness of internal audit planned for June 2009 and external audit for September 2009.

4 Fraud and irregularity

4.1 Introduction

Good governance requires the Council to have in place arrangements to prevent and detect fraud and other irregularity. This involves developing and implementing strategies to prevent and detect fraud and irregularity and to investigate any incidences detected or reported; a code of conduct to state the responsibilities of members and staff with regards to their legal and ethical obligations and responsibilities; a register of interests and gifts and hospitality for members and staff; and a whistle-blowing policy in line with the Public Interest Disclosure Act 1998.

4.2 Fraud policy

We found that the Council's fraud and corruption arrangements were operating satisfactorily. The Council has an anti-fraud strategy in place, which details the procedures in place to detect and prevent fraud and corruption. The strategy is incorporated as an appendix to the Financial and Security Regulations and the Council constitution.

These documents meet the good practice standards described above and are available to all staff on the Council's intranet site.

4.3 Standards of Conduct

The Council's Code of Conduct for Members is based on the code of conduct for Councillors as drafted by the Standards Commission for Scotland. A separate code of conduct exists for staff. Both codes incorporate the Nolan principles of standards in public life. The Council issues a copy of the respective codes to each new member or officer and is covered in the induction training.

There is, however, no requirement for members or officers to sign that they have read and understood the code of conduct. We have previously recommended that this should happen but the recommendation was rejected.

4.4 Register of interests

The Council maintains a register of interests for members. The register is updated on a regular basis, and copies are made available to the public on the Council's website. Responsibility for maintaining a register of interests or hospitality for officers is devolved to departments.

4.5 The National Fraud Initiative

Introduction

The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI covers a two year cycle- with cycles completed from 2004-05 and 2006-07. For the 2006-07 exercise 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 £1,547, relating to a housing benefit fraud.

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.

2007-08 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.

Since our report was issued, the Council has taken the following action:

- an action plan has been developed which sets out the key milestones in the NFI process, and the Council's progress against completion
- a control record is maintained of matches from the NFI application
- the action plan is passed to the Senior Management Team for review when key milestones are reached.

Training

The 2008-09 NFI application incorporates online training modules for staff using the application to process matches. The Council intends that all staff responsible for investigating data matches undertakes the necessary training. However, at the time of our audit, we noted that no members of staff were recorded on the application as having completed the training modules.

Looking forward

The Council has made good progress in the planning stages of the 2008-09 NFI cycle, and we are pleased to note that the bulk of the agreed action plan points from our 2007-08 report have now been actioned.

The Council have now received the data matches from Audit Scotland, and these have been assigned to departments for investigation. We will continue to monitor the Council's participation in the 2008-09 NFI cycle and the progress in investigating matches.

A Action plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Internal audit					
1	The Council has not yet developed a clear strategy setting out its vision for the future role, remit and structure of the internal audit section that meets the new challenges facing local government.	Medium	The Council should develop a strategy for the future provision of internal audit.	A review of Internal Audit is planned. This will address future strategy & vision as well as the issue over the “head” of Internal Audit and scope of any future partnership.	December 2009
Audit committee arrangements					
2	There is scope to further enhance the Audit Committee's annual report.	Medium	The audit committee should consider developing their annual report format to cover the following: <ul style="list-style-type: none"> ▪ key themes emerging from work undertaken ▪ assessment of internal and external audit ▪ key areas for improvement and focus of the committee's work in the coming year. 	Agreed. These have been included in the 2008/09 Audit Committee's annual report.	December 2009

B Progress in implementation of prior year recommendations

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
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 Risk: 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.	Partially Implemented An updated fraud section has been drafted however an amended constitution is not yet finalised. The Council is still in the process of updating the whole document, and this is expected to be completed by August 2009. Revised implementation date 31 August 2009

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
2	<p>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.</p> <p>Risk: Medium</p>	<p>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.</p>	<p>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.</p> <p>July 2007.</p>	<p>Implemented</p>
3	<p>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'.</p> <p>Risk: Medium</p>	<p>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.</p>	<p>This situation will be reviewed at the end of the internal audit partnership.</p> <p>April 2008.</p>	<p>Not Implemented</p> <p>The partnership with KPMG has since been extended. The Council should now consider internal audit arrangements for when the partnership comes to an end, including the position of a 'head of internal audit'. See also action plan point 1 in Appendix A.</p> <p>Revised implementation</p>

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
			<p>A review of Internal Audit is planned. This will address future strategy & vision as well as the issue over the "head" of Internal Audit and scope of any future partnership.</p>	<p>date: December 2009</p>
4	<p>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.</p> <p>Risk: Medium</p>	<p>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.</p>	<p>This will be put to the first audit committee with a view to submitting a report to the Council in April 2008.</p>	<p>Implemented</p>
5	<p>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.</p> <p>Risk: High</p>	<p>The resource requirement calculation for audit planning should reflect the actual audit days available based on the current capacity of the department.</p>	<p>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.</p>	<p>Implemented</p>

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
6	<p>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.</p> <p>Risk: Low</p>	<p>Audit documentation should include a walk through test to confirm that controls are operating as per the systems notes and flowcharts on file.</p>	<p>This will be done in 2007/08.</p>	<p>Implemented</p>
7	<p>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.</p> <p>Risk: Medium</p>	<p>The Council should ensure that the rationale for awarding a high controls assurance grading is clearly reflected within supporting working papers.</p>	<p>This will be covered in the Audit Manager review of the working papers file.</p> <p>Auditees responses are also taken into consideration.</p>	<p>Implemented</p>
8	<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>Risk: 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.</p> <p>July 2007.</p>	<p>Implemented</p>

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
Audit committee arrangements				
1	<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. 	<p>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.</p>	<p>Internal Audit Manager - The terms of reference will be updated to reflect this recommendation. December 2008.</p>	<p>Implemented</p>
2	<p>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.</p>	<p>The audit committee should ensure its 2008-09 annual report also incorporates a review of the committee's performance.</p>	<p>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.</p>	<p>Implemented</p>

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
3	<p>A member of the audit committee is also a Deputy Spokesperson and this does not comply with the committee's terms of reference.</p>	<p>The Council should review the audit committee membership to ensure it complies with the terms of reference.</p>	<p>Head of Democratic Services and Governance - Noted. This will be drawn to the attention of the Council.</p>	<p>Implemented</p>
4	<p>There is no formal training programme tailored to meet the needs of audit committee members.</p>	<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>	<p>December 2008.</p> <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.</p> <p>December 2008.</p>	<p>Implemented</p>

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
5	There is no annual declaration of interests for the two non-Councillor members of the audit committee.	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 with both parties. December 2008	Implemented
6	The audit committee has not yet held private meetings with internal or external audit.	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.	Implemented

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
7	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.	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.	Not yet due
8	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.	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.	Not yet due

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
Fraud and irregularity- the National Fraud Initiative				
9	The Council did not submit Form 3 (Audit Commission Return on Data Protection Compliance) in line with the deadline of 30 September 2006.	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	Implemented Form 3 was completed for the 2008-09 exercise by the deadline of 30 September 2008.
10	The Council did not adopt a formal plan for the NFI exercise.	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	Implemented

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
11	The Council did not adequately monitor the progress of the NFI exercise, and there was no overall control record maintained of cases being investigated.	<p>The Council should introduce a control record for the next NFI exercise which details:</p> <ul style="list-style-type: none"> • matches being reviewed; • responsible officer; • completion; and • stage reached. 	<p>Lead Internal Audit Manager - A control document has been prepared and passed to Grant Thornton, which has been accepted as addressing this recommendation.</p> <p>Completed</p>	Implemented
12	Formal reports are not produced for the Senior Management Team or members on the progress of the NFI exercise.	Regular monitoring reports on the NFI exercise should be reported to Senior Management and members which detail the progress of the exercise.	<p>Lead Internal Audit Manager - A formal reporting document was prepared and passed to Grant Thornton on the 18th of August 2008. This has been accepted. Reporting will commence at the end of September when key milestones have been achieved.</p> <p>With effect from 30 September 2008</p>	Implemented

No	Finding and risk assessment	Recommendation	Management Response and Implementation Date	Position at May 2009
13	<p>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.</p>	<p>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.</p>	<p>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-line training for the 2008-09 exercise and users will be encouraged to view this training.</p> <p>Completed</p>	<p>Not Implemented</p> <p>The Council intends that all staff using the NFI application should complete the online training modules included in the application.</p> <p>However, at the time of our audit, there was no evidence that any staff members have completed the online training modules.</p> <p>Updated implementation date: The training modules will be completed by 19 June 2009</p>



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Argyll and Bute Council

IT Systems and Applications- Progress report

3 June 2009

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1 Executive Summary

1.1 Introduction

The Council's key operations rely on information technology for processing, recording and reporting transactions. Information technology is, therefore critical to the ability of the Council to operate effectively and deliver high quality services to the public. As a result, adequate controls should be in place to ensure the availability, confidentiality and integrity of data. In addition, the Council is required to comply with the provisions of the Data Protection Act 1998 to ensure the safety and security of personal data.

As part of our 2008-09 audit, we have reviewed the design and operational effectiveness of general controls over IT systems and applications in the Council. We focused our review on the operation of the Oracle Financial Management System, the Council Tax system (iworld) and the Non Domestic Rates system (Orbis). We also reviewed the progress of implementation of the agreed action plan points from our 2007-08 audit of IT systems and applications. This report sets out the key findings from our review.

1.2 Findings

Our overall conclusion is that the controls over IT systems and applications continue to operate effectively. We made four new recommendations from our 2008-09 follow up review of which 1 is classed as medium risk:

- no disaster recovery tests were performed in the last financial year. The absence of such tests increases the risk that the Council systems may not be recovered within a reasonable time in the event of a systems failure.

We were pleased to note that management have taken action to implement the majority of the recommendations from our 2007-08 review. Of the ten outstanding recommendations, eight are now fully implemented, with two low risk recommendations partially implemented.

1.3 Way Forward

The findings and recommendations from our review are summarised in an Action Plan that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations. We have summarised the progress of implementation on recommendations made in our 2007-08 IT Systems and Applications Report in Appendix B.

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.

1.4 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.

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 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.

A Action plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Financial management and budgetary control					
1	<p>We noted that an external consultant had a privileged user account in the Oracle FMS system. This user account was no longer required at the time of our visit and was disabled when brought to management attention. In addition, the password of this Oracle user account was set to never expire.</p> <p>We also noted that the network account of this consultant was disabled.</p> <p>There is a risk that unauthorised access may be gained to finance data.</p>	Low	<p>Contractors should have their user accounts disabled when their assistance has finalised. This is particularly relevant for privileged user accounts.</p> <p>All Oracle FMS users should be forced to change their passwords on a regular basis.</p>	<p>The external consultant referred to has now been re-engaged by the Council for a further piece of work and therefore requires access at present. We will ensure that the password is set to expire after 30 days in common with other users, and is disabled when we are certain that their piece of work has been completed to a satisfactory standard.</p>	June 2009
2	<p>We found that four members of staff in Benefits and three employees in Council Tax have access to the password of the only privileged account in this system.</p> <p>There is a risk that unauthorised access may be gained to Council Tax or Benefits data.</p>	Low	<p>The Council should reassess the number of individuals that know the password of the privileged "RB" account in the iworld system.</p>	<p>The individuals in question in both Council Tax and Benefits are all engaged in systems administration activities for either Benefits or Council Tax and require access to this particular account. This will be kept under review and the minimum number of people given access to the RB account.</p>	Immediate

No	Finding	Risk	Recommendation	Management Response	Implementation Date
3	<p>We noted that no disaster recovery tests were performed in the last financial year.</p> <p>There is a risk that the Council systems may not be recovered within a reasonable time in the event of a disaster.</p>	Medium	<p>Disaster recovery plans should be subject to testing at least on an annual basis to ensure their effectiveness. Test results should be analysed to identify any issues that may hinder the recovery process.</p>	<p>Although the test has not been carried out within a strict 12 months of the last one, a test is completed each financial year as part of our disaster recovery contract and will continue to do so. This has been slightly delayed due to need to amend the contract coverage reflecting changes in requirements.</p>	Already in place
	<p>We identified four former members of staff with user accounts in the Oracle FMS system.</p> <p>Line Managers did not report three of these leavers to the Oracle FMS Lead User. In addition, the fourth user was not reported to the Lead User until March 2009 but had left the Council in December 2008.</p> <p>We found that the Service Desk does not usually contact the Oracle FMS Lead User when it becomes aware of a staff leaver.</p> <p>There is a risk that unauthorised access may be gained to finance data.</p>	Low	<p>The Service Desk should report leavers to Application Lead Users as soon as it becomes aware of them.</p> <p>Leavers' user accounts should be disabled or deleted on their leaving date.</p> <p>Line Managers should be reminded of the importance of responding accurately to the six-monthly user review of access to the Oracle FMS system. and user accounts should be disabled where confirmation is not obtained after a reasonable period of time.</p>	<p>The monthly payroll reports of all leavers provided to the Service Desk will be passed on to system administrators to assist them in identifying accounts to be disabled. However it should be noted that as the network accounts for these individuals have already been disabled by the Service Desk, there is no possibility of the individuals actually gaining access to the Oracle FMS system or any other system and so the risk of unauthorised access is considered very low.</p>	June 2009

B Progress in implementation of prior year recommendations

No	Finding	Recommendation	Management Response	Position at May 2009
1	<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: Medium</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>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.</p> <p>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>	Implemented

No	Finding	Recommendation	Management Response	Position at May 2009
2	<p>We tested a sample of fifteen leavers and found that the accounts of two users had not been disabled.</p> <p>There is a risk that unauthorised access could be gained to the network.</p> <p>Risk: Medium</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>	Agreed.	Implemented
3	<p>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>There is a risk that employees may gain unauthorised access to the network.</p> <p>Risk: Low</p>	<p>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>	We review user accounts on a six monthly basis and we will retain evidence of each review.	Implemented

No	Finding	Recommendation	Management Response	Position at May 2009
4	<p>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>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>Risk: Low</p>	<p>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>A procedure should be implemented to detail how members of staff could have access to this envelope.</p>	<p>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>	Implemented
5	<p>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: Low</p>	<p>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>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>	Implemented

No	Finding	Recommendation	Management Response	Position at May 2009
6	<p>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: Low</p>	<p>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>	Agreed.	Implemented

No	Finding	Recommendation	Management Response	Position at May 2009
7	<p>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: Low</p>	<p>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>	Agreed.	<p>Partially implemented</p> <p>A new sample of 10 changes to databases was selected and it was noted that one out of these 10 changes was not requested by a Lead User.</p>

No	Finding	Recommendation	Management Response	Position at May 2009
8	<p>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: Low</p>	<p>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>The IT Security forum has not as yet produced the policy for controlling access by USB devices.</p> <p>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>	Implemented
9	<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: Low</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>Penetration testing is now scheduled annually.</p> <p>We will carry out as much penetration testing as our budget allows.</p>	<p>Partially implemented.</p> <p>A penetration test was carried out last December. However, the vulnerabilities that were identified had not been analysed and addressed at the time of our visit due to staff shortages.</p>
10	<p>Windows patches are released by Microsoft on a regular basis.</p>	<p>The Council should update patches in PCs on a more regular basis. We</p>	<p>We have a WSUS service available to deliver patches to desktops when</p>	Implemented

No	Finding	Recommendation	Management Response	Position at May 2009
	<p>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: Low</p>	<p>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>required. There are WSUS servers in Kilmory and key locations.</p> <p>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>	



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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
26 June 2009

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2009 – 2010.

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 31st March 2009.

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 2006/07, 2007/08 and 2008/09 Internal Audit reports issued prior to March 2009. 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 31st March 2009. 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 January to March 2009. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by 31st December 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)

20 May 2009

Internal Audit Report Follow up - Summary**Reports With Recommendations Due From
January to March 2009**

Audit	Report Date	Points to be actioned by 31 March 2009	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2007/08					
Review of Budgetary Control	May 2008	1	1	0	
Review of Business Continuity	May 2008	1	1	0	
Review of Debtors 2007/08	April 2008	3	2	1	C10
2008/09					
Review of Income & Banking 2008/09	November 2008	3	1	2	D2&5
Review of Purchasing 2008/09	November 2008	1	1	0	
Review of Year end Stock & Work in Progress	September 2008	2	2	0	
Review of 2007/08 Statutory Performance Indicators (SPIs)	August 2008	3	3	0	
Total		14	11	3	

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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 31 March 2009	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2006/07						
Review of Tendering Procedures	June 2007	1	1	0	1	F1
2007/08						
Review of Business Continuity	May 2008	1	1	1	0	
Review of Contract Hire & Operating Leases	December 2007	2	2	1	1	A5
Review of Council & Committee Decision Follow-up	November 2007	2	2	0	2	B2&6
Review of General Ledger Operations - Bank Reconciliations	Dyecember 2007	1	1	1	0	
Review of New Legislation	November 2007	1	1	1	0	
Review of Performance - Revenue & Benefits	April 2008	3	3	3	0	
Review of Roads & Amenity Services - Waste Management Admin	September 2007	2	2	0	2	E1&2
Total		13	13	7	6	

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APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
A - REVIEW OF CONTRACT HIRE & OPERATING LEASES							
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 Facility Services	31 December 2007 31 March 2009	30 September 2009	Workload issues have led to project Lead being reassigned.
B - REVIEW OF COUNCIL & COMMITTEE DECISION FOLLOW-UP							
2	MATERIAL	An evaluation and assessment of the benefits obtained from the implementation 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 be included in the annual report.	Head of Legal & Protective Services	31 March 2008 31 October 2008 31 March 2009	September 2009	The Head of Legal & Protective Services has been unable to submit the report as she has been involved with the Protective Services and Licensing Best Value Review. She would hope to submit a report within the next three months.
6	MATERIAL	Bridge of Orchy - Negotiations have been going on at least from 1996 to resolve the issue regarding access to a water supply. There have been ongoing complicated issues that have been difficult to resolve.	Legal Services to write to the owners of properties covered by the water supply. A report will then be submitted to the Business Day of the OLI area committee.	Head of Legal & Protective Services	31 January 2008 30 September 2008 31 January 2009	August 2009	The school has been advertised for sale and a closing date was set for the end of February 2009. The highest offer has been accepted but is subject to the purchasers obtaining planning permission which is

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
							ongoing. It is hoped that all matters would be legally tied up by the end of August.
C - REVIEW OF DEBTORS 2007-08							
10	MATERIAL	IT is unclear who is to carry out follow-up and write off of unpaid debtor accounts	Debtors Control should agree with services exactly who should do what in regard to follow-up & write off of accounts. Revised procedures for follow-up of outstanding accounts should be compiled and issued prior to implementation of new system.	Head of ICT & Financial Services Exchequer Manager	31 January 2009	30 September 2009	The debt collection regime for sundry debts is currently being revised and procedures will be put in place following negotiations with outside agencies
D - REVIEW OF INCOME AND BANKING 2008/09							
2	MEDIUM	It was noted that the Lismore Ferry point of sale records were manually generated as opposed to machine generated cash up records. On enquiry we were advised that this machine regularly fails and indeed with or without machine generated records	1. The improvement in control is likely to have a cost implication and therefore it is recommended that a cost benefit exercise is carried out to determine the need for the additional internal check.	Marine and Airports Manager, Roads and Amenity Services	31 January 2009	30 June 2009 for supply of new ticket machine.	Marine & Airports manager, after reviewing, does not consider an additional internal check necessary. The ticket machine is due to be replaced. Contact has been made with DDS the supplier. There is also new hardware supplied from DDS

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
		we have an overall concern that if no ticket is issued cash could be received and not processed as income. The required control would be the collection of tickets on leaving the ferry by a crew member not responsible for the issue of tickets and the tickets reconciled to the total received	2. The Lismore ferry ticket machine should be repaired or replaced as necessary				which has yet to be installed by IT.
5	HIGH	While in Helensburgh & Lomond average ticket values were unaffected the daily revenue from car parks falls when machines are emptied more infrequently. This suggests that visibility of parking attendants and/or other staff emptying machines encourages payment by customers rather than risk a fine. Equally the absence of an attendant is likely to reduce revenues.	<p>1. Roads and amenity Services should carry out a review of car park earnings in Helensburgh & Lomond comparing periods when a car park attendant was employed with a similar period when no car park attendant was in place include the revenue from parking fines to measure the cost benefit of employing a car park attendant.</p> <p>2. Regardless of the appointment of a car park attendant a visible Council presence in the car parks is conducive to encouraging income and therefore it would be beneficial if machines were emptied twice a week</p>	Network & Environment Manager, Roads and Amenity Services	31 January 2009	30 June 2009	<p>Neil Brown to take a lead on this per recent Parking and Public Convenience Income Audit - Draft Report.</p> <p>Alan Kerr advises:</p> <p>1. It was considered that the existing staff with the car park attendant post unfilled should have been able to provide a reasonable level of service. However the main person covering this post was on a long term absence and this made collections very difficult. There was also a reluctance to carry out patrols outwith normal hours due to Single Status implications and personal reasons. This has changed and it is anticipated that additional patrols can be</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
			and once a week as a minimum; consider seasonal influence.				<p>provided. There requires to be a re- assessment as it will now operate with assistance from streetscene personnel. The takings were considerably lower this year and this was primarily due to the long term illness, single status, personal reasons, reduced fine collection, reduced number of cars, extensive traffic management on main arterial routes (A814 & A818) .</p> <p>A comparison of income should now be made to compare with attendant, revised process.</p> <p>2. There is generally a daily presence to check that machines are operating and a once a week emptying of machines. It is proposed that machines will be emptied more frequently to reduce manual handling as necessary to enable a twice weekly collection. However only busy machines will be emptied. All staff will wear high visibility clothing.</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
E - REVIEW OF ROADS & AMENITY SERVICES - WASTE MANAGEMENT ADMIN							
1	MATERIAL	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.	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	Area Supervisors	30 November 2007 30 April 2008, 31 August 2008 31 January 2009	31 July 2009	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 January 2009. New Fleet & Waste Manager has been reviewing the handbook in conjunction with the relevant Fleet staff.

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
			blue copy Defect Record Book Form and retain these in an individual vehicle file. This will provide a full defect/downtime record for each vehicle.				
2	MATERIAL	<p>1. Driver's Record Books weekly sheets are not always completed.</p> <p>3. The Driver's Record Books at Helensburgh & Lomond did not record the time the driver went off duty</p>	<p>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.</p> <p>3. 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.</p>	Area Supervisors	30 November 2007 30 April 2008, 31 August 2008 31 January 2009	31 July 2009	
F – REVIEW OF TENDERING PROCEDURES							
1	FUNDAMENTAL	The Council's Contract Standing Orders did not give any guidance as to the action to be taken when only one tender is received for a project.	The Contract Standing Orders within the Council's Constitution should be amended to give clear guidance to staff as to the steps to be taken.	Head of Democratic Services & Governance	31 October 2007 31 July 2008 31 March 2009		Interim guidance issued and will be included in new constitution.

External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From January to March 2009

Audit	Points to be actioned by 31 March 2009	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2008/09				
Grant Thornton 2007/08 Audit - Interim Management Report	5	5	0	
Grant Thornton Report on the 2007/08 Accounts Audit	4	4	0	
Grant Thornton Report on the 2007/08 Accounts Audit, Appendix C - Follow up Prior Year	5	4	1	B5
Total	14	13	1	

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Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 31 March 2009	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
Audit Scotland - Improving Customer Services through Better Customer Contact	1	1	0	1	A1
Total	1	1	0	1	

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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 IMPROVING CUSTOMER SERVICES THROUGH BETTER CUSTOMER CONTACT							
1	MEDIUM	Councils 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, 30 June 2008, 31 October 2008 31 March 2009	30 November 2009	Customer management theme in process for change will deliver high level design of new processes. The survey of Citizens Panel in December 2008 showed a 75% approval rating for existing council customer services. The detailed design will also review customer strategy and service models including CPD for customer services agents.
B - GRANT THORNTON REPORT ON THE 2007-08 ACCOUNTS AUDIT, APPENDIX C – FOLLOW-UP PRIOR YEAR							
5	MEDIUM	<p>Debt Management</p> <p>We found that there is no formal debt recovery scheme in place for outstanding debtor balances and, whilst the Council has adequately provided for these debts, it has not reviewed them for some time to consider recoverability.</p>	<p>The Council should develop a formal debt recovery scheme to formalise its procedures for following up, reviewing and writing off aged debtors.</p> <p>Management Response A formal policy has always been in place in relation to sundry debts but due to transfer of staff under TUPE in connection with Housing Staff Transfer, the internal resources for this largely disappeared. Outsourcing arrangements are now being</p>	Head of ICT & Financial Services	30 April 2008	31 August 2009	Head of Legal Services has agreed to provide this service and this is in place. It was therefore not included in the Sheriff Officer Tender. However, further review of resources in Legal Services means that they have prioritised the higher value debts. Follow-up of lower value debts will be outsourced to a debt collection organisation. This will be in place by august 2009.

APPENDIX 4

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
			considered Tender by December 2007 with contract in place by April 2008				

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
26 JUNE 2009**

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 final report summaries and action plans from recent audits to be submitted to the June 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 A list of the audit reports being presented to the Audit Committee for review has been provided.

3.2 The attached are 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 findings 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.

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 Ian Nisbet, Internal Audit Manager (01546 604216).18mayfinalreport18may

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Internal Audit Report

Chief Executive's Unit

Interim Audit: Review of Capital Accounting

November 2008

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1 INTRODUCTION

This report has been prepared following the Internal Audit review of Capital Accounting for the Chief Executive's Unit as part of the 2008/09 Internal Audit programme.

Capital Accounting involves the recording of the Council's assets, acquisitions and disposals within the Finance Asset Register and the general accounting records, reconciling the two and ensuring that assets are recorded in the annual statement of accounts in accordance with the CIPFA Code of Practice on local Authority accounting in the United Kingdom, Statement of Recommended Practice.

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the relevant department contact for completion and to establishing that any good practice issues remaining outstanding from the previously issued Major Capital Audit – Overview had been updated. These issues as they relate to Capital Accounting are set out at Appendix 2.

The broad objectives of the review were to ensure:

- The CIPFA Code of Practice is reflected in Capital Accounting Policy and Procedures and that these are regularly reviewed
- That year end reporting good practice issues are addressed and that appropriate timetables are in place
- That capital budget setting good practice issues are addressed and that appropriate timetables are in place
- That procedures exist for the reconciliation of the Council's various asset registers and the recording of data
- That the procedures are comprehensive and reflect good practice

3 CORPORATE GOVERNANCE

Although there are no corporate governance issues to be reported as a result of this audit capital accounting is an integral part of the Council's Asset Management Strategy which development does involve corporate governance issues.

4 MAIN FINDINGS

Internal Audit found that the Capital Accounting Section had adopted good practice in the areas of policy, planning and performance and systems and procedures. There is however a lack of formal written procedures.

An Asset Register is in place but there is no linkage to the new Council Asset Register Database which is currently being developed and populated. Reconciliations between the Asset Register and Services view of the assets within their control are attempted but in general are poorly responded to by Services.

5 RECOMMENDATIONS

No Action Plan has been included as those findings which require further action have previously been identified within the audit report – Major Capital Audit - Overview and will be addressed within a corporate programme to be developed and agreed by the Asset Management Strategic Board to whom a copy of Appendix 2 to this report will be issued.

6 AUDIT OPINION

The auditor is satisfied that the section has answered the ICQ in an appropriate manner. Based on the findings we can conclude that the Capital Accounting function follow the CIPFA Statement of Recommended Practice and aim to ensure there are comprehensive procedures in place.

7 ACKNOWLEDGEMENTS

Thanks are due to all the staff within the Capital Accounting Section for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 1 DETAILED FINDINGS

1 Policies and Procedures

- 1.1 A Statement of Accounting Policies is incorporated in the Annual Accounts Statements and this confirms preparation in accordance with the Statement of recommended Practice and highlights any major changes year on year.
- 1.2 The State of Recommended Practice is issued by CIPFA annually and ensures a regular annual review of accounting policies.

2 Planning and Performance

- 2.1 Year End good practice issues are addressed and appropriate timetables are in place and adhered to.
- 2.2 Capital Budget good practice issues are addressed and appropriate timetables are in place and adhered to.
- 2.3 Regular (monthly and quarterly) reporting on capital spend and income to Strategic Management Team and Executive Committee takes place.
- 2.4 A Business Case gateway procedure is in operation for authorisation of capital expenditure.

3 Systems and Procedures

- 3.1 Procedures are in place for the reconciliation of the Finance Asset Register to the accounts nominal ledger and dealing with assets under construction.
- 3.2 No procedures have yet been developed for the reconciliation of the Council Asset Register Database with the Finance Asset Register.
- 3.3 Requests for confirmation from Services that assets attributable to them as contained in the Finance Asset Register are accurate have not been consistently and reliably responded to.
- 3.4 There is a lack of formal written procedures but as significant changes and/or additions will be required to meet asset management strategic proposals that would be an opportune time to prepare the necessary procedures.

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MAJOR CAPITAL AUDIT - OVERVIEW; OUTSTANDING ISSUES UPDATED

ELEMENT	ASPECT	CRITERIA	GOOD PRACTICE	CURRENT PRACTICE	GAP	ACTION PLANNED	LEAD	DATE OF COMPLETION
5. Capital Accounting	A. Policies	1. Is there a policy on recording of information for capital accounting?	Councils should adhere to the CIPFA Code of Practice in relation to Financial Accounting Policies and appropriate procedures for capital accounting including definitions should be in place.	Procedures in place for Capital Accounting Section who also attempt an annual reconciliation/confirmation with Services. Annual SORP published by CIPFA and followed by Capital Accounting Section. Statement of Accounting Policies contained within Annual Accounts.	Determine Council Policy on Valuation, Depreciation and Funding Costs and possible nominal charges by Asset Type. See comments within schedule of Asset Types. Policy requires to address links between Services, Capital Accounting and Council Asset Register Database.	Recommend basis for asset valuation by Asset Type and review structures for controlling assets to obtain best value from each asset type.	Head of Strategic Finance	January 2009
		2. Is the policy comprehensive ?	Councils should adhere to the CIPFA Code of Practice in relation to Financial Accounting Policies and appropriate procedures for capital accounting including definitions should be in place.	The CIPFA Code of Practice is issued annually and contains under section 3 Accounting Policies and Estimation Techniques and within which Tangible and Intangible Assets are considered	Increasingly Council Services will rely on management accounting techniques for financial information and all charges affecting revenue budgets will require to reflect expected outcomes during the course of the financial year. Consideration should be given to a programme of recurring costs being allocated on a monthly basis to Services Revenue Charges.	Careful consideration will be required to the relationship between effective management accounting and ensuring financial accounting compliance with the SORP. This could be particularly so when considering Infrastructure Assets; their valuation and accounting treatment and recording	Head of Strategic Finance	April 2009

ELEMENT	ASPECT	CRITERIA	GOOD PRACTICE	CURRENT PRACTICE	GAP	ACTION PLANNED	LEAD	DATE OF COMPLETION
		3. Is it reviewed to ensure it remains relevant?	As a minimum the policy should be reviewed each time the Code of Practice changes with additional considerations annually in the light of the contents of the Corporate Asset Management Plan.	Delegated to the head of Strategic Finance to prepare accounts in accordance with the appropriate SORP.	None	None	N/A	N/A
	B. Planning & Performance	1. Is the information provided for the annual accounts accurate and timeous?	Each year a Year End accounting timetable should be prepared and issued to relevant personnel involved in the accounts recording and preparation. This should also define the materiality of transactions and reflect the policies and strategies set out for e.g. loan charges, depreciation etc.	Annual accounting timetable prepared together with Year End timetable which is generally adhered to.	None	None	N/A	N/A
		2. Is the information provided for the budget accurate and timeous?	Each year a Year End accounting timetable should be prepared and issued to relevant personnel involved in the accounts recording and preparation. This should also define the materiality of transactions and reflect the policies and strategies set out for e.g. loan charges, depreciation etc.	Annual budget timetable prepared.	None	None	N/A	N/A

ELEMENT	ASPECT	CRITERIA	GOOD PRACTICE	CURRENT PRACTICE	GAP	ACTION PLANNED	LEAD	DATE OF COMPLETION
	C. Systems & Procedures	1. Are appropriate systems in place to record capital accounting information on assets?	Asset register required to be maintained in respect of each individual asset recording historical cost, revaluation information, perform depreciation calculations in accordance with Council policies. In addition records dealing with assets under construction are also required.	Asset register maintained by Capital Accounting Section and annually confirmed with individual Services. It is impossible to match infrastructure and similar assets but generally Services will provide update on transferred or scrapped assets not previously communicated to Capital Accounting	Since the Council Asset Register Database has been populated with two classes of properties there is a need to determine when and at what frequency the database should be updated in respect of acquisition and disposals. How this information is communicated to whom and who is responsible for effecting the update.	Determine procedure.	Asset Management Strategic Board	November 2008
		2. Are there clear roles and responsibilities over the management and administration of the system for recording capital accounting information?	Job descriptions in place for capital accounting staff and written procedures covering the recording of assets in asset register and Council accounting records...	Written procedures in place but again Capital accounting is a small Section with 1/2 staff involved.	Since the Council asset Register Database has been populated with two classes of properties there is a need to determine when and at what frequency the database should be updated in respect of acquisition and disposals. How this information is communicated to whom and who is responsible for effecting the update.	Determine procedure.	Asset Management Strategic Board	November 2008

ELEMENT	ASPECT	CRITERIA	GOOD PRACTICE	CURRENT PRACTICE	GAP	ACTION PLANNED	LEAD	DATE OF COMPLETION
		3. Are there appropriate controls and reconciliations in place over the input of data, reporting from and control over the system for recording capital accounting information?	Procedures should exist to ensure that all information required by Services to account for their assets and monitor their performance is held in such a manner as to be capable of being reconciled to the Capital Accounting records and any other database relating to assets.	Limited to Capital Accounting but support from Services is generally weak. Once or twice annually Capital Accounting attempt to obtain confirmation that assets remain in existence and are attributed to the correct Service. Responses are historically poor but have improved in recent periods.	Since the Council asset Register Database has been populated with two classes of properties there is a need to determine when and at what frequency the database should be updated in respect of acquisition and disposals. How this information is communicated to whom and who is responsible for effecting the update.	Determine procedure.	Asset Management Strategic Board	November 2008
		4. Is there a procedure manual in place covering the system for recording capital accounting information?	Job descriptions in place for capital accounting staff and written procedures covering the recording of assets in asset register and Council accounting records.	Yes but limited to Capital accounting	Procedure for communicating details of Assets scrapped, sold or otherwise disposed of to Capital Accounting and the Council Asset Register Database. Must be addressed for asset registers to remain credible and accurate.	Determine procedure.	Asset Management Strategic Board	November 2008
		5. Is the manual comprehensive ?	The manual should cover all aspects of capital accounting to defining the nature and valuation of assets to implementing all policies and strategies related to capital assets.	Procedure deals with recording, controlling assets under construction, and reconciling asset register to financial ledger.	Since the Council asset Register Database has been populated with two classes of properties there is a need to determine when and at what frequency the database should be updated in respect of acquisition and disposals. How this information is communicated to whom and who is responsible for effecting the update.	Determine procedure.	Asset Management Strategic Board	November 2008

ELEMENT	ASPECT	CRITERIA	GOOD PRACTICE	CURRENT PRACTICE	GAP	ACTION PLANNED	LEAD	DATE OF COMPLETION
		6. Is the manual reviewed to ensure it remains relevant?	The manual should be reviewed each year in the light of any changes which may be required to concur with the Corporate Asset Management Plan.	Reviewed only when system amendments are introduced.	No timetable for review of capital accounting manual	Determine timetable	Head of Strategic Finance	April 2009
		7. Are appropriate systems in place to record loans fund advances?	This should form part of a procedures manual and should facilitate the allocation of cost to Services.	Yes but limited to Capital accounting by use of Excel spreadsheets. No charges or allocation of loans fund to Services are made.	Consider whether Loans Fund Advances should be allocated to Services and interest charged accordingly. This would net out in final accounts.	Review accounting practices	Head of Strategic Finance	April 2009
		8. Are there clear roles and responsibilities over the management and administration of the system for recording loans fund advances?	Job descriptions in place for capital accounting staff and written procedures covering the recording of assets in asset register and Council accounting records.	Yes but limited to Capital accounting	Consider whether Loans Fund Advances should be allocated to Services and interest charged accordingly. This would net out in final accounts.	Review accounting practices	Head of Strategic Finance	April 2009
		9. Are there appropriate controls and reconciliations in place over the input of data, reporting from and control over the system for recording loans fund advances?	Job descriptions in place for capital accounting staff and written procedures covering the recording of assets in asset register and Council accounting records.	Yes but limited to Capital accounting and carried out annually only.	This is always likely to be an annual calculation but if amendments are made for management accounting purposes consideration would require to be given to reconciling the two methods	Review accounting practices	Head of Strategic Finance	April 2009

ELEMENT	ASPECT	CRITERIA	GOOD PRACTICE	CURRENT PRACTICE	GAP	ACTION PLANNED	LEAD	DATE OF COMPLETION
		10. Is there a procedure manual in place covering the system for recording loans fund advances?	Job descriptions in place for capital accounting staff and written procedures covering the recording of assets in asset register and Council accounting records.	No formal written procedures in place	Written procedures manual required.	Determine date for preparation of new procedures involving reconciliations and recording by Services and Council Asset Register Database.	Head of Strategic Finance	April 2009
		11. Is the manual comprehensive ?	The manual should cover all aspects of capital accounting to defining the nature and valuation of assets to implementing all policies and strategies related to capital assets.	There is a procedure which deals with the transfer of assets (purchased in year) from the asset register to the finance ledger and is carried out annually at the year end. In addition the SORP will be reviewed for any updated matters.	Written procedures manual required.	Determine date for preparation of new procedures involving reconciliations and recording by Services and Council Asset Register Database.	Head of Strategic Finance	April 2009
		12. Is the manual reviewed to ensure it remains relevant?	The manual should be reviewed each year in the light of any changes which may be required to concur with the Corporate Asset Management Plan.	N/A	Written procedures manual required.	Determine date for preparation of new procedures involving reconciliations and recording by Services and Council Asset Register Database.	Head of Strategic Finance	April 2009
		13. Is there compliance with Council constitution?	Good practice can only be achieved if there is compliance with the Council Constitution.	The section adheres to the Council Constitution.	None	Ensure a process is in place for updating the Council Constitution either by use of Addenda or full update.	Asset Management Strategic Board	2008
		14. Are the provisions in the Council constitution appropriate?	Good practice can only be achieved if there is compliance with the Council Constitution.	The section adheres to the Council Constitution.	None	Ensure a process is in place for updating the Council Constitution either by use of Addenda or full update.	Asset Management Strategic Board	2008



Internal Audit Report

CORPORATE SERVICES DEPARTMENT

Review of Council Tax and Non-Domestic Rates

March 2009

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Council Tax and Non-Domestic Rates as part of the 2008/09 Internal Audit programme.

Council Tax set by Argyll & Bute Council is a contribution towards Council Services which is payable on domestic properties and by law, the Council is required to include in the bill, (where applicable) charges for water and sewerage set by the Water Authority. The charge is based on the valuation band placed on the property by the Assessor.

Council Tax is required to be paid by the occupier (whether privately owned or rented), the sub-tenant occupier or the owner (where the property is unoccupied). There are various discounts, exemptions and relief for persons with disabilities that may be applied for using the proper documentation and providing evidence where required.

In February 2008 Argyll & Bute's Council's Council Tax System produced 46,140 bills and for the financial year 2008-09 a total value of £53,408,139.19.

Non - Domestic Rates (NDR) are charged on commercial properties based on a rateable value fixed by the Assessor (Dunbartonshire and Argyll & Bute Valuation Joint Board). For 2008 - 09 the poundage charged is 45.8p. In certain circumstances, reliefs are available for charitable organisations, disabled persons, empty properties, rural properties and small businesses.

Direct Debit is the Council's preferred method of payment for Council Tax and NDR and may be paid in instalments. Payments can also be made by post, at any Post Office and at Council offices. Payment by debit/credit card can be arranged by telephone or via the internet.

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the Revenues and Benefits Manager for completion.

The broad objectives were to review the following areas using CIPFA SBA control matrices for both Council Tax and Non Domestic Rates. This will ensure that procedures and processes are in place through sampling and walk through testing.

- Liability
- Billing
- Collection and Refunds; and
- Recovery and Enforcement

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the Risk Register was reviewed to identify any areas that needed to be included within the audit.

There were no areas found on the Risk Register to be included within the audit.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

There were no significant findings resulting from the audit. Both Council Tax and Non Domestic Rates resource teams continue to provide a well controlled service, however 4 minor findings have been generated and recommendations made to further enhance controls and the operational efficiency of both services.

The main findings resulting from this audit were as follows:

- Comino barcodes were working on the test system but not on the live system.
- Password lifetimes were set too long.
- There are no proactive measures being used to encourage Non-Domestic Rates payment by direct debit.

6 RECOMMENDATIONS

The audit generated recommendations that have been agreed with management. These are detailed in the Action Plan set out below in Appendix 2.

7 AUDIT OPINION

Internal Audit is satisfied that both sections have answered the ICQ in an appropriate manner.

Based on audit findings we can conclude that both sections were able to provide evidence of their adherence to current controls. That in both sampling

and walk through tests 4 minor matters were identified and these have been discussed with management.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to both the Council tax and Non Domestic Rates Supervisor's and their teams for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

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Internal Audit Report

CORPORATE SERVICES DEPARTMENT

Review of Debtors

January 2009

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APPENDICES

1	DETAILED FINDINGS
2	ACTION PLAN

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Debtors as part of the 2008/2009 Internal Audit programme.
- 1.2 The Debtors section is located within ICT and Financial Services of the Corporate Services Department and is managed by the Exchequer Manager. In the Financial Year 2008 and Debtors system raised 22,125 accounts with a value of £18,952,838.76p.
- 1.3 The current Debtors system was inherited from the former Strathclyde Regional Council and is being replaced by a new Civica Financials, Debtors system in January 2009.
- 1.4 The Debtors section has recently been the subject of a Best Value review which resulted in external competitive bidding to provide the service. The review involved the section being evaluated in terms of efficiency and effectiveness from which they were successful.
- 1.5 As part of the Internal Audit process the Exchequer Manager was requested to complete a Systems Based Auditing - Internal Control Questionnaire (ICQ) for the Debtors process prior to the review. This was then followed up by evidence gathering to support the management responses.
- 1.6 As a result of our audit work, findings were generated. These findings were subsequently discussed with management and a report produced.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The objective was to review the ICT and Financial Services response in the ICQ to ensure that the answers were verifiable.
- 2.2 The review focussed on testing where a 'No' answer was entered, was there an alternative control in place to reduce potential risk to the council.
- 2.3 The questionnaire included the following elements of the debtor's process:
 - Written Procedures / System Access
 - Raising Invoices
 - Amendments to Invoices
 - Payments
 - Debt Recovery
 - Write-offs
 - Security of Data.

3 AUDIT APPROACH

3.1 Ensure that

- The ICQ input was fully completed.
- Where there was a 'yes', there was sufficient data to support the response.
- Where there was a 'no' response, the risk to the council is assessed.

3.2 Discussions were held with both the Exchequer Manager and Senior Accounting Assistant (ICT and Financial Services) to understand the responses to the ICQ.

4 SUMMARY OF MAIN FINDINGS

4.1 Another Debtor Retention Policy will need to be compiled for the new Debtors system and made available to departments in order to comply with the Council's IT guidelines.

4.2 The current Debtors system is covered under the Council's disaster recovery procedures the new system will require similar coverage.

4.3 The Debtors section issued a 'Sundry Debtors Policy' for departments and with a new system being introduced in January 2009 it would be beneficial to issue a new 'Sundry Debtors Policy'.

4.4 There is a lack of clarity in senior management reporting and a lack of collection with regard to rate targets.

4.5 There is no control check to ensure that all printed invoices are mailed.

5 AREAS OF GOOD PRACTICE

5.1 The Debtors was the subject of a Best Value review which invited competitive bidding from external parties as well as the existing Debtors section. The review found the existing section to be the most efficient and effective.

6 ACTION PLAN

6.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Exchequer Manager.

6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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

7 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 7.1 The Auditees had a good working knowledge of the processes involved. However, during the course of the audit, some areas were identified as requiring some improvement and therefore, various recommendations have been made. These have been discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)

8 ACKNOWLEDGEMENTS

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

APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	1.2	Material	The Debtors section issued a 'Sundry Debtors Policy' for departments in 2004. This will need to be updated for the new system. At the same time a new Debtors Retention Policy will be required and disaster recovery procedures updated.	A new 'Sundry Debtors Policy' and Debtors Retention Policy' will be issued to compliment the implementation of the new Debtors system. Disaster recovery procedures will recognise the new Debtors system.	Exchequer Manager	29 th May 2009
2	1.3	Material	The Debtors Systems Users list contained a number of duplicate and obsolete users.	The Debtors Systems User list will be reviewed.	Exchequer Manager	29 th May 2009

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
5	1.6	Material	There are no collection rate targets in place. In addition, there is a lack of clarity on debtor performance reporting to Senior Management.	Management will review current performance reporting and assess the requirement to introduce collection rate targets taking into the introduction of the new Debtors system.	Head of Legal and Protective Services	29 th May 2009

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Internal Audit Report

Corporate Services

Review of Unified Benefits

March 2009

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5 MAIN FINDINGS

5.1 The broad objective of the audit was to ensure that procedures and processes were in place to ensure that the benefits on the Council systems Comino and I: World are properly:

- Administered;
- Assessed;
- Payments are accurate; and
- Overpayments are identified, collected and corrected.

Walk through and sample testing revealed that the control exercised by Unified Benefits is substantial with no financial errors found. The only issue found by the audit team was that Comino and I World were difficult to interrogate, whilst trying to locate sampling data. Northgate is currently being updated which should make the system easier to interrogate by auditors.

5.2 The audit reviewed through visiting all Service Points. Internal Audit identified that there was scope for the further development of the service for the customer.

5.3 The audit findings outlined in this report provide management the opportunity to further enhance controls and operational efficiency relational to benefits. This will lead to faster determination of benefit entitlement for the customer and greater performance achievement for the Council.

5.4 Specific areas identified by the audit that can directly impact on performance and improve customer service are:

- There is a need to introduce a Service Level Agreement (SLA) setting out the activities and responsibilities of Service Point staff. Resolution is the responsibility of the Revenues and Benefits Manager, Customer Services Manager, and Area Corporate Services Management;
- In some areas back and Front Offices have different locations and when linked with a lack of clarity in responsibilities and tasks for each office this has led to a drop in performance;
- Visits by Internal Audit to Service Points revealed that there was a varied level of uptake regarding E-Benefits by claimants. Internal Audit believes that if E-Benefits were championed this would lead to improved performance, less administration and a better service for the customer in earlier receipt of their benefits.
- It was noted by Internal Audit at the Service Points that, incomplete documentation is being handed in by claimants to the Front Offices staff. This means that the e-Benefits application

cannot be completed and the application goes into the Ordinary stream for further follow up by staff and eventually the Back Office staff. The net effect is the denigration of the Councils national performance indicators.

- It was noted that Service Point lunchtime closure times varied across Argyll and Bute with some closing for an hour during the day whilst others remained open. There should be a common policy regarding opening times thus improving customer access.
- It was noted from Internal Audit visits to Service Points, libraries, community centres, and Jobcentre Plus offices that, there was an absence of information leaflets regarding benefits and contact numbers.

5.5 Internal Audit also identified weaknesses relating to security of claimant information

- It was noted from Internal Audit visits to Service Points that claimants were not always asked for proof of identity when making benefits enquiries.
- Registers of Interests were either absent or not being kept up-to-date.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The roles and responsibilities for the duties of Back/Front office staff are not clear in regards to processing benefits	Medium	Service Level Agreement to be drafted for Unified Benefits and put forward to Senior Management for approval and implementation.	Revenues and Benefit Manager	31 July 2009
2	There were difficulties found when Front and Back office staff are located in separate buildings	Medium	Where possible Front and Back office staff should be located in the same premises. This is dependent on Office Rationalisation process.	Head of ICT & Financial Services & Head of Democratic Services and Governance	31 December 2009
3	E-Benefits have a poor uptake rate. Certain areas seem disillusioned with performing e-Benefits.	Medium	Only e-Benefits' should be permitted for new applications, paper applications should only be processed as a last resort.	Revenues and Benefits Manager/Customer Service Centre Manager/ Area Corporate Service Managers	31 March 2010
4	Libraries and other council premises were found to have no information on benefits and were unaware of where to send potential claimants.	Low	Leaflets to be distributed to all areas, to improve claimant awareness.	Revenues and Benefits Manager	31 March 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
5	In some areas, personal information regarding benefits is being released without seeking confirmation of the enquirer's identity. This is a direct breach of the Data Protection Act 1998.	High	Service Point staff should be informed/ reminded of the requirements of the Data Protection Act 1998.	Customer Services Centre Manager	Immediate
6	Service Point staff have not signed an annual declaration form (Register of Interests) indicating friends and family members when dealing with their benefit claims.	Medium	Back Office staff have signed a declaration form during the process of this audit; a similar declaration should be completed by Service Point staff.	Customer Service Centre Manager	30 th June 2009
7	Back Office staff are receiving telephone and written queries because they are putting their contact details on correspondence to claimants.	Medium	All documentation issued by the Benefits staff should direct claimants to the Customer Service Centre in the first instance. This has been applied during the course of the audit.	Revenues and Benefits Manager	Implemented
8	There is not always suitable accommodation available for discussing claims confidentially.	Medium	This may be difficult to implement due to lack of space but management should endeavour to make alternative facilities available.	Head of Democratic Services and Governance / Head of ICT and Financial Services	To be provided for all appointments by 30 Sept 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
9	Lunch time closure of Service Points is not standardised across areas. Some close at 1-2pm while others remain open.	Low	Area Service Points should be staffed at all times.	Head of Democratic Services and Governance	31 December 2009

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Internal Audit Report

FINAL

Corporate Services

Review of Payroll

June 2009

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Payroll, Corporate Services as part of the 2008/09 Internal Audit programme.

An Internal Control Questionnaire (ICQ) was issued to the Exchequer Manager, ICT & Financial Services for completion prior to the commencement of the audit. It was decided to review Community Services with the main emphasis being on the Monthly Teachers payroll.

Meetings were held with staff from Strategic HR, ICT & Financial Services (payroll) and Community Services HR (both Education and Social Work) to go over the completed ICQ to obtain more information and documentation.

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the relevant department contact for completion.

The broad objectives of the review were to ensure:

- That there were sufficient procedures in place for new starts,
- That deductions were properly taken from salaries,
- That correct deductions were paid over to the appropriate bodies on the due date,
- Any variations to pay were properly authorised,
- Reconciliations were prepared and authorised, and
- Data was held securely.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

Risk reference SR1.017 – 2.014 – Financial systems no longer met requirements and SR1.018 – Failure to have a robust internal control system were the risks that applied to this review.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The lists of authorised signatories have not all been countersigned by the Director or appropriate Head of Service.	High	The lists of authorised signatories should be issued to Community Services to be countersigned by the Director or appropriate Head of Service.	Exchequer Manager	31 st August 2009.
2	Paperwork for new starts does not always reach the payroll section by the due date resulting in a reworking of the payrun.	Medium	HR staff will monitor the position to ensure such instances are kept to a minimum.	Head of Planning & Performance	August 2009
3	The payroll section is not always notified of leavers in time in order to stop their pays resulting in overpayments being made. These overpayments have to be recovered and in some cases sundry debtor accounts have to be issued.	High	HR staff should inform the relevant officials that they should be informed about any leavers as soon as possible in order that they can inform the Payroll section. This should keep any overpayments to a minimum.	Head of Planning & Performance	July 2009

Argyll & Bute Council
Internal Audit Review of Payroll

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	Departmental HR staff have set up some new starts against the wrong cost centre.	Medium	HR staff should ensure that all new starts are being charged to correct cost centre prior to information being passed to the Payroll section.	Head of Planning & Performance	July 2009
5	Whilst old payroll records are kept in a locked container outside the office, the current records are held in the payroll section and are not locked away in cabinets or cupboards.	Low	All payroll records should be locked away when they were not in use by payroll staff. They should be kept in locked cabinets or cupboards with access restricted to payroll staff.	Head of ICT & Financial Services	Current payroll records are in constant use by payroll staff and need to be adjacent to the workspace. There would be substantial cost in replacing the current filing cabinets with lockable cabinets. The payroll section has security access.

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INTERNAL AUDIT, RISK & COMPLIANCE SERVICES

Argyll & Bute Council
Internal audit report - IT service desk review
10 June 2009

Report Number 001

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ADVISORY

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Head of ICT and Financial Services
Head of Strategic Finance

This report has been prepared on the basis set out in our internal audit services contract with Argyll & Bute Council (the client), dated March 2009, in respect of internal audit services, and should be read in conjunction with the contract. This report is for the benefit only of the client and the other parties that we have agreed in writing to treat as addressees of the engagement letter (together the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the engagement letter. This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report or a copy (under the Freedom of Information (Scotland) Act 2002 or otherwise and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Summary of objective and scope

As part of the 2008-09 internal audit plan, as approved by the audit committee of Argyll and Bute Council ("the Council"), an internal audit review of the IT service desk was performed in February and March 2009.

The overall objective of this review was to consider the processes and controls to manage the IT service desk.

The specific objective, scope and approach in respect of this internal audit are detailed in Appendix 1.

Background

The Information and Communication Technology ("ICT") service desk uses a fault and request logging and monitoring system 'HEAT'. The system lies at the heart of the ICT service and is used for fault recording, monitoring and sign-off as well as a central resource for recording all other requests for IT assistance.

All IT staff within ICT and financial services use the system with access also available to all departmental IT staff. One of the key factors in measuring the success of the service desk and support functions is their 'time to fix' IT related problems.

The review considered all aspects of the service desk function, particularly whether the technology is being used effectively to reduce the time taken to resolve IT related problems – the 'time to fix'. The review also considered how to increase the number of calls closed at the first time of asking.

The review used the IT Infrastructure Library ("ITIL") framework as a structure and benchmark to compare against the Council's IT service desk.

Key findings and recommendations

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Classification of internal audit findings are detailed in Appendix 2.

	High	Medium	Low
Number of internal audit findings	-	5	9

During the course of our review, based on the detailed scope of work completed, we identified no significant control weaknesses around the processes and controls to manage the IT service desk. In relation to the comparison against ITIL, a series of performance improvement opportunities have been identified.

These findings and recommendations were discussed with management who have accepted the findings and have agreed actions to address the recommendations.

Executive summary

Summary of internal audit findings

Ref #	Description of internal audit findings	Rating of internal audit findings			Target date
		High	Medium	Low	
1	Goals and objectives. There are no formalised / published objectives, and Service Level Agreements 'SLA's' for the service desk.				December 2009
2	Processes and procedures. Processes and procedures are not all formalised, reviewed and regularly updated.				December 2009
3	Customer support. Customers do not have access to guidelines to enable self-service resolution of IT issues.				February 2010
4	Known error database. There is no centralised 'known error' database or central knowledge repository.				January 2010
5	Prevention and monitoring. The process of prevention and monitoring is inconsistently applied across individual departments.				March 2010
6	User self-service. Users cannot log or track the progress of calls without contacting the helpdesk.				March 2010
7	Categorisation / prioritisation/diagnosis. Some calls are being incorrectly categorised and tickets can lack sufficient information to diagnose the problem.				September 2009
8	Escalation. There is a lack of formalised proactive monitoring.				December 2010
9	Investigation and diagnosis. There is no formalised investigation and diagnosis process.				December 2010
10	Closure and resolution satisfaction. There is a duplication of effort in closing calls and ineffective feedback on user satisfaction.				March 2010
11	Reporting. There is no formalised reporting procedure, leading to inconsistent use of the reporting function.				March 2010
12	Risk management. There is no formal linkage with the Council's risk management process.				December 2009
13	Incident grouping. The incident grouping functionality is not fully utilised.				December 2009
14	Service desk allocations. The service desk is not being effectively utilised due to escalation of all calls.				December 2009

Internal audit findings to be actioned

1. Goals and objectives		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>The service desk does not have a customer service catalogue that clearly defines targets and objectives. This has been acknowledged and is currently under development. At present the service level agreements are not published and are not updated on a regular basis. This lack of published information creates a situation where users may not be fully aware of the services provided by IT or the expected response times to resolve their problems.</p> <p>In addition to limited performance related information, there are no definitions of what a standard or major incident are, other than the escalation times and prioritisation/severity of incidents which are in built into the system. This can result in a lack of awareness of a major incident should it occur and, no key steps to ensure quick resolution.</p>	<ol style="list-style-type: none"> 1) The service desk should create and publish a detailed service catalogue that clearly defines targets and service level objectives for call resolution. 2) Management should consider developing flow charts to clearly define the routes a standard incident or a major incident should take to ensure these calls are accurately categorised. 	<p>Action:</p> <p>The service desk catalogue will be further developed to include SLAs that are agreed with the user group.</p> <p>Flowcharts will be created for standard and major incidents.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: December 2009</p>

2. Processes and procedures **Rating of internal audit finding: Medium**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>Although the service desk does have some processes and procedures many of these have not been reviewed/updated regularly and do not cover all aspects of the service desk.</p> <p>There is a risk that there is an inconsistent approach to the delivery of support to customers. There are key dependencies where only certain staff members can perform procedures as they are the keepers of this knowledge and it is no fully documented.</p>	<p>Management should develop policies and procedures for all parts of the service desk, including second level support teams. These should also be reviewed and updated on a regular basis.</p>	<p>Action:</p> <p>Policies and procedures will be developed for all parts of the ICT service desk including second level support teams. These policies will be reviewed annually.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: December 2009</p>

3. Customer support **Rating of internal audit finding: Low**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>No guidance exists at present that allows users to attempt resolution of IT issues before raising a service desk call.</p> <p>The development of user guidelines would have a number of benefits including; reducing users calling the service desk unnecessarily, or without the full details required to help diagnose the problem. This would then maximise the time spent by the service desk team to identify the cause of the problem and deliver the solution.</p>	<p>Management should develop a user guide to communicate how to use the service desk, details of common faults with quick fixes (i.e. password reset) and guidance of where to get additional information (e.g. MS Office user guides).</p>	<p>Action:</p> <p>A user guide will be created to communicate how to contact the service desk that will also show the way that faults are categorised and capture any additional useful user information.</p> <p>Responsibility: Iain Crockett</p> <p>Target Date: February 2010</p>

4. Known error database		Rating of internal audit finding: Medium
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>The ICT department currently has no central database of known errors and resolution options. Each team has developed their own way of resolving incidents. These can include using the search function in HEAT for a similar call type, procedural documents or experience.</p> <p>There is a risk that knowledge is not being shared, there is inconsistent resolution, and/or additional time to fix as information may be difficult to find.</p>	<p>A centrally held 'known error' database should be developed to provide the following functionality:</p> <ul style="list-style-type: none"> • storage point for all procedural documentation; • details on how to resolve common or known errors; and • search facility to identify the appropriate solution to known problems. 	<p>Action:</p> <p>Infrastructure and applications staff will work with the user group to develop a 'known error' database for each section.</p> <p>Responsibility: Iain Crockett</p> <p>Target Date: January 2010</p>
5. Prevention and monitoring		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>Monitoring to prevent incidents is performed by each department, however these are all done in different ways with some automated and some manually controlled. For example:</p> <ul style="list-style-type: none"> • The applications team use an automated monitoring system, Oracle's built in tool, to monitor and raise ATG "Automatic Ticket Generator" tickets; and • The servers team use various procedures which are not integrated into the ATG system. <p>This inconsistent approach to monitoring raises the risk that hardware and software incidents may not be identified and therefore resolved in a timely manner.</p>	<p>A consistent approach should be adopted to ensure that all monitoring is automatic, where possible, and results in an ATG ticket being generated to allow a log of all service downtime or unavailability.</p>	<p>Action:</p> <p>We recognise that there are a number of different systems in use. A solution will be implemented where our research shows it is possible and practical to use an automated alert system.</p> <p>Responsibility: Iain Crockett</p> <p>Target Date: March 2010</p>

6. User self-service**Rating of internal audit finding: Low**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>A number of inefficiencies were identified when considering the process for user self-service. These included the following points:</p> <ul style="list-style-type: none"> Users logging calls via email do not always have enough information or may give too much information. This results in additional time for the helpdesk to call users back before being able to begin to work on a resolution. Users have no way of knowing the progress of their calls without calling the help desk, which results in additional call volume. User contact details/locations are not updated regularly. The Council has frequent staff moves between locations, offices, and departments, making it difficult to track down users which, subsequently delays the time to resolve calls. . 	<p>Management should consider updating and documenting the user self service process including the following points:</p> <ul style="list-style-type: none"> Users raise tickets themselves by filling in a few key fields rather than a freeform email. These could be used to either automatically assign the call through the ATG functionality or pass to the service desk to review and allocate. Users can review the activity status on their ticket and ensure that all tickets are being actioned in a timely manner. A new update process should be implemented to ensure that all user details telephone number, department location and IP addresses are updated on a regular basis. The call capture process should be updated to ensure caller details are verified before proceeding with the call. 	<p>Action:</p> <p>Point 1&2 – A review of the service desk software will be undertaken with the vendor to allow this functionality to be incorporated in the product.</p> <p>Point 3 – The most appropriate means of implementing a new update process will be investigated; that captures this information and updates the service desk records.</p> <p>Point 4 – This will be implemented in the call initiation process.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: March 2010</p>

7. Categorisation/prioritisation/diagnosis**Rating of internal audit finding: Medium**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>We identified from discussions with management that a number of instances exist where calls were categorised incorrectly resulting in delays before the call is allocated to the correct second level support team. This issue was confirmed to varying degrees in all IT areas reviewed.</p> <p>The main contributing factor is the lack of accurate and detailed information to be able to categorise calls correctly. In addition, second level support teams often do not have enough information to resolve the issue and have to call back the user for further information, potentially delaying the 'time to fix'.</p> <p>Although calls are allocated a severity this is an automatically generated field based on call category. This may not always be the most appropriate priority, based on other factors (e.g. number of people affected or certain priority calls).</p> <p>A review of the Service Level Agreements "SLA's" 'time to fix' found that some of these are very high for the type of incident (e.g. seven days for a virus attack). There is a potential that tickets are being measured against inappropriate targets, which exposes the business potentially to risk and reduces the efficiency of issue resolution.</p>	<p>Management should consider implementing the following improvements:</p> <ul style="list-style-type: none"> • Call categorisations should be reviewed on a regular basis to ensure these are still valid and up to date. • Call severity and SLA times should be reviewed on a regular basis to ensure they are still valid, the 'time to fix' is reasonable and the descriptions are clear and understandable. • Typical questions to ask for each type of fault could be developed to aid the service desk staff to identify the nature of the incident to help give the engineers as much information as possible. • Training could be given to the service desk staff by each of the second level support teams to provide more information on the types of faults they deal with and also the key pieces of information to be able to resolve the issue promptly. 	<p>Action:</p> <p>Point 1 & 2 – Call categories, call severity and SLA times will be reviewed on an annual basis. It is recognised that there are some unrealistic SLA times in the database. All SLA times will be reviewed to ascertain correct SLA 'time to fix' values.</p> <p>Point 3 – These questions will be incorporated in the next release of the new software, including a review of call severity.</p> <p>Point 4 – Collection of key pieces of data during the first point of contact is very important to providing the correct level of support for users. Second line support will be consulted to identify these key pieces of data: training requirements will be investigated and where beneficial will be undertaken.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: September 2009</p>

8. Escalation		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
When we considered the performance monitoring process it was confirmed that once a ticket is allocated to a second level support team there is no specific monitoring of the progress by the service desk until it is over its Service Level Agreement "SLA" time. This may result in tickets sitting idle until they breach their service level agreement time.	A formalised reporting structure should be established to actively monitor the progress of the second level support teams to ensure they are resolving tickets promptly prior to SLA's limits.	<p>Action:</p> <p>The reporting structure will be formalised.</p> <p>Responsibility: Iain Crockett</p> <p>Target Date: December 2009</p>

9. Investigation and diagnosis		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
The service desk and second level support team do not have a formalised investigation and diagnosis process. This results in a lack of guidance for the service desk and second level support teams on the steps to diagnose and resolve an issue, as well as any measures that could be taken to prevent reoccurrence.	<p>A formalised investigation and diagnosis process should be developed, including:</p> <ul style="list-style-type: none"> • establishing exactly what has gone wrong; • understanding chronological order of events; • confirming the full impact of the incident including the number and range of users affected; • identifying any events that could have triggered the incident; and • knowledge searches for previous occurrences (e.g. in the known error database). 	<p>Action:</p> <p>The informal investigation and diagnosis process will be formalised for business critical incidents.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: December 2009</p>

10. Closure and resolution satisfaction**Rating of internal audit finding: Medium**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>When calls are resolved, the second level support engineer will close their assignment and pass back to the service desk to call the user to ensure their ticket has been resolved satisfactorily. This can lead to delays in final closing of the calls in comparison to when the call was resolved.</p> <p>If a user is uncontactable, (e.g. contact details inaccurate or individual not available) the ticket is left open until they can be contacted which can result in significant delays in closing tickets.</p> <p>This can also result in duplication of effort as the engineer sometimes will call the user to keep them up to date or to test if the solution has worked.</p> <p>The user satisfaction from the resolution and service received is also gauged by the service desk. However, they do not ask the users to grade the service, they grade based on how positive or negative the user sounds, based on how they reply to the closure call. This does not give constructive or useful feedback. Although user satisfaction is gained from an annual customer satisfaction survey, more timely feedback, direct from the customer would provide better quality feedback on the service delivered.</p>	<p>Management should consider the following improvements:</p> <ul style="list-style-type: none"> • If the second level support engineer has called the user they should close the full call at that time not just their assignment, saving duplication of effort, limiting the number of times a user is contacted, and streamlining the process. • If there are multiple assignments on the call this should still be closed by the service desk, who should monitor completion of each assignment. • If a caller cannot be contacted there should be an automatic incident closure period. For example, after 48 hour the call is closed if the ticket is resolved and the user unavailable. • The user satisfaction process should be developed further to include calling only a sample of closed calls a day/week, and asking the user to rate the service themselves or sending out a short automated email questionnaire to a sample/all users to gauge user satisfaction. 	<p>Action:</p> <p>Points 1& 2 – These have been implemented.</p> <p>Point 3 – If a caller cannot be contacted at the time when a call is being closed by either line support or the service desk an automated email will be sent to the call originator and the call will be closed.</p> <p>Point 4 – An automated user satisfaction survey system will be developed.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date:</p> <p>Point 3 - September 2009</p> <p>Point 4 – March 2010</p>

11. Reporting		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>Performance monitoring is informal and ad hoc with the exception of the reporting performed for ACHA (Argyll Community Housing Association). The new performance measuring tool being implemented, Pyramid, could be further enhanced by developing more appropriate key performance indicators linked to the service desk. Indicators such as, 'time to fix', has only been recently added. In addition, only certain second level support teams are included within the monitoring.</p> <p>Although some of these statistics are currently available they are only monitored on an ad hoc basis, and are not providing information on overall service desk and second level support team performance.</p> <p>The HEAT system has reporting functionality, but all interviewees seem to use the system in a different way, resulting in inconsistent reporting, and the monitoring of different statistics per department.</p>	<p>1. Management should consider the following improvements;</p> <ul style="list-style-type: none"> A more consistent and all encompassing reporting framework for the service desk (i.e. Pyramid) should be standardised for all ICT reporting requirements; Guidance on how to run different report types could help address consistency, and explain functionality. <p>2. Management should identify the appropriate indicators to be utilised and these should be standardised across all the relevant teams. These could include:</p> <ul style="list-style-type: none"> average number of open tickets; how long each team takes to resolve tickets; number of open tickets; cost per incident; number of incidents incorrectly assigned; number of incidents per team and percentage of total; and incidents resolved by each engineer. 	<p>Action:</p> <p>Point 1 - The appropriate performance indicators will be adopted and reported via the Heat system. The department will continue to report on the SOCITM key performance indicators via Pyramid.</p> <p>Point 2 – Agreed. Performance indicators will be identified.</p> <p>Responsibility: Gerry Wilson</p> <p>Target Date: March 2010</p>

12. Risk management		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
Whilst a risk management framework was evident within the Council, there is no regular monitoring and updating of the risks and challenges facing the incident management service. This creates a situation where the risks impacting the service desk and second level support teams are not captured within the Council's existing risk management process and therefore do not have clear transparency and visibility of mitigating actions being addressed.	The service desk should ensure the critical risks to the function are communicated and incorporated into the Council's risk management process to allow its risks to be monitored regularly and tracked via the operational and strategic risk registers. This would allow process improvements to be identified and the consideration of resource utilisation and training requirements to meet user's needs.	<p>Action:</p> <p>Ongoing business critical risks are identified. These risks will be included on the departmental operational risk register.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: December 2009</p>

13. Incident grouping		Rating of internal audit finding: Low
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
Management confirmed that the incident grouping functionality is not being used to its full potential. This can result in potential inefficient logging and closure of tickets, and major incidents not being identified and tracked.	<p>The incident grouping functionality should be used to group similar incidents, and ensure that similar incidents do not clutter the ticket queues. This would then allow the following improvements to be realised:</p> <ul style="list-style-type: none"> the ability to monitor ticket progress and if multiple users are affected prioritisation may need to be increased; and grouped incidents could then be monitored more easily, by all areas, real time and for monthly reporting purposes. 	<p>Action:</p> <p>Agreed. The ticket grouping and consolidation function within the Heat system know as 'Heat Board' will be used to group incident tickets that are related. This will present Heat users with a single view of how these grouped incident tickets are managed and closed as a single entity.</p> <p>Responsibility: Iain Crockett</p> <p>Target Date: December 2009</p>

14. Service desk allocations		Rating of internal audit finding: Medium
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>The current call resolution process involves, invariably the service desk allocating all calls to the second level support teams, with the only exception being password reset. This creates longer resolution times and is potentially an inefficient use of the service desk teams. Service desk staff currently have the ability to deal with only certain ticket types, however with minimal training they may be able to deal with other requests, which could decrease the current 'time to fix'.</p>	<p>Management should consider utilising the service desk to resolve a broader range of calls than is currently the case (i.e. password resets). This consideration should include the following elements:</p> <ul style="list-style-type: none"> • review all ticket type categories and identify which resource is most suited to addressing the calls raised, including the current workloads of the relevant teams; and • an appropriate training programme should be implemented to ensure the service desk has the necessary skills to resolve call categories and taken on additional call responsibilities. 	<p>Action: Agreed. A review of call categories, types and processes will be carried out with a view to identifying the most appropriate resource that should be used. Training where required will be given.</p> <p>Responsibility: Douglas Bailey</p> <p>Target Date: December 2009</p>

Appendix 1 – Objective, scope and approach

As part of the 2008-09 internal audit plan, as approved by the audit committee of Argyll and Bute Council ("the Council"), an internal audit review of the IT service desk was performed in February and March 2009.

Objective

To review the Argyll and Bute Council IT service desk against the ITIL framework, to identify efficiencies, such as the time to resolve calls.

Scope

Based on the objective outlined above, we:

- Considered all aspects of the service desk function to determine whether the technology is being used to minimise the time taken to resolve IT problems – the 'time to fix'.
- In particular, the review would focus on how the Council can increase the number of calls closed at the first time of asking.
- Use (IT Infrastructure Library) ITIL framework as a structure and benchmark for the review.
- The review included the structure of the operation, the technology used (HEAT), and the reporting of performance.

Approach

The internal audit was conducted by holding discussions with key members of the Council's staff and considering available documentation. Key staff members with whom we held discussions included:

- Douglas Bailey, Production Manager
- Iain Crockett, IT Officer (Service Desk)
- Christina Bromley, Service Desk Supervisor
- Arthur Connolly, Network Manager
- Alex McDougall, IT Officer (Servers)
- Andrew Allan, IT Officer (Applications)
- Richard Tepe, IT Officer (Communications)
- Russell Clark, IT Officer (UNIX)
- Katrina Duncan, IT Business Manager

Appendix 2 – Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

Rating	Definition
High	Observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.
Low	Observations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.



Internal Audit Report

Chief Executive's Department

Review of Health & Safety

March 2009

Prepared by: Charles M. Soane B.Com., C.A.

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1 INTRODUCTION

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Health & Safety as part of the 2008/09 Internal Audit programme.
- 1.2 Both the Health & Safety at Work Act 1974 and the Management of Health & Safety at Work Regulations 1999 (as amended) place duties on Argyll & Bute Council to ensure as far as it is reasonably practicable, the health and safety of their employees at work.
- 1.3 The Health & Safety (Offences) Act 2008 received Royal Assent on 16 October 2008 bringing in tougher penalties for breaching health and safety regulations.
- 1.4 The Health & Safety Commission ('HSC') merged with the Health & Safety Executive ('HSE') on 1 April 2008 to form a single national regulatory body responsible for promoting the cause of better health and safety at work. All the fundamental content of the Health & Safety at Work Act 1974 remain under the control of the new HSE.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to confirm compliance with Health & Safety legislation and test check that the Corporate Health & Safety Policy is being adequately addressed.
- 2.2 The following approach was used to satisfy the objectives of the audit:
 - Ascertain the Council's framework for implementing and communicating the Corporate Health & Safety policy
 - Ascertain corporate Health & Safety risk management procedures, including procedures for dealing with legislative change
 - Review procedures for the preparation of the Corporate Health & Safety Plan 2008/2011, including approval and monitoring arrangements
 - Review approval of Departmental Health & Safety Action Plans in accordance with overall Corporate objectives, and test check their implementation
 - Review the Health & Safety section audit procedures and test check the implementation of recommendations within their Action Plans

- Test check the implementation of specific Health & Safety policies, to include a review of Audiometric testing, Fire Risk Assessments and Asbestos Assessments in Council premises and properties.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Risk Based Auditing approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

Development Services have identified the risk of 'Failure to comply with H&S Legislation, resulting in possible prosecutions, injury, loss of life, loss of staff resources and damage to reputation.' This risk is initially assessed as high but reduced to medium on the strength of the controls in place.

At the time of our audit this risk was not included in the corporate risk register as a strategic risk, or within the other departmental risk registers. We understand that an exercise is currently in progress to review and update the strategic and operational risk registers and our comments may be overtaken by this review. The points are discussed further in the detailed report.

4 CORPORATE GOVERNANCE

The Council has a well defined Corporate Policy on Health & Safety and this is supported by underlying policies on specific legislative requirements. These policies are regularly reviewed and have all been recently reviewed and updated.

The corporate governance issues identified relate to being able to readily access H&S policy documents, and the failure to fully comply with the specific legislative requirements for fire risk assessments.

5 MAIN FINDINGS

- 5.1 The statutory framework enforcing Health & Safety requirements is not clearly addressed within the Corporate Risk Register .
- 5.2 Accessibility to Health & Safety policies could be improved.
- 5.3 Failure to fully comply with Health & Safety regulations in respect of Fire Risk Assessments could result in further closure of premises by the fire service, a possible fine from the HSE, loss of insurance cover, increased insurance premiums and damage to the Corporate image of the Council.

- 5.4 There is a potential risk of claims arising from asbestos over an extended period, although from the Council's experience to date the risk is relatively low.

6 RECOMMENDATIONS

Ten recommendations were identified as a result of the audit, two high, four medium and four low. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that the Council has a well defined structure for addressing Health & Safety issues (see Appendix 2), which ensures that appropriate policies are developed in respect of all new legislation. However, the statutory requirements of the Health & Safety legislation are not fully reflected within the Council's corporate risk register and the legal requirements for property Fire Risk Assessments have not been fully addressed.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Health & Safety Manager and his staff for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The statutory framework enforcing Health & Safety requirements is not clearly addressed within the Corporate Risk Register	<i>High</i>	Appropriate assessment of the corporate/departmental risk of non compliance with Health & Safety legislation should be agreed with the Risk Management Group	Governance & Risk Manager	February 2009
2	The Council has a well defined Corporate Policy on Health & Safety, supported by underlying policies on specific legislative requirements. The documents are available both on public folders and on the Argyll & Bute Council website but locating the documents is problematic unless you know in advance where to look.	<i>Medium</i>	Consideration should be given to improving the accessibility of the Health & Safety policies. In particular, the policies should be accessible on the internet from the Health and Safety page, which can be accessed from the alphabetic index.	Head of Strategic HR	February 2009

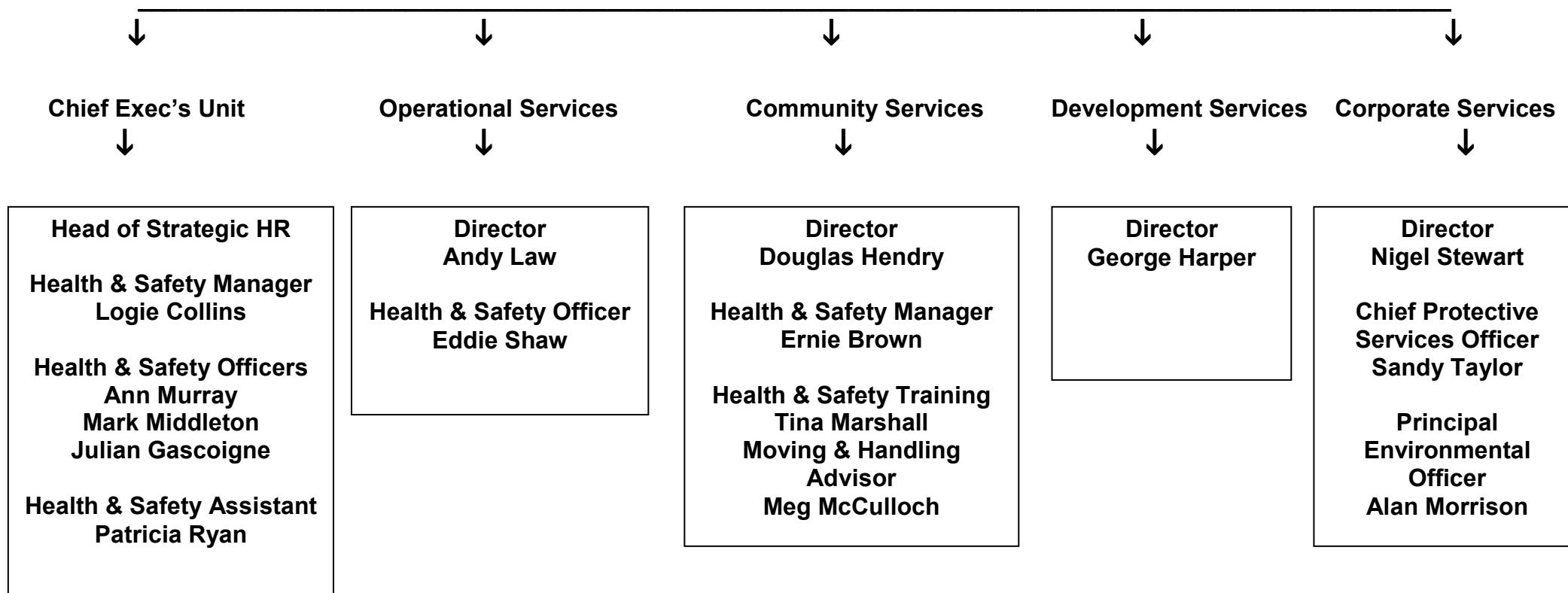
No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	<p>The Personnel Services – Health & Safety Report 2007/08 noted that ‘previous advice that the Fire Risk Assessments are a requirement has not been fully addressed by the Council.’ It further identifies that, ‘in many of the premises visited over the past four years, many of the items identified for action in the initial assessments are found to be unaddressed when revisited.’ The SMT considered this report in November 2007 and recognised that no process was in place that ensured that Property Services and Community Services, who have asset management responsibilities for Council buildings, were provided with the outcomes of the Fire Risk Assessments and relevant action points which would require to be addressed through property capital or maintenance works.</p>	<p><i>High</i></p>	<p>We are concerned that this failure to comply with H&S regulations could result in further closure of premises by the fire service, a possible fine from the HSE, loss of insurance cover for certain premises, increased insurance premiums and damage to the corporate image of the Council.</p> <p>The lack of progress in dealing with the necessary work identified by the existing Fire Risk Assessments should be reported to the SMT with the recommendation that the Head of Facility Services be given the lead to undertake a review of Fire Risk Assessments. The review will identify, prioritise and cost any outstanding capital & revenue property requirements. The review will be undertaken by Property Services and Health & Safety staff with support from Community Services as required.</p>	<p>Director of Operational Services</p>	<p>31 March 2009</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4.	For new staff it is a requirement of the policy that a baseline be established with an audiometric test within a month of commencement.	<i>Medium</i>	Departmental management to check that Health & Safety are notified of all relevant new staff and thereafter monitor to ensure that all new staff are tested within a month of commencement.	Training and Health & Safety Manager (Comm. Services) Head of Roads and Amenity Services and Facility Services	With effect from 01/01/09
6	We understand that a few claims may have been made against the Council arising from hearing loss, but the outcomes of these claims are not known by H&S Section.	<i>Medium</i>	Legal Services should establish a procedure to notify the outcome of any claims arising	Head of Legal & Protective Services	With effect from 31/03/09
7	The timescale for asbestos claims coming to light may be up to twenty years.	<i>Medium</i>	Documentation relating to contracted work on asbestos should be retained for the lifetime of the premises by amending the Asbestos Procedure to state document retention for 20 year period following completion of any form of asbestos treatment.	Head of Facility Services	01/01/09

APPENDIX 2

**ARGYLL & BUTE COUNCIL
CORPORATE HEALTH & SAFETY**

**CHIEF EXECUTIVE
Sally Reid**



In addition, the Departments are supported by 54 employees who hold the National Examination Board on Occupational Safety & Health General Certificate.



Internal Audit Report

FINAL

Chief Executive's Unit

Review of Recruitment and Retention of Staff

February 2009

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Recruitment and Retention of Staff, Chief Executives Unit as part of the 2008/2009 Internal Audit programme.

This issue has been identified by various departments as being a medium risk area for the Council.

Since the last Audit of Recruitment & Retention that was carried out in 2006, there have been a number of changes within Personnel. As a result of the recent Best Value Review of HR, the role of Central Personnel, now known as Strategic HR has changed. They will now have a strategic role and will deal with policies and best practices.

The departments now all have their own HR teams and these teams have a transactional role.

A Vacancy Management System (VMS), dealing with the Recruitment process has been introduced and is now fully operational. Differing levels of authority to access this system have been given to Strategic HR and Departmental HR staff.

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review is limited to the broad objectives listed below:

The broad objectives of the review were to ensure:

- The procedures for Recruitment and Appointment are being followed by all Departments;
- Exit questionnaires are issued to all employees leaving the Council's employment or moving to a new post;
- Performance Development Reviews (PDRs) are being carried out for all relevant staff in accordance with the Council's Policy;
- There is regular staff consultation concerning major issues and developments facing the Council;
- The Council's 'Growing our Own' initiative is addressing the issues facing the Council regarding Recruitment and Retention of staff.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, the risk register was reviewed and Recruitment and Retention of Staff was initially shown as a high risk area but with initiatives such as Growing our Own in place the risk rating has been reduced to medium.

Meetings were held with Strategic HR staff and Departmental HR staff within Education and Development Services to review the procedures followed in the recruitment of staff, the carrying out of Performance Development Reviews (PDRs) and consultation with staff.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 The recruitment manual has been recently updated by Strategic HR to reflect the current legislative changes and the changes to the internal HR systems (the introduction of VMS). This manual has been issued to the Departmental staff involved in the recruitment process.
- 5.2 Internal Audit reviewed a sample of files for posts in Education and Development Services that had been filled within the last 12 months. The review of the files found that there was inconsistency in the level of evidence in the files that procedures had been followed.
- 5.3 When files were requested for review, Education HR staff informed Internal Audit that the files for teaching posts only contained the original application Forms and Advertisement details. The details and forms for the interview process are retained in a file kept at the school.
- 5.4 The review carried out by Internal Audit established that members of interview panels had not all received training on the Recruitment and Selection process.
- 5.5 Exit questionnaires are issued by departmental staff to employees when they leave the Council's employment or transfer to another post within the Council and returned to Strategic HR. Not all employees complete and return them. If any material issues arise from the questionnaires then the relevant department is informed of this.
- 5.6 It is the Council policy that Performance Development Reviews (PDRs) should be carried out on all eligible employees. The responses on the

percentage of PDRs carried out varied between departments. It was noted that PDRs were not carried out on Manual Workers.

- 5.7 It was found that although details of PDRs including training needs were input into Resourcelink (the Council's HR System), departments were also keeping databases of the PDRs carried out.
- 5.8 A full staff attitude survey was carried out around 2 years ago. Another staff attitude survey was planned, however due to the implementation of Single Status this was delayed
- 5.9 Staff are made aware of major issues and developments via a number of ways such as the staff newsletter, the Work4ce, the Council Intranet the Website etc. Briefing meetings with the Leader of the Council and the Chief Executive are cascaded to staff.
- 5.10 Development Services HR staff are currently responsible for the 'Growing Our Own' scheme. This will be handed over to Strategic HR in the near future, possibly in the new year. Internal Audit has been informed that there have been difficulties in the recruitment of professionally qualified staff within the authority. Consideration was being given to providing further training for existing staff.
- 5.11 A report analysing the age profile of all staff in various age bandings showed that 50% of the staff were in the age bandings 46-65. This could present a problem for the Council in the future if a large number of these staff members were to leave.

6 RECOMMENDATIONS

7 recommendations were identified as a result of the audit, 4 have high priority and 3 have medium priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that the Council has processes in place for the Recruitment of staff, carrying out PDRs, communication with staff and return of exit questionnaires. However some teaching staff involved in the Recruitment process had not been on any relevant training courses.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale.

Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Head of Strategic HR and his staff, HR staff within Education and Development Services and staff at the schools visited as part of our review, for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Head Teachers and teaching staff involved in the Recruitment and Interview process had not received any training.	High	Consideration should be given to rolling out Recruitment Training to all Teaching Staff involved in the Recruitment process.	Head of Planning & Performance	April 2009
2	Files are retained for a period of 1 year with parts of files being kept in two locations – the school and a central office	Medium	On the completion of the Interview process all recruitment paper work should be returned to a central location and retained by the HR Officer - Resourcing for the Service. Guidance should be issued with regards to what documentation should be retained on the Recruitment file.	Head of Planning & Performance	April 2009
3	Shortleeting Forms were incomplete and did not indicate clearly who the successful candidates was	High	Short Leeting forms should be completed by the Chair of the interview panel. The Short Leeting forms should clearly indicate who is	Head of Strategic HR/Head of Planning & Performance/Head of Primary and	April 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			recommended to attend for interview.	Secondary Education	
4	Interview Details Forms were incomplete, did not give relevant scores and did not provide sufficient narrative	High	Interview detail forms should be completed in full, clearly indicating scores given, with total score marked at the bottom. Interview details forms should also state the recommendation of the panel as to the successful candidate.	Head of Strategic HR/Head of Planning & Performance/Heads of Primary and Secondary Education	April 2009
5	A number of recording systems are used to record the PDR process	Medium	The number of systems used to record staff details, recruitment details and the PDR process should be reduced. Consideration should be given to improving the reporting system within Resourcelink in order to improve information.	Head of Strategic HR	April 2009
6	Departmental HR does not inform Strategic HR of	Medium	A system for recording 'Exit Questionnaire' returns	Head of Strategic HR	April 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	the exit questionnaires that they issue. This means that the returned questionnaires cannot be matched up with those issued.		against those issued should be established in order to produce meaningful information on why staff terminate their employment with A& B Council or change posts within the Council. Staff in Departments should send details of the Exit Questionnaires issued to Strategic HR in order that they can report on the level of returns.		
7	The 'Growing our Own' scheme did not appear to take account of the problem of attracting and retaining professional staff. This situation could be exacerbated the age profile of staff with 50% of staff being within the age bandings 46-65	High	Consideration should be given to the future of 'Growing our Own' and consideration given to carrying out a review of the outcomes to date. This review should take account of the shortages of professional staff and the age profile of current staff.	Head of Strategic HR	April 2009

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Internal Audit Report

CORPORATE SERVICES DEPARTMENT

Review of Stress Management

January 2009

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APPENDICES

- 1 DETAILED FINDINGS
- 2 ACTION PLAN

1. BACKGROUND

- 1.1 The Health and Safety Executive has defined work-related stress as the adverse reaction people have to excessive pressures or other types of demand placed on them. There is a clear distinction between pressure, which can create a 'buzz' and be a motivating factor and stress, which can occur when this pressure becomes excessive.
- 1.2 Under the Health and Safety at Work Act 1974, employers have a general duty to ensure, so far as is reasonably practicable, the health of their employees at work. This includes taking steps to make sure they do not suffer stress-related illness as a result of being at work.
- 1.3 Regulation 3 of the Management of Health and Safety at Work Regulations 1999 requires employers to assess risks to health and safety from the hazards of work. This includes the risk of employees developing stress-related illness, because of their work. The employer is required to carry out a 'suitable and sufficient risk assessment'.
- 1.4 The Corporate Services Health and Safety Plan 2007-08 made a commitment to undertake an assessment of work related stress. This assessment would be based on a survey of Corporate Services staff conducted in March 2008.
- 1.5 The survey was carried out using the Health and Safety Executive Management Standards Indicator Tool. This consisted of 35 questions on working conditions known to be potential causes of work related stress, together with Excel based software that provided an analysis of responses.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The objective for Internal Audit was to review the Corporate Services assessment of work related stress to ensure that the methodology used complied with Health and Safety Executive guidelines.
- 2.2 The review focussed on testing compliance with the Health and Safety Executive's guidelines on managing the causes of work related stress by examining and reviewing the Corporate Services Department survey of its employees in 2008.
- 2.3 The testing covered the methodology and conclusions of the survey, together with the subsequent actions taken as a result of the survey.
- 2.4 The review also evaluated whether it be recommended that the survey be extended to include all remaining council departments.

3 AUDIT APPROACH

3.1 Ensure that:

- The approach to the survey was defined and the appropriate stress risk factors as defined by the Health and Safety Executive were identified.
- There was evidence of senior management commitment for the project.
- There was clear communication with and set parameters for the participation of employees in the survey.
- The survey analysis and evaluation of risk was in line with Health and Safety Executive guidelines.
- Action plans were developed and communicated to employees.
- Action plans were monitored and assessed for effectiveness.

3.2 Discussions were held with the Chief Protective Services Officer and the Protective Services officer in order to understand the survey process.

4 SUMMARY OF MAIN FINDINGS

4.1 The Director of Corporate Services recognised the significant cost of stress to the Council in increased absence and disgruntled staff, and commenced a pilot survey exercise within his own service with a view to it being extended to other departments.

4.2 Internal Audit has assessed the pilot exercise and has made some suggestions that will hopefully enhance the value of the survey as it is extended across the departments of the Council. The main assets of the Council are its staff and this exercise supported by senior management and a good delivery response mechanism can only benefit the Council.

4.3 Although it was noted that an initial contact reference named person was provided for each service, the value of the pilot survey exercise could have been enhanced had a seminar for 3rd tier management been held to relay the significance of the pilot survey exercise to staff. Another delivery method that could have been used was cascade meetings between management and staff, to not only relay the importance of the survey, but allow suggestions from staff regarding how the survey could be conducted.

4.4 Despite an additional cost the importance and anonymity of the pilot survey exercise could have been enhanced had the questionnaire been sent out hard copy to staff. Equally, the low participation level may have been reduced had an addressed labelled envelope to the survey co-ordinator been supplied with the questionnaire for return via internal mail, rather than an open box used for

returning completed questionnaires.

- 4.5 The feedback process could be enhanced if either a seminar to staff or the use of 3rd tier management to cascade the results of the pilot survey exercise were adopted. Again, this could offer the opportunity for staff input. Also, consideration should be given to having the survey carried out on a bi-annual basis across the Council rather than it being a one off exercise so that performance improvement can be monitored.
- 4.6 The use of Health and Safety Executive survey format was a good choice as it provided the pilot survey exercise with a nationally approved basis. However, there was no facility on the questionnaire for participants to add comments to expand on responses. Specifically, question 21 'I am subject to bullying at work' had an adverse result and was rated by the survey tool as requiring urgent action. As there are a number of aspects to work place bullying, the responses required further qualification that added comments would have provided. In future additional space should be provided for any additional staff comments.

5 AREAS OF GOOD PRACTICE

The following issues were identified as good practice:

- 5.1 The identification of employee absence credited to stress related illness through on-going management analysis, was recognised and prompted the survey.
- 5.2 The recognition that a pilot survey exercise should be undertaken with staff.
- 5.3 The use of the Health and Safety Executive Management Standards Indicator Tool provided a structured approach to conducting surveys and is an important element in formulating a risk assessment of stress in the workplace.
- 5.4 Information filters for analysis evaluation was limited to broad departmental and pay grade groups, this provided staff anonymity but enabled meaningful results.

6 ACTION PLAN

- 6.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Director of Corporate Services and the Chief Protective Services Officer.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate

and accept the risks associated with that decision.

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

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

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

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

7 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 7.1 Internal Audit has assessed the pilot exercise and has made some suggestions that will hopefully enhance the value of the survey as it is extended across the departments of the Council. The main assets of the Council are its staff and this exercise supported by senior management and a good delivery response mechanism can only benefit the Council.
- 7.2 The Auditees had a good working knowledge of the processes involved. However, during the course of the audit, some areas were identified where suggestions in the form of recommendations have been made. These have been discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)
- 7.3 In addition, on completion of the agreed actions in this report, it is Internal Audit's opinion that there would be a benefit in extending the exercise to other service departments within the council.

8 ACKNOWLEDGEMENTS

- 8.1 Thanks are due to the Auditees' sections for their co-operation and assistance during the Audit and the preparation of the report and action plan.
- 8.2 Argyll & Bute Council's internal audit section has prepared this report. Our work was limited to the scope in paragraph 2.1 of this report. We cannot be

held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 1**1 DETAILED FINDINGS**

- 1.1 Health and Safety guidance states critical success factors for a work related stress survey require the survey to be publicised within the organisation, endorsements from senior management, a clear explanation of the purpose of the survey, how actions will be taken to address findings, how and when staff will receive feedback on results. The pilot survey exercise would have benefited from the invitation letter to employees specifying a feedback timetable.

Refer to Action Plan No 1

- 1.2 Health and Safety Executive guidance states that a minimum of 50% responding is required to be considered as representative. Corporate Services issued an invitation to participate to 360 employees, of which 127 (35%) responded. Due to the low response, the closing date for the survey was extended by 13 days. This was despite the Director of Corporate Services encouraging employees to participate.

- 1.3 The Director of Corporate Services identified the need for a pilot survey exercise within the Council and initiated one within his own department. Although it was noted that an initial contact reference person was provided for each service, the value of the pilot survey exercise could have been enhanced with a seminar for 3rd tier management to relay the significance of the pilot survey exercise to staff. Another delivery method that could have been used was cascade meetings between management and staff, to not only relay the importance of the survey, but allow suggestions from staff regarding how the survey could be conducted. There was evidence that a discussion had taken place with Protective Services staff regarding the exercise and this approach could have proved useful in staff participation had been extended across all services?

Refer to Action Plan No 2

- 1.4 A key feature of an effective survey is to ensure the anonymity of participants. At the same time it is important for organisations to have the ability to identify broad groups to assist management in the analysis of results. The survey tool provided this facility through information filters which in this case, Corporate Services applied two filters, service and pay groups.

- 1.5 The survey questionnaire was issued by email to Corporate Services employees. This was probably judged as the most cost efficient way to conduct the survey and ensure as many staff participated. However, given the sensitivity and the reference to the importance of anonymity, the use of email may not have been the best vehicle. Although not stated as a method of returning completed questionnaires, recipients would have worried that had they returned the completed questionnaire by email their electronic signature could have been traced.

- 1.6 Despite an additional cost the importance and anonymity of the pilot survey exercise could have been enhanced had the questionnaire been sent out hard copy to staff. Equally, the low participation level may have been reduced had an addressed labelled envelope to the survey co-ordinator been supplied with the questionnaire for return via internal mail.

Refer to Action Plan No 2

- 1.7 In Health and Safety guidance, a post survey action plan is a tangible demonstration to staff that specific issues identified have been recognised and the organisation is committed to ensuring the issues are addressed. There has been no feedback of results to staff and no action plans developed to address issues, despite the survey taking place in March 2008. Internal Audit recognises there were credible reasons as to why this did not occur and that plans are in place to provide feedback in the near future.

- 1.8 The feedback process could be enhanced if this involved either a seminar to staff or the use of 3rd tier management to cascade the results of the pilot survey exercise. Again, this could offer the opportunity for staff input. Also, consideration should be given to having the survey carried out on a bi-annual basis rather than it being a one off exercise so that improvement can be monitored.

Refer to Action Plan No 2

- 1.9 The Health and Safety Executive Management Standards Indicator Tool is designed to assist organisations in conducting stress surveys in the workplace. It consists of 35 pre-defined questions that prompt responses on working conditions that are known to be potential causes of work related stress.

- 1.10 The use of Health and Safety Executive survey format was a good choice as it provided the pilot survey exercise with a nationally approved basis. However, there was no facility in the questionnaire for participants to add comments to expand on responses. Specifically, question 21 'I am subject to bullying at work' had an adverse result and was rated by the survey tool as requiring urgent action. As there are a number of aspects to work place bullying, the responses required further qualification that added comments would have provided. In future additional space should be provided for any additional staff comments.

Refer to Action Plan No 3

APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	1.1	Material	A future survey exercise should have the benefit of the invitation letter to employees specifying a feedback timetable.	Any future exercise will provide employees with a feedback timetable.	Jennifer Coyle HR and Business Improvement Manager	30 th September 2009
2	1.3, 1.6 and 1.8	Material	The delivery and response methodology should be reviewed.	For future survey exercises the delivery and response methodology will be reviewed.	Jennifer Coyle HR and Business Improvement Manager	30 th September 2009
3	1.10	Material	Health and Safety Executive survey format should be customised by adding a space for additional staff comments.	The survey format will be expanded to provide a space for additional staff comments.	Jennifer Coyle HR and Business Improvement Manager	31 st March 2010



Internal Audit Report

CORPORATE SERVICES DEPARTMENT

Review of New Legislation

February 2009

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APPENDICES

1	DETAILED FINDINGS
2	ACTION PLAN

1. BACKGROUND

- 1.1 Under Governance & Risk, Internal Audit is required to look at how the responsibility for implementing changes to and new legislation are being dealt with by Council departments. Two key risk areas have been reviewed to date by Internal Audit, to ensure that:
- Management were aware of amended and new legislation, therefore have not failed to comply; and
 - Management are aware of changing legislation and have provided appropriate training for staff.
- 1.2 In 2006 – 2007, Internal Audit established from returned questionnaires from Departmental Directors, that all departments were operating a similar process for the identification and implementation for new or amended legislation. It was evident that all Directors used their Departmental Management Team (DMT) meetings to discuss impending changes to legislation. Equally all departments operated a similar process for monitoring the implementation of legislation. However, these processes were informal and solely reliant on management being aware of legislation changes. Recommendations were therefore made to formalise these processes.
- 1.4 In 2007 – 08, Internal Audit placed emphasis on a specific service namely, Social Work within the Community Services Department and their efforts to keep track of the various changes to and implementation of new legislation.
- 1.5 Direct audit days have been set aside within the 2008 – 2009 Internal Audit programme for a review of New Legislation. The decision was taken to revisit all departments to assess whether the recommended changes in formalising processes was working effectively. In addition audit focus was directed to further formalisation of the current processes for departments thus strengthening the robustness of compliance.
- 1.6 As a result of our work, findings were generated. These findings were subsequently discussed with management and a draft report produced. Management comment was then included along with an agreed Action Plan with a final report produced.

2. AUDIT SCOPE AND OBJECTIVES

- 2.1 The audit will look at what formal recognition there is within departments regarding managing the risk of not complying with legislation. The broad objectives of the audit are to:
- Identify what controls are in place within departments to ensure that changes to legislation are identified and properly implemented;
 - Identify what monitoring process is in place within each department to ensure that legislation has been properly implemented; and

- Establish whether training is provided for staff involved in the implementing of legislation, and if so, that it is being recorded.

3 AUDIT APPROACH

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

- A request was made to each Departmental Director to complete a short questionnaire covering the objectives set out above;
- Responses were received and reviewed, where it was thought appropriate meetings were held with Heads of Service to clarify returned information; and
- Proposals to further formalise the existing process were discussed with the Head of Democratic Services and Governance.

3.2.1 A draft report with audit findings was prepared for the Corporate Services Department – Democratic Services & Governance, Head of Service and the Risk & Corporate Governance Manager for comments.

3.3 Management comments were then included in a final report, which was passed to the Director of Corporate Services. The final report includes an Action Plan, which lists the agreed actions.

4 SUMMARY OF MAIN FINDINGS

4.1 Internal Audit established from the returned questionnaires completed by Departmental Directors, that all departments had a similar process in place to identify impending and or amended legislation. They all used their Departmental Management Team (DMT) to discuss impending changes to legislation. Departments also had a similar process for monitoring the implementation of legislation. It was noted that the previous informal processes operated within departments have now been formalised into the management process through meetings which are minuted.

4.2 All Departmental Director responses stated that training was provided as and when required to support management and staff. It was also noted that this training was recorded.

4.3 There have been no recorded issues of a department failing to comply with amended or new legislation.

4.4 Departmental Directors should be required to review legislative programmes from the Scottish Parliament in consultation with their Heads of Service and to record this.

4.5 There should be a requirement for an annual health check following on from the queen's speech each year. This will require Departmental Directors to

initially send out a form to their Heads of Service requesting them to acknowledge their responsibility regarding the appraisal and dissemination of changes to and introduction of new legislation pertinent to their service.

5 AREAS OF GOOD PRACTICE

The following issues were identified as good practice:

- 5.1 It was noted that the Director of Corporate Services issued an email to his Heads of Service referring to New Legislation introduced by the Scottish Government for 2009. The email requested that the Heads of Service monitor the legislation that was pertinent to their responsibilities. The opportunity should be taken to develop this initiative in respect of all departments.
- 5.2 All departments are operating a process that allows amendments to, and the introduction of legislation to be progressed through a management structure.

6 ACTION PLAN

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

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

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

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

7 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 7.1 All departments were found to have good recognition of the importance of ensuring that amended and new legislation is controlled, recorded and that appropriate training is provided as required. However, during the course of the audit, some areas were identified where recommendations have been made. These have been discussed with management and an action plan agreed.

8 ACKNOWLEDGEMENTS

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

APPENDIX 1**1 DETAILED FINDINGS****Responses to Departmental Questionnaires**

- 1.1 Internal Audit issued departmental questionnaires to establish whether departments are continuing to use their Departmental Management Team (DMT) meetings to discuss new or any impending amendments to existing legislation.
- 1.2 Directors stated that they use their DMT meetings to monitor the progress of implementing legislation. They also rely on Heads of Service through their local management groups to implement and monitor legislation. This is an informal process but it does appear that implementation is monitored and being reported back through DMT's by Heads of Service.
- 1.3 All responses stated that legislation training was provided as and when required to support management and staff. It was also confirmed that when training is provided it is recorded via Performance & Development Review (PDR), Career Professional Development (CPD) or certification of courses.
- 1.5 Departments reported that there had been no recorded issues of failing to comply with legislation.
- 1.6 The questionnaire responses received by Internal Audit verified that all departments are following a formalised process is being followed by with regard to the identification and implementation of legislation.

Formalisation

- 1.7 It was noted that the Director of Corporate Services issued an email to his Heads of Service referring to New Legislation introduced by the Scottish Government for 2009. The email requested that the Heads of Service monitor the legislation that was pertinent to their responsibilities.
- 1.8 In recognising the reliance being placed on departmental informal processes and individual managers to keep abreast of legislation developments it would be useful to introduce an element of formalisation. Introducing formalisation would support Corporate Governance within the Council. It is therefore recommended that each Director is requested to obtain verification on an annual basis from their Heads of Service that they will maintain awareness of new legislation developments within their responsibility.

Refer to Action Plan No 1

- 1.9 The Council Constitution should be updated to recognise the responsibility of Departmental Directors and their Heads of Service in a verification process.

Refer to Action Plan No 2

APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	1.7 and 1.8	Material	Accountability of Departmental Directors and their Heads of Service regarding responsibilities governing New Legislation are yet to be formalised in a verification process.	Corporate Services to request that Departmental Directors each January pass to the Head of Democratic Services and Governance verification of their Heads of Service awareness of the requirement to be aware of New Legislation developments.	Head of Democratic Services and Governance	January 2010
2	1.9	Material	The responsibilities of Departmental Directors and Heads of Service regarding awareness and implementation of legislation needs to be reflected within the Council Constitution.	The verification process will be included within the Council Constitution.	Head of Democratic Services and Governance	January 2010



Internal Audit Report

Community Services Department

Review of Pre-school Education

April 2009

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Community Services, Pre-school Education as part of the 2008-2009 Internal Audit programme and at the request of Community Services – Education, Head of Pre-school and Primary Education.

As required by the Standing Orders, Argyll & Bute Council operates a list of Approved Providers (APL) of Social Care Services of which the Pre-school Education is part. The purpose of the APL is to ensure that there are a range of Service Providers available who can be engaged by the Council for the provision of Pre-school Education.

Pre-school Education is managed by Community Services, with the management of the Pre-school Education being split between Education: Pre-school and Primary and Planning & Performance: Quality Assurance. In the Financial Year 2007-2008 over £3m was spent on the provision of the service. Both services have responsibility for the quality and inspection of Pre-school Education. Performance & Planning are responsible for the quality monitoring and maintenance of the Approved Providers List (APL). The Principal Officer Early Years has responsibility for the management of Pre-school Education.

Regular meetings have taken place between both services in order to take forward an Agenda of inspection and improvement within both internal and external Pre-school Education providers. Internal Audit has attended a number of these meetings, with good communications observed between both services.

Pre-school Education providers who are on the APL undergo a series of checks before being accepted onto the list. In addition the Pre-school Education providers are required to be registered with the Care Commission. Pre-school Education providers are inspected by the Care Commission and by Her Majesties Inspectorate of Education (HMIE). They are also inspected internally by Argyll & Bute Council staff. If action plans arise as a result of an Inspection by the Care Commission or HMIE these are sent to the Quality Improvement Officer, Pre-school Education.

Within Education there is a Quality Improvement Service headed by a Quality Standards Manager and 13 Quality Improvement Officers. Their primary role is to support and challenge schools within Argyll & Bute Council to ensure the quality of provision throughout the Education Service.

A restructure is currently taking place within Quality Assurance (Performance & Planning). Supporting People will be amalgamated into Quality Assurance, increasing staff numbers within the Section. The new structure will consist of 1 Commissioning Manager, 4 Performance Improvement Officers (one for each Area) and 4 Monitoring Officers. They will be supported by administration workers who will carry out desk top monitoring. The new structure will provide greater flexibility for the monitoring of services and increase the capacity to monitor and support the Pre-school Education service.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- There are appropriate procedures in place for application and acceptance of providers onto the Approved Providers List and that these procedures are being followed.
- Service Level Agreements exist in respect of Pre-school Education providers accepted onto the Approved Providers List (APL).
- Reviews are being carried out for Pre-school Education providers to ensure that they are complying with the requirements set out by the APL, The Care Commission and HMle.
- Pre-school Education providers are registered with the Care Commission.
- The monitoring and inspection of internal Pre-School providers is comparable with standards and monitoring arrangements set for external providers.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing (SBA), Internal Control Questionnaire (ICQ) approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 Robust procedures exist for the application process and acceptance onto the Approved Providers List (APL).
- 5.2 The APL is reviewed on a regular basis.
- 5.3 Internal Audit reviewed a sample of Pre-school Education provider files across the private sector and internal providers. Twenty one Files were reviewed. The review of files found that there was inconsistency between the private provider and internal provider files in terms of the information held on file. External provider files contain information with regards to their policies and procedures, internal providers are subject

to Argyll & Bute policies and procedures and this information would be held by the relevant departments.

- 5.4 In order to assist with the sharing of information and reduce the need to duplicate information held with regards to internal providers consideration should be given to setting up a 'shared drive' on the network that can be accessed by Pre-school Education and Quality Assurance.
- 5.5 Service Level Agreements exist between Argyll & Bute Council and the private provider.

6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit, 1 has a high priority and 4 have a medium priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that the Council has processes in place for the acceptance, approval and monitoring of the Pre-school Education providers.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Principal Officer Early Years and her staff, the Quality Assurance Manager and her staff, Finance Staff within Argyll House and the Health & Safety Manager for their co-operation and assistance during the Audit and the preparation of the Report and Action Plan.

Argyll & Bute Council's Internal Audit section has prepared this Report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This Report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The Report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There was a lack of clarity with regards to who was responsible for the recording and storage of information with regards to information being held for internal Pre-school Education Providers.	<i>High</i>	Written procedures should be drawn up clearly stating the responsibilities across Education and Planning & Performance.	Quality Assurance Manager/Principal Officer Early Years	1st September 2009
2	Duplication of information is held by Education and Planning & Performance.	<i>Medium</i>	Consideration should be given to setting up a 'shared drive' on the network that can be accessed by Pre-school Education and Quality Assurance for the storing and sharing of provider information. Consideration should be given as to who will manage and monitor the information stored on this 'shared drive'.	Quality Assurance Manager/Principal Officer Early Years/IT	30th June 2009
3	Providers remained on the Approved Providers List when not being registered with the Care Commission	<i>Medium</i>	A procedure should be drawn up for updating the Approved Providers List on a planned regular basis with any amendments regarding providers being made immediately.	Quality Assurance Manager	30th June 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	There is inconsistency between the inspections carried out on the external providers and internal providers.	<i>Medium</i>	Written procedures should be drawn up clearly stating the responsibilities across Education and Planning & Performance for the inspection and review of Pre-School Services. A programme of planned inspections, announced and unannounced should be drawn up for the internal providers, aligning it with the procedures currently in place for the external providers.	Quality Assurance Manager/Principal Officer Early Years	17th November 2009
5	Self Evaluation Questionnaires for providers (internal and external) are currently being drawn	<i>Medium</i>	A Self Evaluation Questionnaire Form should continue to be developed and introduced. This should reflect the needs of both internal and external providers. The providers should complete this on an annual basis.	Quality Assurance Manager/Principal Officer Early Years	30th September 2009

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Internal Audit Report

COMMUNITY SERVICES DEPARTMENT

Review of Social Work Commercial Contracts

June 2009

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1. INTRODUCTION AND BACKGROUND

- 1.1 In agreement with the Community Service Department, Head of Planning and Performance direct audit days have been set aside within the Internal Audit Annual Plan for 2008 - 09 for an audit to be undertaken within the Social Work – Commercial Contracts section.
- 1.2 The Council spent approximately £3.5 million (Children and Families) and £ 16.5 million in 2008/09 on buying provision from external providers of care facilities.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The audit of Social Work Commercial Contracts has been allocated 30 audit days within the Annual Audit Plan for 2008 – 2009. The objective and scope of the audit is to perform a review of 2 areas of importance for this section, the current Approved Providers List and Call up Letters.

The Approved Providers List held and operated by the Council

- 2.2 The audit will review the applications from providers to ascertain that they are registered with the Care Commission. This will be done by selecting a sample of application forms and checking on the Care Commission website to ensure that providers are registered.
- 2.3 Although the Care Commission carry out provider checking they leave to Councils the task of financial and health and safety vetting. The audit will therefore sample test these 2 aspects.

Call up Letters

- 2.4 The audit will also look at the processes involved concerning the requesting of services for clients from external providers. This will involve establishing the mechanism by which Social Work first evaluates the client need in respect of a “Call up Letter” and the review process operated after service delivery to ensure that client services identified have been delivered and variations noted.

3 WORK CARRIED OUT BY THE AUDITOR

- 3.1 The audit forms 2 distinct areas:
 - Verification of the information held in relation to providers on the Approved Provider List (APL)
 - Verification that contracts are in place between the Council and External Providers for the provision of purchased services. Providers on the APL sign a pre placement contract which sets out the legal obligations/responsibilities which providers must adhere to. Call up letter and individual placement contract are then issued for individual clients who receive a service from one of these providers.

Approved Providers List (APL)

- 3.2 The APL is maintained by Quality Assurance (QA) and until recently the paper files for each provider were held in the Helensburgh Office. A review has taken place and it has been

agreed that the APL files will now be located in 2 locations depending on which geographical area the provider operates. Where the service is provided in Helensburgh, Lomond, Cowal and Bute the location of the APL file will be Scotcourt House, Helensburgh and where the service is provided in Mid Argyll, Kintyre, Islay, Oban, Lorn and Isles the files are located in Kilmory, Lochgilphead. Council wide providers' files will be held in Lochgilphead.

3.3 The auditor sampled 27 providers from the most up to date APL reviewing the paper files to confirm the following:

- That the organisation is registered with the Care Commission;
- Up to date financial information is on file – this has been reviewed by officers in Strategic Finance and the organisation has been approved for inclusion on the APL or to remain on the list;
- Health and Safety Approval has been given;
- There is proof of current insurance cover which includes the following cover
 - £10 million employer's liability
 - £5 million public liability

3.4 The auditor visited the 2 locations and was given access to the APL files. All the APL files requested were available.

Case File Audit

3.5 The aim of this part of the audit was to ensure that there were adequate contractual arrangements between the Council and external providers for the purchase of a service for a Council client. To enable this to be done the auditor required to view individual case files to ensure that there was an appropriate contract in place between the Council and the provider, and that what was detailed in that contract reflected the requirements of the client detailed in the care plan. The auditor requested details of all clients, Adults and Children and Families, who were in receipt of a care service purchased from an external provider.

Adult Services

3.6 The list of all Adult clients receiving a service which was being purchased by the Council from an external provider was provided to the auditor by Planning and Performance and Strategic Finance.

Children and Families

3.7 The auditor found that there is no complete list held centrally of children receiving a purchased service. Detailed lists of all Children Affected by Disability and Children in Residential Placements are maintained centrally. However there is no central register of children (without a disability) who are in receipt of a community based service and the auditor was advised that these details are held locally. Discussion with the Head of Children and Families indicated that there is no operational requirement to maintain this information centrally.

4 MAIN FINDINGS

- 4.1 The audit identified a number of areas of concern which need to be addressed by the Service as a matter of urgency.
- 4.2 The exercise to verify the information held on the APL files found that in general the process is working well. A number of minor issues have been identified however they relate to the recording of information on APL files and can easily be rectified.
- 4.3 In general the procedures which have been issued in relation to Adult Services are clear and are being followed. There was however a number of cases where the procedures had not been followed and staff need to be reminded of their responsibilities in relation to contracts.
- 4.4 The cases sampled within Children and Families indicated that further improvements are required in relation to the issue of contracts for services purchased from external providers.

5 RISK ASSESSMENT

- 5.1 As part of the audit process and in conjunction with our Risk Based Auditing approach, the risk register was reviewed and no areas were identified that needed to be included within the audit.

6 CORPORATE GOVERNANCE

- 6.1 There are no corporate governance issues to be reported as a result of this audit.

7 AUDIT OPINION

- 7.1 Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

- 8.1 Thanks are due to staff within Community Services (Adult Services, Children and Families and Planning and Performance) and Strategic Finance for their assistance during the course of the audit.
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The spreadsheet which is used to record the financial assessment of the organisation does not show what years accounts the assessment has been based on	Medium	The spreadsheet which is passed between Strategic Finance and Quality Assurance to record the financial assessment of the organisation should clearly state what years accounts the assessment has been based on.	Quality Assurance Manager	July 2009
2.	Some providers have failed to provide up to date financial information despite numerous requests. It is unclear from the file on what ground the Council has continued to use these providers despite them not complying with QA's requests for information	Medium	Provider's APL file should record any risk assessment which has been carried out in situations where the financial information on file is out of date and providers have failed to provide more up to date information despite requests. This would provide evidence of why the Council has continued to use a provider despite their failure to comply with Council guidelines.	Quality Assurance Manager	August 2009
3	It is not always clear from the documentation held in the Health and Safety Section of the APL file if the H&S assessment on file is still valid	Medium	It would be good practice to add a note to the Health and Safety section within the APL confirming that no change has taken place and that the assessment still stands.	Quality Assurance Manager	August 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	The procedural Guidance - Commissioning a Care Service makes reference to contract documents which have only recently been finalised or cannot be found in the location stated. E.g. Residential Placement Contract and Out of Area Community Placed Contract	High	<p>The Procedural Guidance – Commissioning a Care Service must be reviewed as a matter of urgency on order that it reflects the current position in relation to the issue of contracts. The Section in relation to Residential Placements will require to be changed to reflect the new procedures which are currently being implemented. This will confirm that the Residential Placement Contracts will be issued by Income Maximisation and will clarify where the responsibility for completing the client specific details on the appendix lies.</p> <p>Training on the updated procedures should be carried out.</p>	Quality Assurance Manager	December 2009
5	Actions lists have been prepared for both Adult Services and Children and Families management detailing issues requiring action.	High	Quality Assurance should monitor the progress of the action points detailed in the Action Lists.	Quality Assurance Manager	December 2009

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INTERNAL AUDIT, RISK & COMPLIANCE SERVICES

Argyll & Bute Council
Internal audit report – Budgetary preparation
18 June 2009

Report Number 002

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ADVISORY

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Distribution			
For action		For information	
Moirra Miller	Corporate Accounting Manager	The chair and members	Audit Committee
Margaret Moncur	Finance Manager, Operational Services.	Bruce West Ian Nisbet	Head of Strategic Finance Internal Audit Manager

This report has been prepared on the basis set out in our internal audit services contract with Argyll & Bute Council (the client), dated 22 January 2009, in respect of internal audit services, and should be read in conjunction with the contract. This report is for the benefit only of the client and the other parties that we have agreed in writing to treat as addressees of the engagement letter (together the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the engagement letter. This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report or a copy (under the Freedom of Information (Scotland) Act 2002 or otherwise and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Summary of objective and scope

As part of the 2008-09 internal audit plan, as approved by the audit committee of Argyll and Bute Council ("the Council"), an internal audit review of budget preparation was performed in February and March 2009.

The overall objective of this review was to consider the processes and controls to manage budget preparation between corporate (i.e. senior management team) and departmental level. This review focused on the operational services directorate, but the findings may be equally applicable across other areas of the Council's operations. The review's focus was the revenue budgeting process.

The specific objective, scope and approach are detailed in Appendix 1.

Background

An effective system of budgetary control is the cornerstone of sound financial management. It is therefore important that senior management and the audit committee have assurance that budgetary controls are both designed and operating effectively.

The Council's annual resources is based on an allocation from the Scottish Government, along with the expected revenue from other sources, key elements of which are from council tax and rent. For 2009-10 the overall approved budget for the operational services directorate is £32.7 million.

Historically, on an annual basis, each directorate is allocated a budget based upon the previous year, plus an incremental increase. The 2009-10 budgeting process the Council has adopted is a similar approach, however a greater emphasis has been placed upon directorates basing budget submissions on risks and opportunities, which in turn supports the allocation process. The budget setting process for directorates begins in August with final budgets submitted to corporate by January. Directorates build their budgets around the services within

each directorate and use a defined cost centre structure to allocate expenditure. Heads of services within each directorate are responsible for individual budgets, with delegated budget responsibility assigned for specific cost centre level budgets. The operational services directorate consists of two areas, roads and amenity services and facility services which between them have 775 cost centres. The February Council meeting approves the individual directorate budgets and overall budget for the forthcoming financial year.

During the financial year individual directorates manage their own budgets. Variances to approved budgets are monitored on a monthly basis, with reports issued to all budget holders detailing actual spend to date compared to budgeted. Budget holders are required to submit explanations to finance for any overspend and how it will be rectified in future periods. A traffic light system is used to grade variances.

Best Value review of strategic finance

During the course of our review we identified some weaknesses based on testing and discussions with management. A number of these matters had also been identified as part of the Best Value review of strategic finance which was completed in February 2008. The Best Value review identified a number of specific actions that were categorised under three themes:

- theme 1 – improved financial management;
- theme 2 – actions to support improved financial management; and
- theme 3 – performance within strategic finance.

We reviewed these individual themes and identified detailed actions contained against all three. These actions included clear explanations of the main features that will be addressed by management. A consolidated action plan for all three themes and actions has been developed defining timetables and individuals responsible. At present a dedicated resource has been allocated to drive and

monitor progress against this consolidated action plan. Additional resource has been identified to support delivery from within the finance functions in each of the directorates.

The three issues identified from our project were confirmed to be included within the consolidated action plan and referred to in detail within the key features of the relevant individual actions. The specific issues identified are described within the following sections.

Ownership and financial awareness

Our discussions with management found that in many instances the finance teams are actively managing the budgets on the budget holders' behalf and notifying the budget holder of changes to budgets. Management also indicated that many budget holders are not 'financially-minded' and therefore do not fully understand the financial information that is regularly presented to them.

This could result in budget holders not assuming full responsibility for their budget or understanding where variances within their budgets are arising. By performing budgetary duties on behalf of the budget holders, the finance team may be removing any incentive for budget holders to understand or manage their budgets.

It was also noted that there is no formal documentation to evidence that budget holders have accepted the budgets that they have been assigned responsibility for a specific budget. Budget holders should be required to formally accept the budget they have been allocated at the start of the year. This will ensure that responsibility and ownership is clearly evidenced and more importantly allows engagement with any new budget holders to ensure clear understanding of their roles, responsibilities and accountabilities.

Management are looking to develop a series of initiatives including a program of basic financial training which will be rolled out to budget holders across the Council. This should ensure that all budget holders have a minimum level of financial knowledge to accurately interpret and manage their own cost centre budgets, rather than them being managed by the finance teams.

Commitment accounting

Discussion with finance at both corporate and divisional level identified that there is no consistent and robust process to identify commitments. Therefore when variance analysis is performed between actual and budgeted spend, no account is taken of any future commitments entered into. There is a risk that budget holders interpret reports in error believing their cost centre to be in a better financial position due to the commitments not being included.

Management have acknowledged this and are considering, as part of the budget monitoring and reporting process, incorporating commitments. This will allow budget holders to obtain a more up to date understanding of the financial position and of the level of resources or available spend remaining.

Budget reporting

Discussions with management found that budget monitoring reports are issued for every cost centre within the Council. Within operational services alone, 775 reports are being issued on a monthly basis, and across the Council an estimated 2,000-3,000 reports are issued.

This process of analysing and producing reports is time consuming and results in finance teams spending long periods analysing, collating and issuing reports, time which may be required by the finance teams in other operational areas. There is a risk that staff and office resources in the finance teams are being used inefficiently.

Management have committed, within the consolidated action plan, to implement a more streamlined financial reporting process to provide budget holders with more responsive financial management information and to ensure efficient use of financial and function resources. The Best Value report identified that the current reporting process was inflexible, resource intensive, bureaucratic and costly. In terms of cost saving a target of around £177,000 was identified by management as achievable with clearer roles and responsibilities and wider access to financial information to budget holders.

Key findings and recommendations

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Classification of internal audit findings are detailed in Appendix 2.

	High	Medium	Low
Number of internal audit findings	-	2	1

These findings and recommendations relate directly to the operational services directorate and were discussed with management who have accepted the findings and have agreed actions to address the recommendations. The applicability of these recommendations should be considered across other areas of the Council's operations.

Executive summary

Summary of internal audit findings

Ref #	Description of internal audit findings	Rating of internal audit findings			Target date
		High	Medium	Low	
1	Virement approval: Testing identified a number of exceptions where virements within and between cost centres were not being formally approved.				30 September 2009
2	Budget variance reporting: Inconsistent reporting of budget variances was identified leading to variances not being documented or captured. The current triggers for variance reporting may not always be appropriate for smaller budgets.				1. 31 December 2009 2. 30 September 2009
3	Budget cut off process: Operational services does not have a documented timetable to ensure that their budget submissions to corporate are achieved on time.				31 October 2009

Internal audit findings to be actioned

1. Virement approval		Rating of internal audit finding: Medium
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>An essential activity of managing budgets is the need to make changes to agreed budgets during the course of a financial year. We considered virements at two levels:</p> <ul style="list-style-type: none"> virements within a cost centre budget; and virements between cost centre budgets. <p>Our testing confirmed that no documented procedures were available for virements within cost centre budgets. Management rely on the bottom line budget number remaining unchanged on a day to day basis as assurance that budgets have not been adjusted incorrectly. There is a risk that funds could be moved within budgets and variances analysis could be distorted without the 'bottom line' changing.</p> <p>The Council's financial regulations require that virements between cost centres must be approved by the head of service up to £25,000 and above this level must be approved by the relevant director. Testing found that this approval process is not being consistently applied when virements are made between cost centres. The changes are regarded by management as 'copy budget changes' and management do not seek approval. This is not in line with the Council's procedures.</p> <p>The virements process between head of services budgets within the operational services directorate could not be examined due to the organisational restructuring exercise that took place during the year.</p>	<p>Management should review the Council's financial regulations, ensuring that all staff are aware of the requirements. Particular focus should be upon ensuring the following controls are implemented and adhered to:</p> <ol style="list-style-type: none"> Virements within a cost centre budget should be reviewed on a regular basis by senior management and all virements should be signed off as authorised by the budget holder and by the accountant that processes the virement. Virements between cost centre budgets should adhere to an authorised approval process, which at present requires the approval by the head of service. 	<p>Action: Agreed.</p> <p>Introduce a sign off procedure, whereby the head of service will sign off virements processed within a budget monitoring month. The accountant who processes the virement will also authorise that the virement has been processed.</p> <p>Responsibility: Bruce West</p> <p>Target Date: 30 September 2009</p>

2. Budget variance reporting:**Rating of internal audit finding: Medium**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>Variations from budget should be communicated and explained to the finance teams on a monthly basis. Variances only need to be reported to the senior management team if actual spend exceeds +/- £25,000 of budgeted spend. However, this fixed monetary amount could lead to large variances within small budgets (e.g. a £5,000 variance in a £10,000 budget) not being required to be reported. This could lead to key issues within smaller budgets not being recognised, which may have a significant cumulative effect. Our discussion with management confirmed that the process for discussing variances below £25,000 was being inconsistently completed by budget holders.</p> <p>Budget holders are required to explain variations on a monthly basis by emailing a variance return to the finance teams. Our testing found that this process is not being used, with most explanations being given verbally, either over the telephone or in person. Instances were found where these explanations, although known by the finance teams, were not documented. This results in a break in the audit trail and a risk that the explanation for some variances may not be fully understood and documented.</p> <p>Discussions with management identified that there is no formalised or documented process throughout the year to assess the risk profile of significant items of revenue and capital expenditure. A detailed risk assessment process was identified during the budget preparation process to create the budgets as well as to determine a reserve policy for the Council.</p> <p>This proactive and continuous consideration of risks linked to income and expenditure is critical, particularly in the current economic climate. In addition, this could have a significant effect on budgets where they rely on income received in order to fund expenditure and therefore the service plans may not be achieved.</p>	<ol style="list-style-type: none"> 1) Management should consider reviewing the budget variance reporting trigger mechanisms. A percentage system along the same lines as the overall service budgets reporting mechanism (i.e. 5% variance or greater than £100,000) should be considered by the Council whereby where any budget variances over a set percentage, including an appropriate diminimus limit require an explanation of the variance from the budget holder. The variance reported should be in terms of projected overrun at the end of year. 2) Explanation of variations should be in a written format and documented on the appropriate return by the budget holder. The pro forma for budget variance should be completed by finance to ensure that all required information to explain and deal with the variances are consistently recorded. 	<p>Action:</p> <ol style="list-style-type: none"> 1. Agreed. <p>Management will review the budget variance reporting trigger mechanism in line with timescale alongside reviewing budget monitoring within the Best Value review of strategic finance.</p> <p>Responsibility: Bruce West</p> <p>Target Date: 31 December 2009</p> <ol style="list-style-type: none"> 2. Agreed. <p>Ensure that budget variance pro-forma's are being used consistently by departments. A record of discussions with budget holders regarding variances should be kept with the variance report.</p> <p>Responsibility: Bruce West</p> <p>Target Date: 30 September 2009</p>

3. Budget cut off process**Rating of internal audit finding: Low**

Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>We identified from discussions with management that a corporate budget preparation timetable exists that encapsulates all the directorates within the Council. However, within operational services this review found there is no documented timetable to ensure that the budget submissions due to corporate are submitted on a timely basis.</p> <p>This has led, during the year, to the information being submitted late holding up the Council's budget setting process. There is a risk that staff could be unaware of deadlines for budget submissions due to a lack of a defined timetable. Any functional budget preparation timetable should be synchronised with the corporate budget preparation timetable.</p>	<p>Management should retain a single corporate timetable for budget preparation however this should incorporate the critical dates that are relevant to each functional budget preparation timetable.</p> <p>These may differ for each directorate by nature of there differing levels of complexity. This should be issued to all staff within departments detailing deadlines to be met, submissions to be prepared and responsibility for preparing the information.</p>	<p>Action:</p> <p>Agreed.</p> <p>Corporate timetable for budget process should include critical dates relevant to each service.</p> <p>Responsibility: Bruce West</p> <p>Target Date: 31 October 2009</p>

Appendix 1 – Objective, scope and approach

In accordance with the 2008-09 internal audit plan of Argyll & Bute Council (“the Council”), as approved by the audit committee, an internal audit of the budget preparation and monitoring cycle is to be performed.

Objective

To consider the processes and controls in place to manage the budget preparation and monitoring process within the corporate and departmental level entities.

Scope

Based on the objective outlined above, the scope of the review was to:

- consider whether a budget cycle was established to ensure that budgets were promptly prepared;
- consider the controls and processes established to ensure that virements and other amendments to budgets are authorised by the appropriate level of authority;
- consider the controls and processes established to ensure that budget variances were highlighted and reported on a timely basis;
- consider the controls and processes established to ensure the budgets are recorded on the FIS accurate;
- identify the processes adopted to communicate budgetary responsibility to budget holders; and
- on a sample basis, tested compliance with the identified policies and procedures.

Exclusions

The project did not consider the capital budgeting process.

The project will be completed from the Manse Brae Office in conjunction with visits to the Kilmory Office and focus upon the operational services function.

Approach

The internal audit will be conducted by holding discussions with key members of Council staff, considering available documentation and performing test procedures as appropriate.

Key staff members with whom we will hold discussions include:

- Moira Miller, Corporate Accounting Manager;
- Margaret Moncur, Finance Manager Operational Services; and
- Morag Cupples, Senior Accountant.

Appendix 2 – Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and graded with management

Rating	Definition
High	Observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.
Low	Observations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

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Internal Audit Report

CORPORATE SERVICES & OPERATIONAL SERVICES

Review of Cash and Income Banking

NOVEMBER 2008

Argyll & Bute Council

Corporate Services and Operational Services – Review of Cash and Income
Banking

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Income and Banking, Corporate Services as part of the 2008/09 Internal Audit programme.

The Council has many forms of income and these include cash, cheques, bank giro credits, standing orders, credit card and internet payments and direct debit. The sources of this income can be Council Tax, Non Domestic Rates, and payments for Sundry Invoices (special refuse collections, care homes etc.) or direct payment at leisure centres or other service locations. The Council has created Customer Service Centres where payment can be made for the range of services offered and these are managed by Corporate Services. In addition Operational Services oversee the running of leisure services etc. whilst Community Services through both Education and Social Work services have some cash collection responsibilities also.

Four main operating bank accounts are in use and these are Local Tax, Housing Benefit, Expenditure and Income. These are the responsibility of the Finance Team, Revenues & Benefits and Creditors Sections based at Witchburn Road, Campbeltown. The Income Bank Account has approximately 40,000 transactions in the year and there are approximately 12,000 income journals processed through the general ledger income bank account each year.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to:

- ensure compliance with financial regulations as set out in the Council's Constitution
- verify that the controls are in place to ensure the integrity of income and banking transactions are effective
- verify that there is effective security in place in the processing of cash and other receipts.

In order to satisfy the above objectives the processes involved in the income and banking systems were reviewed for completeness and accuracy of information. This included the issue and assessment of an internal control questionnaire and the development of compliance tests to confirm the validity of the controls. Our review concentrated upon the:

- policies and procedures in place
- receiving and recording of income transactions
- security and banking together with appropriate accounting reconciliations.

All income received by the Council is ultimately processed by ICT and Financial Services at its office located at Witchburn Road, Campbeltown. Income is received at many different locations throughout the Council's area of operation prior to the information reaching Campbeltown. Receipting and banking is therefore a distributed operation while recording and reconciling the data is largely centralised in

Campbeltown. The main contacts for the purpose of our audit were the Head of Financial and ICT Services; the Revenues and Benefits Manager and the Revenues Assistants. In addition Internal Audit visited Kilbowie House, the Corran Halls and Milton House to review the distributed receipting and banking processes.

3 RISK ASSESSMENT

Internal Audit based its risk assessment upon the responses to the CIPFA standard Internal Control Questionnaire: Cash and Bank, and the Council's procedures in place and provided to us in response to the questionnaire. The risks to the organisation were reviewed from the bases; policies and procedures; transactions; postal remittances; income reconciliation and security and banking with tests devised to ensure control compliance as indicated in the following table:

Basis	No of Tests	Period Reviewed	Sample size
Policies & Procedures	11	As at June 2008	100%
Transactions	5	Week Commencing 16 June 2008	100 Income Vouchers
Postal Remittances	5	As at August 2008	1 Day
Income Reconciliation	4	Week Commencing 16 June 2008	100 Income Vouchers
Security & Banking	5	As at August/September 2008	By enquiry
Bank Reconciliations	1	June and July 2008	2 months in summary, and 1 week in detail

4 CORPORATE GOVERNANCE

The Cash Section has been identified in conjunction with Glenn Abbot BCP Consultants as a critical function and as such requires a Business Continuity Plan and we have been provided with a copy of the Disaster Recovery Plan for Corporate Services, ICT and Financial Services, Cash Section created on 17 June 2008.

5 MAIN FINDINGS

We found that, in the main, the internal controls and checks in place were satisfactory and any issues arising were of minor or medium materiality. The main findings were:

- ◆ The complexity of checking and the volume of transactions in the Income Bank Account creates an environment where the margin for error in the bank reconciliation, which is a manual process, is high. However, in the first four months of 2008/09 differences of under £1k occurred while the monthly movement in the difference did not exceed £1.2k.
- ◆ Following the appointment of a new security firm for cash collection and banking there remain inconsistencies in the procedure adopted at different locations.
- ◆ The control to ensure ferry tickets are issued to all travellers and reconciled to cash received is inadequate; however it is recognised that any solution may not be cost effective.

6 ACTION PLAN and RECOMMENDATIONS

- 6.1 The action plan attached at Appendix 1 has been compiled with the co-operation and agreement of departmental management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.
- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification is set out below:-

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

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

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

- 6.4 Five recommendations were identified as a result of the audit, three of medium priority and two of low priority. The recommendations are shown in the action plan set out in Appendix 1.

7 AUDIT OPINION

Based on the findings we can conclude that the controls in place in respect of Income and Banking procedures are satisfactory. It is anticipated that the introduction of a new cash receipting system will improve the existing controls and this will be the subject of a future review.

The auditor is satisfied that the section has answered the ICQ in an appropriate manner.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to all staff within Revenues and Benefits Section of Corporate Services and appropriate Operational Services personnel at Kilbowie House, Milton House and the Corran Halls for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 1 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	It was noted that the Lismore Ferry point of sale records were manually generated as opposed to machine generated cash up records. On enquiry we were advised that this machine regularly fails and indeed with or without machine generated records we have an overall concern that if no ticket is issued cash could be received and not processed as income. The required control would be the collection of tickets on leaving the ferry by a crew member not responsible for the issue of tickets and the tickets reconciled to the total received	<i>Medium</i>	<ol style="list-style-type: none"> 1. The improvement in control is likely to have a cost implication and therefore it is recommended that a cost benefit exercise is carried out to determine the need for the additional internal check. 2. The Lismore ferry ticket machine should be repaired or replaced as necessary 	Marine and Airports Manager, Roads and Amenity Services	January 2009
	All discrepancies were	<i>Medium</i>	The system for recording	Principal Officer,	January 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	within acceptable limits excepting one at Milton House and this was investigated separately.		car parking machine income collected for banking by G4S should be consistent in all locations and should be introduced at Milton House and Blairvadich House as soon as possible	Operational Services.	
5	While in Helensburgh & Lomond average ticket values were unaffected the daily revenue from car parks falls when machines are emptied more infrequently. This suggests that visibility of parking attendants and/or other staff emptying machines encourages payment by customers rather than risk a fine. Equally the absence of an attendant is likely to reduce revenues.	<i>High</i>	<ol style="list-style-type: none"> 1. Roads and amenity Services should carry out a review of car park earnings in Helensburgh & Lomond comparing periods when a car park attendant was employed with a similar period when no car park attendant was in place include the revenue from parking fines to measure the cost benefit of employing a car park attendant. 2. Regardless of the appointment of a car park attendant a visible Council presence in the car parks is conducive to 	Network & Environment Manager, Roads and Amenity Services	January 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			encouraging income and therefore it would be beneficial if machines were emptied twice week and once a week as a minimum; consider seasonal influence.		
6	Balances per the bank statements and ledger are imported from the bank and ledger download sheets and checked to the actual bank statement and ledger balances. Also imported is the total of items not yet through the bank. The July reconciliation was signed off on 22 August by the Revenues and Benefits Manager. In the first 4 months of the year the Income Bank Account did not reconcile. Each month's difference was less than £1000 while the difference movement	<i>Medium</i>	While the reconciliation differences are within acceptable levels, especially considering the complexity and volume of transactions, it should be possible and is highly desirable that differences are eliminated. As a new Cash Receipting system is being introduced in January 2009 and incorporates a bank reconciliation module to be introduced in August 2009 it is recommended that all prior differences are written off at that time to allow the implementation to be effected from a zero base.	Head of ICT and Financial Services	On introduction of new Bank Reconciliation Module within new Cash receipting Software estimated to be August 2009.

Argyll & Bute Council
Corporate Services and Operational Services – Review of Cash and Income Banking

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	between months was less than £1200. The reconciliations were performed promptly.				



Internal Audit Report

Operational Services Department

Review of Asset Management

May 2009

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1. INTRODUCTION

This report has been prepared as a result of the Internal Audit review of *Asset Management* as part of the 2008/09 Internal Audit programme.

Asset Management has in recent years become a high profile aspect of Public Sector management and local authorities have been subjected to increasing government pressure to ensure good practice in this area. Within Argyll and Bute Council the 2007/08 Internal Audit plan included a major capital audit to identify general good practice, compare this to current practice and set out a list of actions required to achieve a good practice performance.

In January 2008 a report entitled Scottish Government Asset Management Review was prepared for the Cabinet Secretary for Finance and Sustainable Growth. This report on Scottish Government controlled organisations contained 8 recommendations the first 2 being the requirement to have an asset management plan in place by end of April 2008 and to maintain a mandatory, single comprehensive database of asset information. It was noted that the implementation dates for all recommendations were relatively short dated.

2 AUDIT SCOPE AND OBJECTIVES

Following upon the Review of Major Capital by internal audit issued in 2008 the Asset Management Strategic Board wishes to bring structure to the various strands of asset management work within the Council. Appendix 2 of that review listed a large number of actions and matters for consideration and the objective of this review is to set out a structured action plan that can be assessed and timescales, targets and resources set to complete the plan.

To achieve this end the actions to achieve good practice were reconfigured as:

- Corporate Issues
- Specific Asset Type or Service Issues

These were subdivided further in both cases as:

- Annual and /or recurring actions
- One Off actions but which may require review from time to time.

3 RISK ASSESSMENT

Due to the nature of this audit no risk assessment was carried out.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

Due the nature of this review there are no findings as these were all identified within the previous year's Major Capital Audit. However to classify and manage the actions/recommendations within the report Appendix 1 detailed Findings has been used to provide a guide to the number of actions set out in the various appendices.

6 RECOMMENDATIONS

Using the Listing of Key Issues as set out in Appendix 2 of the Major Capital Audit – Overview Report as our starting point and adopting the headings for Planning and Performance Management Framework (PPMF) as indicated in Brian Barker's e-mail of 23 January we created initially 4 programme formats viz:-

1. Corporate Action Plan – Annual and/or Recurring Items (see Appendix CR)
2. Corporate Action Plan – One-Off Actions [may require a future review] (see Appendix COF)
3. Specific Asset Type Action Plan – Annual and/or Recurring Items (see Appendix SR)
4. Specific Asset Type Action Plan – One-Off Actions [may require a future review] (see Appendix SOF).

To keep these four programmes as clean and uncluttered as possible (1 Outcome, 1 Action) and where further work or detail is involved we created a series of sub plans. For example in 3 above Outcome Ref. SR001 requires Service Asset Management Plans to be prepared for each type of asset within each service. Outcome Ref SSR001 is then a Sub Programme with 1 outcome but a whole series of actions or requirements. This particular programme addresses an Asset Management Plan for Fleet Assets. It may be that the programme needs to be slightly less specific (to reduce number of programmes) or that a programme for each service with any form of asset responsibility will be required. It is too early to make such a decision.

7 AUDIT OPINION

While Argyll and Bute Council has made progress in identifying requirements and in some cases achieving success there remains a substantial workload to achieve good practice in asset management. This is now the third audit report highlighting predominantly the same issues and requiring a programme of implementation, identification of resources and management commitment and coordination. If good practice in asset management is to be achieved within the next three years it is essential that the rate of progress is accelerated dramatically.

The recommendations arising from the audit work and contained in Appendices 1-4 should be considered by the Asset Management Strategic Board. Further consultation with Services will be necessary to identify resources required and available and thereafter a programme of implementation prepared by confirming or readjusting the dates in the aforementioned appendices. This will be part of a long term project and will require strong management and inspired leadership and drive. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Development Services and Strategic Finance staff for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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APPENDIX 2

ACTION PLAN

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Appendix 1 1.1	High	There is a lack of definitive/detailed strategic or policy statements/procedures to expect Services to react positively to asset management requirements.	The actions set out in the Report appendices should be reviewed and an appropriate timetable prepared for each desired outcome having regard to the overall resources needed to address the issues by identifying individuals to have responsibility ensuring compliance for all asset types.	Asset Management Strategic Board	Progressively but not later than 31 March 2010
2	Appendix 1 1.2	High	Services require instruction and guidance to implement asset management requirements	The actions set out in the Report appendices should be reviewed and an appropriate timetable prepared for each desired outcome having regard to the overall resources needed to address the issues by identifying individuals to have responsibility ensuring	Asset Management Strategic Board	Progressively but not later than 31 March 2010

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
				compliance for all asset types.		
3	Appendix 1 1.3	Low	Some aspects of treasury management and capital accounting processes do not provide evidence of review of compliance with Council Policy or Codes of Practice	The actions set out in the Report appendices should be reviewed and procedures prepared for each desired outcome.	Finance Manager, Development Services.	Progressively but not later than 31 March 2010

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Internal Audit Report

OPERATIONALSERVICES

Review of Procurement for Fleet

MAY 2009

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1 INTRODUCTION

- 1.1 This report has been prepared as a result of the Internal Audit review of Procurement for Fleet operations within the Operational Services Department. Management responsibility is directed through Facility Services and the fleet operation is controlled by the Fleet Management Section. The audit of Procurement for Fleet was planned in the audit programme for 2008 – 2009.
- 1.2 Facility Services provide a fleet management service to the Council headed by the Waste and Fleet Manager and supported by a Fleet Inspector located at the Manse Brae offices in Lochgilphead with workshop staff located at units throughout Argyll & Bute. There are approximately 425 fleet items under management of which 84 are plant and equipment with the remainder vehicles of a variety of types ranging from small private cars to large specialist trucks.
- 1.3 The fleet management service management at Manse Brae have regular direct contact with all Services in relation to their vehicle, plant and equipment requirements.
- 1.4 The annual capital cost (excludes leasing cost) of replacing fleet assets is of the order of £1.5m. This is initially purchased outright with a retrospective lease/buy decision made when Strategic Finance, Capital Accounting Section review the merits of leasing at regular intervals during the year.
- 1.5 Scotland Excel negotiate procurement contracts with various vehicle and plant suppliers and the Council will purchase direct when the sourcing decisions have been agreed.
- 1.6 The brief for Internal Audit was to identify good practice in fleet procurement and management identifying any gap between good practice and our current procedures and provide an action plan to address the difference. In doing so it was envisaged that a template document would be developed to provide a business case for future individual fleet procurement.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to:
 - Produce an action plan to address good practice shortcomings in Fleet management with particular emphasis on procurement; and
 - Develop a Business Case Template for use by Services and/or Fleet Management for individual fleet item procurement.
- 2.2 In order to satisfy the above objectives we employed desk top research techniques and management enquiry to determine the elements of good practice in operating an effective fleet procurement and management service.
- 2.3 We identified by enquiry and review of system and procedural documents

the present processes and quantified the gap between good practice and current practice.

- 2.4 The actions set out in the Fleet Management Service Plan will be considered where they impinge on the procurement of fleet assets to identify issues which will require to be addressed to provide the data required to populate a framework document business case.

3 GOOD PRACTICE

- 3.1 The recently issued Scottish Procurement Policy Handbook published in response to The Review of Public Procurement in Scotland provides an overarching statement of the fundamental rules, behaviours and standards applicable to public procurement in Scotland. The Handbook also refers to the Scottish Procurement Competency Framework which has been developed to complement staff development programmes.

4 CORPORATE GOVERNANCE

- 4.1 The Review of Public Procurement in Scotland recommended that organisations confirm annually that they comply with minimum standards of governance and accountability for procurement.

5 MAIN FINDINGS

- 5.1 The external hire desk operates independently of the Fleet Management section and the majority of the items being hired are also included within the Council's fleet. It has been confirmed that the external hire desk operation will be incorporated into the Fleet Management section with effect from 1 April 2009.
- 5.2 We examined the individual fleet item utilisation figures for the period 1 April to 30 November 2008 generated from the Amatics system and found that generally the average fleet utilisation figures are at an acceptable level of in excess of 60% with the exception of private cars and plant (53.3 and 52.24% respectively). We are advised that the Amatics system is to be replaced by Fleetstar an alternative offered by the same supplier.
- 5.3 Generally replacement of fleet items occurs with no business case being presented even in the case of the more poorly performing assets.

6 ACTION PLAN and RECOMMENDATIONS

- 6.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of departmental management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed

timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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

- 6.4 Two recommendations of high priority were identified as a result of the audit. The recommendations are shown in the action plan set out in Appendix 2.
- 6.5 At 2.1 above an objective of the audit was to identify good practice and prepare an action plan to address any shortcomings. This is included at Appendix 4 for future reference but, due to complexity and the organisational nature of some of the decisions required, does not form part of the Audit Action Plan.

7 AUDIT OPINION

- 7.1 Based on the findings we can conclude that the controls in place in respect of Fleet Procurement procedures are lacking largely because the assets managed are not owned or the direct responsibility of the Fleet Management Section thus restricting control and accountability; and the lack of comprehensive capital planning and management guidelines until 2008.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

- 8.1 Thanks are due to all staff within the Fleet Management and External Hire Sections of Operational Services at Manse Brae, Lochgilphead.
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Appendix 1 1.1 to 1.3	High	External hiring of items held within the Council's fleet takes place without reference to the availability of fleet items as there is no operational link between the Hire Desk and Fleet Management. As a result external hiring is likely to take place unnecessarily. This will be particularly so in the low utilisation fleet items such as plant and private cars.	Asset responsibility for all Council plant and private cars should be transferred to Fleet Management. The plant and private car fleet would then be deemed a hire fleet available to Services internally for short/medium term hire at published hire rates. This being a cost recovery exercise only hire costs should be less than external hire rates and low utilisation items will be uneconomic to retain on the fleet. This should have the effect of reducing external hire costs, probably a smaller fleet and improved utilisation.	Head of Facility Services & Head of Roads and Amenity Services.	Progressively over 18 months commencing 1 April 2009.
2	Appendix 1 1.4 to 1.7 and 1.9	High	(a) The replacement of fleet assets is carried out by Fleet Management provided the	When any fleet item is being considered for replacement its utilisation history must be	Head of Facility Services.	1 April 2009 and 1 April 2010.

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			<p>Client Service has a capital budget for replacement and the item has been operated satisfactorily over its useful life. When replacing a fleet item Fleet Management provide the Client Service with a replacement cost based on vehicle contracts set up by Scotland Excel. If the proposed vehicle price is within budget and the client service agrees an order will be placed.</p> <p>(b) The Amatics system utilisation percentages are calculated on daily usage and even if a vehicle works only 4 hours in a day that equates to 100% utilisation. To counteract this we operated an assumed hours for different levels of daily use and calculated a utilisation percentage based on hours in use. We further noted that hours used did</p>	<p>reviewed and if the trend utilisation percentage is below 45% (from 1 April 2009) 60% (from 1 April 2010) a detailed explanation must be given in the business case as to why replacement is necessary. A business case should be presented by the Client Service fully justifying why replacement is necessary. A specimen format business case is attached (see Appendix 5). Required data for such a business case is the historical utilisation data of the vehicle being replaced for comparison with the proposed replacement vehicle. If and when the Client Service Business Case is approved Fleet Management should prepare an Equipment and Vehicles Life Cycle Cost Comparison for each make and model</p>		

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Review of Operational Services – Procurement for Fleet

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			not mean hours driven and depending upon the operational purpose of a vehicle this could have a marked difference on the real utilisation. For this reason it would be wrong to base management decisions solely on reported utilisation figures.	being considered as a replacement (see Appendix 5a and the Fleet Item Costing and Customer Authorisation Form) and the final decision “signed off” by the Head of Service.		
3	Appendix 1 1.8	Medium	Vehicles were found to be operating in a different geographical area from that noted in the Amatics system as their home base or section.	A method of ensuring that Fleet Management are advised of inter department or section transfers of fleet items by Services should be devised and introduced to maintain the integrity of the hierarchical reporting within the Amatics system.	Waste and Fleet Manager, Facility Services.	May 2009
4	Appendix 1 1.6	Low	Discrepancies within the hours worked by some fleet items within an operational report and a management report within the Amatics system questions the integrity of the reporting.	The Amatics reporting systems should be reviewed to identify whether report discrepancies are inherent system faults or simple recording errors and in either event procedures introduced	Waste and Fleet Manager, Facility Services.	Prior to the implementation of Fleetstar

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 Review of Operational Services – Procurement for Fleet

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
				to correct the situation. In view of the proposal to replace the Amatics system with Fleetstar it will be as important to verify the integrity of the Fleetstar Reports.		



Internal Audit Report

FINAL

OPERATIONAL SERVICES DEPARTMENT

Parking and Public Convenience Income

APRIL 2009

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1 INTRODUCTION

- 1.1 In 2007 – 08, Argyll and Bute Council received approximately £810,000 of income from parking fees and fines. Additional income of £53,300 was obtained from public conveniences. The Council relies on this income to finance services for the public such as providing further parking facilities, the provision and operation of facilities for public transport. In addition, income from parking fees and fines is used to support road improvements or other specific roads functions for the community within Argyll and Bute. As this is a key revenue source for the Council it is incumbent on Internal Audit to ensure that existing processes and procedures for the collection, processing and overall management of parking and public convenience income are robust.
- 1.2 This report has been prepared as a result of an Internal Audit review of parking and public convenience income as part of our strategic 3 year audit plan. The service is delivered and administered by two services namely, Facility Services for cash administration and Roads and Amenity Services who are responsible for cash collection duties. Both services are based within the Operational Services Department.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 As a key income source Parking and Public Convenience Income audit was allocated 30 audit days within the Strategic Audit Plan for 2008 – 2009. The objective and scope of the audit review was to establish whether an overall strategy for the management of parking and public convenience income across Argyll and Bute was achievable.

3 MAIN FINDINGS

- 3.1 The audit identified operational issues that will need to be addressed by both Facility Services and Roads and Amenity Services management. The operational issues within each area relate to the control and accountability for the receipt of income from parking and public conveniences. Action lists, have been prepared for each service and the progress of these lists will be reported to the Operational Services Department, Departmental Management Team (DMT) monthly.
- 3.2 The objective and scope of the review was to establish whether an overall strategy for the management of parking and public convenience income across Argyll and Bute was achievable. A strategy for the future development of parking and public convenience income will be possible once operational issues at area level are resolved and a procedure document developed setting out a process for the accounting and collection of income. These activities sit jointly with Facility Services and Roads and Amenity Services management.

4 ACTION PLAN

- 4.1 The action plan provided in Appendix 2 has one recommendation. The Operational Services Department, Departmental Management Team (DMT) will be the custodian of the action lists being progressed by both Facility Services and Roads and Amenity Services management. The recommendation requires both Facility Services and Roads and Amenity Services management to provide a monthly progress report to

the DMT detailing their achievement of issues detailed in their respective action lists.

- 4.2 It is understood that Operational Services have established a short-life working group to address the main issues raised in this report and present their initial findings to the DMT on 11 June 2009. That initial report will address the Action Plan issues outlined in this section and provide detail on any required resources to achieve this. The Director of Operational Services has set an achievable implementation date and will be required to provide a reason to the Audit Committee for failure to implement within the agreed timescale. If for what ever reason the Director decides not to implement the recommendation he must evaluate and accept the risk associated with that decision.
- 4.3 A system of grading audit review findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

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

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

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

5 AUDIT OPINION

- 5.1 During the audit elements of good practice were noted and have been incorporated into the action lists and procedures outline provided in Appendix 3 to 5. Internal Audit is assured of the willingness of all parties to improve service delivery.

6 ACKNOWLEDGEMENTS

- 6.1 A thank you is due to all staff within Facility and Roads and Amenity Services who co-operated and assisted Internal Audit during the audit and in the preparation of this report and action plan.
- 6.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objective in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 6.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 1

DETAILED FINDINGS

1. Introduction

1.1 Background research prior to the commencement of the audit of these key income streams noted the following issues:

- Parking Income and the controls around its management have been a topic discussed at regular internal meetings within the Operational Services Department for approximately a year, without realisable outcomes. These discussions centred on the administration and collection of parking income between Facility Services and Roads and Amenity Services management;
- An income database developed and introduced to area offices with training provided almost a year ago, with the intention of removing a large element of manual entry work for administration staff has only been used in one office;
- Councillor comments from Helensburgh and Lomond were noted regarding the inoperable state of the Pay and Display machines, no visual presence of Council employees issuing parking fines, the opportunity for non payment and parking laws to be flouted in a period when the Council is under financial pressure;
- Internal Audit noted from our review of Cash and Income Banking, that parking income receipts within the Helensburgh and Lomond area had decreased by an annualised figure of approximately £60,000 in 2008 – 2009 from the previous year. This amount compared to the total annual parking income collection figure for Argyll and Bute of £810,000 in 2007 – 2008, represents a drop in income of approximately 7%.

1.2 A review with management agreement was commenced as a priority by Internal Audit. The review identified a number of operational issues within both services and all areas which require to be addressed as a matter of urgency by management. Taking action will ensure that controls are in place to prevent fraud, protect staff and eliminate irregularity. A synopsis of issues identified involving both services and across all areas is provided below.

2. Pay and Display Machines (P&D)

2.1 Internal Audit found that either one or 2 operatives per area are assigned to empty Pay and Display (P&D) Machines as and when available by Roads and Amenity Services management. Preparing uplift schedules for each area would enable amounts up to £2,500 to be collected using only one operative. Implementing area schedules would enable Area Offices to plan ahead their resource allocation for counting coinage.

2.2 It was noted during a review of car park earnings in Helensburgh & Lomond when comparing a 7 month period year on year, when a car park attendant was employed with a similar period when no car park attendant was in place and including the revenue from issued parking fines, the following loss in income was noted:

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Income received October Actual 07/08 £	Income received October Actual 08/09 £	Income shortfall £ Variance
167,622.33	131,680.56	35,941.77

Regardless of the appointment of a car park attendant, a visible Council presence in the car parks is conducive to encouraging payment and therefore it would be beneficial if Pay and Display (P&D) machines were emptied twice and/or once a week as a minimum relational to seasonal factors. The use of Community or Environmental Wardens should be considered in terms of issuing fines where a Car Park Attendant is unavailable.

2.3 It was noted that in the Helensburgh and Lomond area P&D machines are regularly over full and therefore un-operative to customers wishing to purchase tickets. This has led to administrative staff resource issues when large infrequent cash collections are brought to Blairvadach for counting:

- Health and Safety have been requested to carry out cash weight testing for employees carrying cash boxes up stairs;
- Overflow cash bags from the safe area are stored in a locked room with key access security issues; and
- Infrequent large cash deliveries, cause delays in counting and banking leading a potential breach of Council Financial and Security Regulation 7.44. This states *“All money received by an Officer on behalf of the Council will without unreasonable delay be paid to the Head of ICT and Financial Services or, as the Director may arrange, to the Council’s bank accounts. No deduction may be made from such money save to the extent that the Head of ICT and Financial Services may specifically authorise”*.

2.4 Roads and Amenity Services management need to concentrate efforts on establishing P&D emptying schedules for each area. These should detail uplift dates and times with staff assigned. These should be agreed with Facility Services for resource planning. Frequent uplifts will reduce the number of operatives that have to be released for this task; be compliant with the Council’s insurance requirements and eliminate administrative resource issues and the need for overflow cash storage. Community or Environmental Wardens should assist in the task of issuing parking fines. All of this would provide a better service.

3. Season Tickets

3.1 Each season ticket has a maximum value of £385 and can be used in Council car parks throughout the Argyll and Bute area. It was noted that Facility Services staff within area offices have adopted different approaches to accounting for and controlling the issue of season tickets. This varied approach has seen both charging and the free issue of season tickets.

3.2 At the Dunoon area office it was noted that 19 season tickets with a total value of £7,315 have been issued at no cost to two local Doctors surgeries. In addition, 3 marked patient bays in 2 car parks adjacent to the surgeries have been designated for patient use. Clarification needs to be sought by Roads and Amenity Services as to

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why 19 free season tickets were issued, and whether this was agreed prior to the formulation of Argyll and Bute Council.

- 3.3 There are clearly issues that need to be reviewed and agreed by both Facility Services in terms of the issue, charging and accounting for season tickets.

4. Parking Income Accountability

4.1 It was noted that the newly developed parking income database is not being used universally by all area offices, thereby reducing the regular monitoring of parking and public convenience income receipt across Argyll and Bute. Despite having access to the parking income database to record income received and with staff fully trained, the Dunoon office continues to use a manual system. Facility Services management have been aware of the issue for approximately a year. Management must insure that the income database for recording parking income is used at Milton House, Dunoon and introduced to other area offices as soon as possible.

4.2 It was noted in all offices visited that no formal record of comparison between the Pay and Display (P&D) audit ticket amount and the actual cash banked is maintained. No written evidence of investigations of major variances was found on file or having been passed to management for action and sign off. This control needs to be established by Facility Services management in all area offices.

4.3 At present it is not possible for the Rothesay office to utilise the income database, as it is driven by the contract carrier's bag numbers. Rothesay parking income is banked on the island as carrier uplifts from Rothesay are prohibitively expensive. However, Facility Services management should ask the IT Manager from the Development Services Department, to investigate whether Rothesay can utilise the newly developed income database to record income without the carrier's uplift initiator. This may be an adaptation that should be considered if parking charges are extended to other areas and income is not uplifted by the contract carrier but banked in Tobermory.

5. Parking Fine Accountability

5.1 It was noted that all area offices have developed their own processes for handling the receipt, recording and payment of fines. This in many cases is a not a robust process and raises issues regarding accountability, control and risk.

5.2 Facility Services management should ask the IT Manager, from the Development Services Department, if the receipting and recording of fines can be done using the new income database. This would enable income relating to parking to be collected on one system.

6. Pay and Display Machines – Cash in transit

6.1 Internal Audit has been assured by Personnel within the Operational Services Department, that Roads and Amenity Services staff carrying Council cash to an office or bank from Pay and Display machines, have business use noted on their own car insurance policies. However, what is not clear is whether they have advised their insurers that business use involves the transport of cash.

7. Public Convenience Income Accountability

- 7.1 The key holding arrangements for the income cash boxes located at both Inveraray and Lochgilphead Public Conveniences must be reviewed to remove unrestricted access to the cash in the boxes.
- 7.2 The amounts generated from public conveniences should be recorded using the Parking Income database so that income levels can be monitored centrally.

8. Parking and Public Convenience Income Procedures

- 8.1 The audit identified a need for procedures to be developed for both of the income activities. These procedures need to provide details of what is expected of staff involved in the following activities:
- Pay and Display Machines;
 - Banking and Recording Income;
 - Season Tickets;
 - Residents Parking Permits;
 - Parking Fines;
 - Bay Suspension; and
 - Public Convenience Income.

9. Conclusion

- 9.1 The Internal Audit review identified key weaknesses that appear to have remained unresolved by both Facility Services and Roads and Amenity Services management for a significant period of time. The management by both Facility Services and Roads and Amenity Services should work on this jointly to ensure the proper operation of this service, using the Finance team within Operational Services to give advice and information as appropriate.
- 9.2 In order to address the weaknesses identified by this audit, action lists have been created for both Facility Services and Roads and Amenity Services management. Taking action will address immediate operational control issues. In addition Internal Audit has provided guidance for the development of a procedure document, outlining tasks to be carried out by both services. The action lists and procedure guideline are set out in Appendices 3 to 5 which, will be reviewed as one of the first tasks of the internal working group to address.
- 9.3 As indicated above, operational issues and the need to develop a procedural document have remained unresolved at service level for some time. It is therefore recommended that parking income becomes a standing item for discussion at the operational Service Department, Departmental Management Team (DMT) meeting, chaired by the Director of Operational Services. The need for this issue as a standing item will remain until the review of the internal audit report planned for November 2009, or earlier if achieved sooner. Appendices 3 to 5 are given to both Facility Services and Roads and Amenity Services management to action, with the progress of each service against Appendices 3 to 5 reported on a monthly basis.

Recommendation 1

APPENDIX 2

Action Plan

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Actions lists have been prepared for both Facility Services and Roads and Amenity Services management detailing issues requiring action. Monthly reporting to the Departmental Management Team meetings (DMTs) chaired by the Director of Operational Services is also recommended as an aid to resolution.	High	Progress with the Action Lists will be reported monthly by both services to the DMT. Parking and Public Convenience income management will be a standing item on the monthly Departmental Management Team (DMT) agenda.	Director of Operational Services	11 th June 2009

APPENDIX 3
ROADS AND AMENITY SERVICES – ACTION LIST – ALL AREAS –

No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE SERVICE	IMPLEMENTATION DATE
1	Internal Audit found that either one or 2 operatives per area are assigned as and when available, to empty Pay and Display (P&D) Machines by Roads and Amenity Services. Uplifting amounts up to £2,500 would require only the release of one operative. Introducing planned uplift schedules would enable Area Offices to plan future resource allocation for counting collected coinage.	Essential	Management will review this issue with a focus placed on manning and the producing of regular uplift schedules for all areas.	Head of Roads and Amenity Services	
2	Regardless of the appointment or not of a car park attendant, a visible Council presence in the car parks is conducive to payment. The use of Community or Environmental Wardens to issue parking fines would improve income levels and adherence to parking laws.	Essential	The use of Community or Environmental Wardens for issuing parking fines across all areas will be actioned.	Head of Roads and Amenity Services	
3	Internal Audit was assured by the Personnel Section within Operational Services Department that staff carrying Council cash to an office or bank from Pay and Display machines have business use noted on their personal car insurance policies. However, what is not clear is whether the staff has advised their insurers that business use involves the transport of cash.	Essential	Management will ensure that all staff transporting Council cash using their own vehicle informs their insurers of this fact. This should negate the risk of an insurer rendering a policy invalid.	Head of Roads and Amenity Services	
4	Parking and Public Convenience income procedures need to be developed in order to support staff and introduce controls and processes. This could be one procedures manual developed jointly by Facility Services and Roads and Amenity Services.	Essential	A procedures document will be jointly developed.	Head of Roads and Amenity Services	

ACTION LIST – INVERARAY AREA – ROADS AND AMENITY SERVICES

No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The key holding arrangements for the Pay and Display machines in Inveraray should be reviewed as presently the Technical Officer is placed in a position of having unrestricted access to cash boxes. The Technical Officer, also issues parking fines, and makes decisions on their cancellation. Both situations place the officer in a vulnerable position.	Essential	The key holding arrangements will be reviewed as will the responsibilities of the Technical Officer.	Head of Roads and Amenity Services	
2	The key holding arrangements for the income cash boxes located at both Inveraray and Lochgilphead Public Conveniences must be reviewed to remove unrestricted access to cash boxes.	Essential	The key holding arrangements will be reviewed.	Head of Roads and Amenity Services	

ACTION LIST – OBAN AREA – ROADS AND AMENITY SERVICES

No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The keys for the cash boxes in the Pay and Display (P&D) Machines are held in the safe to which the Car Park Attendant has access.	Essential	The member of staff emptying the P&D machines should not have access to the keys for the cash boxes for accountability reasons.	Head of Roads and Amenity Services	

ACTION LIST – DUNOON AREA – ROADS AND AMENITY SERVICES

No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	19 Season Tickets with a total value of £7,315 have been issued in Dunoon at no cost to 2 local Doctor surgeries. In addition, there are 3 marked patient bays in 2 car parks adjacent to the surgeries for patient use. It is unclear what the origin of the decision to provide these free season tickets is. It is not replicated in the other areas of Argyll and Bute.	Essential	Clarification will be sought as to the reason for the issue of 19 free season tickets. The justification for the issue is to be provided to Internal Audit.	Head of Roads and Amenity Services	

ACTION LIST – HELENSBURGH AREA – ROADS AND AMENITY SERVICES

No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	<p>At Blairvadach full locked cash boxes from the Pay and Display machines have to be carried up a flight of stairs for the contents to be counted.</p> <p>Health and Safety were asked to prepare a report on the risks for operatives carrying full coin boxes up stairs.</p>	Essential	Implementing a schedule for more frequent emptying of the P&D machines will mean less weight being carried up stairs which will alleviate this issue to a large extent.	Head of Roads and Amenity Services	
2	<p>It was noted during a review of parking income in Helensburgh & Lomond, when comparing 2 annual 7 month periods when a car park attendant was employed with a later period when no car park attendant was in place; and including revenue from parking fines, income dropped £ 35,941.77p. This equates to an income loss of approximately £60,000 a year. It would be beneficial if machines were emptied twice weekly and once a week as a minimum, considering seasonal influence.</p>	Essential	Pay and Display area cash uplift schedules will be prepared with copies passed to Facility Services.	Head of Roads and Amenity Services	

**APPENDIX 4
ACTION LIST – FACILITY SERVICES**

No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE SERVICE	IMPLEMENTATION DATE
1	Despite having access to the new Parking Income Database to record income received and area staff fully trained in the use of the system, the Dunoon office continues to use the manual system to record income.	Essential	Where access to the Parking Income Database is available it will be used.	Central Services Manager.	
2	At no Area Office is a formal record kept comparing Pay and Display audit ticket amounts with actual cash banked. No record could be found of major variance investigations or any review of these by management.	Essential	A formal record of variances between the Pay and Display audit ticket with actual cash banked will be maintained on the income database for audit purposes. Explanations of major variances will be reported to, reviewed and evidenced by management.	Central Services Manager.	
3	At no Area Office was any formal recording system found for controlling season tickets and residents parking permits received from printers. It was not possible to reconcile ticket or permit issue to the receipt of payment. Thus it was not possible to confirm that all season tickets and parking permits could be accounted for.	Essential	A need for a record of all season tickets and parking permits is accepted. The Development Services Department, IT Manager, will be asked to see whether the income database can be developed to enable recording.	Central Services Manager.	
4	At the Blairvadach office it was found that the key holding arrangements for the room where the majority of full cash boxes are held awaiting counting is unsatisfactory, and therefore access to cash in the boxes is not restricted.	Essential	The key holding arrangements for the room will be reviewed to ensure that access to cash boxes is restricted. More frequent cash deliveries would reduce the need to hold cash in this room.	Central Services Manager.	

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No.	FINDINGS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE SERVICE	IMPLEMENTATION DATE
5	Also at Blairvadich as a result of the infrequent receipt and quantity of cash for counting, resources are not always available for counting duties. Thus cash is left until staff can be freed for counting duties. This situation has caused a potential breach of Financial and Security Regulation (FSR) 7.44 to occur, which requires cash to be banked without delay.	Essential	We will request a schedule from Roads and Amenity Services regarding regular uplifts which will remove any potential breach of FSR 7.44.	Central Services Manager.	
6	It was noted that the Blairvadach office does not have access to the new income database. This should be installed immediately.	Essential	The income database will be extended to Blairvadach and other areas.	Central Services Manager.	
7	The current arrangements for the uplift of cash by the Council contract carrier should be extended to include the Blairvadach office. This will do away with the need to release staff in order to transport cash to the bank for deposit.	Essential	Consideration will be given to include Blairvadach in the Council carrier contract for cash uplift.	Central Services Manager.	
8	At present it is not possible for the Rothesay office to utilise the income database which is driven by the contract carriers own bag numbers. This may be an adaptation that should be considered if parking charges are extended to other areas where income is not uplifted by carrier but banked locally.	Essential	The Development Services Department, IT Manager, will be asked to adapt the new income database for use by Rothesay and other offices where carrier uplift is uneconomic.	Central Services Manager.	
9	Parking and Public Convenience income procedures need to be developed in order to support staff and introduce controls and processes. This could be one procedures manual developed jointly by Facility Services and Roads and Amenity Services.	Essential	A procedures document will be jointly developed.	Central Services Manager.	

APPENDIX 5

PARKING AND PUBLIC CONVENIENCE INCOME PROCEDURE

Pay and Display Machines

- Identify staff member responsible for ensuring the working order of the Pay and Display (P&D) machines.
- Detail the responsibilities of this staff member
 - Checking the time is correct;
 - The machine is accepting cash and issuing tickets;
 - There is an adequate supply of tickets; and
 - If applicable that any batteries do not require charging.
- Create a timetable for these checks to be carried out – this timetable should reflect the requirements of each area including the reliability of the machines and the usage. Timetables should be available within both Facility Services and Roads and Amenity Services for resource planning.
- Identify a pool of staff that will be available to empty the P&D machines twice weekly or once a week as seasonally determined.
- Create a schedule/timetable for emptying the machines which ensures that the cash boxes do not become over full and therefore not accept further cash and where applicable the timing corresponds with the uplift by G4S.
- Create a rota of staff which corresponds to the schedule/timetable. Two members of staff should be present when the machines are being emptied in line with current departmental policy. However, if £2,500 or less is uplifted then only one member of staff is required.
- Ensure that members of staff emptying the P&D machines do not have keys to the locked cash boxes and thus have access to the cash.
- Ensure that locked cash boxes are transported securely from the car parks to the office to be counted or bagged. Ideally the cash should be transported in a Council vehicle however if staff are required to use their own vehicles they must ensure that their insurance cover for business use is not affected by the fact that they are carrying cash.
- Ensure that written procedures are put in place and circulated to all staff involved.

Banking and Recording of Income

- Ensure that the procedures in place for Banking of Car Park/Public Convenience income should be followed. The procedures are currently in draft form so must be finalised to reflect the current procedures being followed at Lochgilphead and Oban.
- Ensure that Blairvadach, Helensburgh and Milton House, Dunoon progress towards the use of the Parking Income Database and having cash uplifted by carrier. The timing of the introduction of this system for Blairvadach and Milton House, Dunoon will be dependent on a schedule for P&D machine emptying being introduced and a subsequent contract with a carrier for uplifts from Blairvadach being put in place.
- At present it is not possible for the Rothesay office to utilise the income database, as it is driven by the contract carrier's bag numbers. Rothesay parking income is banked on the island as carrier uplifts from Rothesay are prohibitively expensive. However, Facility Services management should ask the IT Manager from the Development Services Department, to investigate whether Rothesay can utilise the database to record income without the carrier's uplift initiator. This may be an adaptation that should be considered if parking charges are extended to other areas and income is not uplifted by the contract carrier but banked locally.
- Ensure that a comparison between the income on the audit ticket and the actual income banked is carried out and a record kept. Any variance in excess of £10.00 should be investigated and an explanation recorded. A report showing all the variances along with the explanations should be signed off by a senior manager on a regular (monthly) basis. The report should be generated from the income database.
- Ensure that all staff involved in the banking and recording of income is issued with the finalised procedures.

Season Tickets

- Ensure that a record is maintained of all season tickets received by the office from the printers and that at all times each ticket can be accounted for either by a blank ticket being present or the corresponding income being received when the ticket is sold.
- Ensure that the blank season tickets are held securely and that access to them is restricted. It should be noted that to validate these tickets is a hand written expiry date and a vehicle registration. Each ticket has a

maximum value of £385 and can be used in Council car parks throughout the Argyll and Bute area.

- Develop the new Parking Income system to record all season tickets using the income database. The system should allow for reconciliation between the number of season tickets sold each day/week to the income banked/income journals created.
- Ensure that written procedures are put in place and circulated to all staff involved.

Residents Parking Permits

- Develop the new Parking Income system to ensure that a record is maintained of all parking permits received by the office from the printers and that at all times each ticket can be accounted for either by a blank permit or the corresponding income being received for a sale.
- Ensure that the blank parking permits are held securely and that access to them is restricted. It should be noted that all that is required to validate these tickets is a hand written expiry date, an area and a vehicle registration. Each ticket has a maximum value of £75.
- Develop the new Parking Income system to record all residents parking tickets issued. The system should allow for reconciliation between the number of permits sold each day/week to the income banked/income journals created.
- Ensure that for each parking permit issued appropriate back-up documentation is held and cross referenced to the income database used to record all the parking permits.
- Ensure that written procedures are put in place and circulated to all staff involved.

Parking Fines

- Identify staff that will monitor parking and the issuing of fines where appropriate. Community and/or Environmental Wardens who already issue fines for other reasons could be utilised to issue parking fines in areas where there is no full time car park attendant. Training maybe required in the issuing of fines and law governing parking offences.
- A review of the coverage in each area should be carried out to ensure that it is appropriate and that it acts as a deterrent against drivers illegally parking and failing to purchase a ticket.

- Ensure that the person issuing the parking fine keeps a record on a pro forma detailing what checks have been carried out prior to a ticket being issued – a standard pro forma should be used throughout the Council.
- Develop the new Parking Income system to record all the fines issued (including fines spoilt and not issued). The current income database for recording fines may be the most appropriate method and that the process used by Blairvadach could be developed to achieve this. The Council should investigate whether the Parking Income database could be used to populate the form when the DVLA request details of vehicle owners. It is envisaged that the income database would be able to print reminder letters if a fine remains unpaid. The database should allow for reconciliation between the number of fines paid each day/week to the income banked/income journals created.
- A standardised system for dealing with requests for fines to be cancelled should be put in place. This should identify who can make decisions in relation to these requests and should ensure that the person issuing the fines is not making decisions to cancel fines.
- Ensure that written procedures are put in place and circulated to all staff involved.

Bay Suspension

- Develop a system to record all bay suspensions issued. Each bay suspension should be sequentially numbered and the number should be recorded on the letter detailing the suspension. The system should allow for reconciliation between the number of bay suspensions issued each day/week to the income banked/income journals created.
- Ensure that written procedures are put in place and circulated to all staff involved.

Maintenance Arrangements

- The maintenance arrangements for each area should be documented.
- A decision should be made on standardising the maintenance throughout the Council.

Public Convenience Income

- Identify a pool of staff that will be available to remove the income from the public convenience cash boxes.

- Create a timetable for removing the income from the cash boxes in the public conveniences which ensures that the cash boxes do not become over full and if applicable the timing corresponds with the uplift by carrier.
- Create a rota of staff which corresponds to the timetable. Two members of staff should be present when the cash boxes are being emptied in line with current departmental policy if over £2,500.
- Ensure that staff emptying the machines do not have unrestricted access to the cash. There must always be two people present when the box is opened. It became apparent during the course of the review that the meters for the public conveniences are unreliable. The meters in Oban and Inveraray are particularly unreliable. Because of this it is important that staff do not have unrestricted access to the cash as it would be difficult to prove whether any discrepancy in income was caused by misappropriation of funds or just the unreliability of the meters.
- Ensure that a comparison between the income on the meter and the actual income banked is carried out and a record kept. Any variance in excess of £10.00 should be investigated and an explanation recorded. A report showing all the variances along with the explanations should be signed off by a senior manager on a regular (monthly) basis.
- The amounts generated from public conveniences should be recorded using the Parking Income database so that income levels can be monitored.

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
26 JUNE 2009**

CONTRACT MANAGEMENT – AUDIT REPORTS.

1. SUMMARY

Internal Audit as part of the Annual Audit Plan for 2008 – 2009 carried out a Tendering Procedures audit in August 2008. The project selected was Argyll Air Services to complement the review of contract arrangements and subsequent report by the Council's external auditors Grant Thornton LLP UK. In consultation with Grant Thornton UK LLP it was agreed that both reports would be presented under the specific heading of Contract Management for ease of review by the Audit Committee. The reports produced by Internal Audit and Grant Thornton LLP UK are appended in Appendices 1 and 2.

2. RECOMMENDATIONS

2.1 The contents of both reports are noted and are to be followed up by Internal Audit.

3. DETAILS

3.1 The main findings generated by the internal audit report found that the tendering process in respect of the Argyll Air Services project complied with both Council and European Union (EU) procurement arrangements. There were lessons to be learned in the overall management of such a complex project. Further detail is provided within the report itself along with an agreed management Action Plan. (See Appendix 1).

3.2 A report prepared by Grant Thornton UK LLP covering contract management arrangements relating to the Argyll Air Services Project is attached in Appendix 2. The report findings cover 2 main areas Contract Design and Contract Management. The report makes 8 recommendations, of which 3 are categorised as high priority. In summary, the report concludes that the Council should review its capital planning and contract management procedures, in order to become more effective in the future.

4. CONCLUSIONS

Both 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 604216)

Ian Nisbet
Internal Audit Manager 11 May 2009.
11mayfinalreport11may

APPENDIX 1



Internal Audit Report

Operational Services

**Review of Tendering Procedures and
Capital Contracts – Argyll Air Services**

August 2008

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APPENDICES

1	DETAILED FINDINGS
2	ACTION PLAN

1. BACKGROUND

- 1.1 This report has been prepared as a contribution to the review of contract arrangements by Grant Thornton the Council's external auditors as part of their 2007/08 audit and the Internal Audit review of Tendering Procedures as part of the 2008/2009 Internal Audit programme. We identified the process for tendering work and awarding contracts including compliance with Council and EU procurement regulations; accountability and governance arrangements and contract monitoring and reviewed these processes as implemented on the selected project.
- 1.2 The project selected was Argyll Air Services to support the review of contract arrangements by the Council's external auditors who as part of their 2007/08 audit were reviewing a sample of significant projects and particularly requested assistance with the Oban Airport project and contract award and tendering. The Argyll Air Services project involved the processes and work involved in the development of the provision of air services between Oban and the islands of Colonsay, Coll and Tiree.
- 1.3 Within the overall project 8 different tenders were prepared, issued and evaluated and 2 consultants were appointed. These were as follows:-
- Tenders - Runway Works – Oban Airport
 Runway Works – Colonsay and Coll Airports
 Terminal Buildings – Oban Airport
 Terminal Buildings – Coll Airport
 Terminal Buildings – Colonsay Airport
 Provision of Air Services under a Public Service Obligation
 Provision of Rescue and Fire Fighting Vehicles.
 Provision of Control Tower Equipment – Oban Airport
- Consultancy - Assistance with Airport Licensing Process
 Support in preparation of a PSO contract.
- 1.4 As a result of our Audit work, findings were generated. These findings were subsequently discussed with management and a report produced.
- 1.5 During the course of our audit we became aware of an issue affecting the management of the project involving an existing on site tenant. As all paperwork regarding this had been removed from the contract files and passed to Legal Services our report has not considered the conduct of this matter.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to ensure:
- Compliance with Council and EU procurement arrangements

- Accountability and governance arrangements
- Contract monitoring

2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to five ticks (✓ 's). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 6 (figure 1). The assessment has been made by considering the value and significance of the findings and recommendations.

3 AUDIT APPROACH

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

- Grant Thornton had completed the Project Planning stage of their review of contract management and highlighted any issues relating to the tendering of projects.
- Initially a meeting was held with the Project Supervisor
- We obtained the project files and reviewed the process from inclusion in the Council's capital plan to practical completion of a particular construction project or supplier service provision.
- It was explained that the Auditor would call for evidence on a sample basis as appropriate to back up the responses.
- The documents and information provided were reviewed by Audit and queries arising were subsequently raised with Auditees.
- Appropriate compliance and substantive tests were devised and carried out and as part of the exercise, visits were made to Roads Design, Manse Brae Office, Lochgilphead and Property Services, Argyll House, Dunoon
- All findings/matters arising were raised and discussed with the Project Supervisor.
- A draft report was prepared and a copy passed to the Head of Roads and Amenity Services and Grant Thornton for comments.
- Comments were included in the final report, which was then issued to Grant Thornton and the Director of Operational Services.
- The final report includes an action plan, which lists all actions agreed with management.

4 SUMMARY OF MAIN FINDINGS

- 4.1 Internal Audit found that the tendering process in respect of the Argyll Air Services project complied with Council and EU procurement arrangements
- 4.2 It is our opinion that this project has suffered from inadequate Council processes, procedures and organisational structures in relation to the initiation, approval, control and monitoring of capital projects. In summary this included:- a five year period, prior to the appointment of a project supervisor, in which no cost benefit appraisal was prepared; at least three transfers of overall responsibility for the project; appointment of a consultant ill equipped for the task on a project so complex that competent consultancy was an imperative; the project consisted of at least seven different complex operations/disciplines.

5 ACTION PLAN

The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Project Supervisor and Head of Service, Roads and Amenity Services.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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

6 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

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

Figure 1: Summary of overall conclusions

Specific objectives	Assessment
Compliance with Council and EU procurement regulations	✓✓✓✓✓
Accountability and governance arrangements	✓✓✓
Contract monitoring	✓✓✓
Key: ✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily. ✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement. ✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement. ✓✓ - Arrangements in place offer scope for substantial improvement. ✓ - Concern is expressed about the adequacy of the scope of these arrangements.	

7 ACKNOWLEDGEMENTS

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

APPENDIX 1**1 DETAILED FINDINGS****Point 1 – Compliance with Council & EU procurement regulations**

- 1.1 The process of publicising the project; selecting contractors to tender; issuing and receiving tenders and the appointment of contractors follows the appropriate regulations and standing orders.
- 1.2 Three tenders were not accepted within the period that tenders were open for acceptance as required by the tender documents, requiring the Council to request that contractors hold their tender prices or accept cost increases.
Refer to Action Plan No 1
- 1.3 Three suppliers returned tenders for the Oban Airport fire and rescue vehicles; the lowest was not considered because Strategic Finance was not satisfied as to their financial standing. The second lowest was discounted as the tender was non compliant. The accepted tender was £53k. more expensive than the lowest compliant tender. The accepted supplier failed to meet his contractual obligations and the contract was terminated in April 2007. Recovery of monies paid to the supplier in the sum of £161,280 under this contract is being pursued by Legal and Protective Services but remains unrecovered as of the date of this report.
With hindsight it may have been worth the risk to have accepted the lowest tenderer (discounted on basis of financial standing) No risk assessment of this possible action was carried out at the time. Irrespective of the accepted suppliers ultimate performance £53k. may have been saved under carefully managed circumstances. Perhaps where substantial savings can be achieved consideration should be given to suspending Standing Orders under controlled conditions.
Refer to Action Plan No 2

Point 2 – Arrangements for accountability, governance and approval

- 1.4 The success of the Argyll Air Services project was and remains very much dependant upon the licensing of the three airports at the required Civil Aviation Authority code level. This was recognised in 2001 when a consultant was appointed to assist the process. License applications for all three airports were submitted in 2005. However in January 2006 when 6 of the 8 tender processes were underway the minutes of a development meeting held at the CAA offices stated that “The fact that much of the development had been concluded prior to any formal involvement by the CAA meant that the Council were carrying a risk that the work may not be compliant with licensing requirements”. The CAA then issued three separate letters from three

sections within the CAA which indicated that they could not offer any opinion outside the licensing process.

- 1.5 Despite 4 studies in 2000 and prior and Oban Airport licensing requirements being investigated in 2001/2 no formal appraisal of the project was considered by the Council until October 2003. The lack of a formal appraisal process prior to £650,000 being allocated to the capital plan meant that costs were incurred in advance of the proper consideration of project need, benefit etc. The introduction in 2007 of the draft Capital Planning and Management Guide addresses this problem but requires full implementation.
- 1.6 The project while having political and strategic commitment appears to have been predicated on the basis that funding for the project might be available rather than a need and as a result the process has been driven by availability of funds and the need to firm up costs rather than the appropriate specification to meet service need and statutory air service obligations and provide funding justification. Again the introduction in 2007 of the draft Capital Planning and Management Guide addresses this problem but requires full implementation.
- 1.7 The tender specification for the runway at Oban airport assumed that a CAA code 2 airport license would be applied for and obtained. See 1.4 above where the CAA regarded this as a risky strategy. However if the Council had not persevered the likelihood of an island air service would be an ever more remote possibility. Until licensed airport status was obtained the strategy would have been regarded as at risk but with appropriate personnel in place sooner and/or better co-ordination of in-house services the Council may have found itself being congratulated for its foresight.

Refer to Action Plan No 3 & 9

- 1.8 The tender opening record for Oban airport terminal building compares an estimated value of £820K with a lowest tender sum of £1.068m. while the tender assessment record refers to cost plan of £704k. and accounts for the increases but does not provide an explanation between cost plan and tender estimated value. It is important that Property Services and/or Roads Design are consistent in their use of figures in order that like for like comparisons are made and explanations of differences can be relied upon.

Refer to Action Plan No 4

Point 3 – Contract Management

- 1.9 The contract period for the Oban airport terminal building extended well beyond that envisaged at the tender stage and beyond the period after an extension of time was granted. This was due to additional work required to accommodate changes to the Control Tower.
- 1.10 The contract period for the Colonsay and Coll airport terminal buildings extended well beyond that envisaged at the tender stage and beyond the period after an extension of time was granted. While extensions of time were

granted on both contracts these did not cover all of the delay and Liquidate and ascertained Damages were deducted from the contractors valuation payments.

- 1.11 The specification for 2 rescue and fire fighting vehicles at Oban airport prepared by external consultants required “Landrover” type chassis and ABS braking. However the fact that Landrover do not fit ABS braking on their chassis resulted in the recommendation of the vehicle body being constructed on a relatively untried chassis. There appears to have been no attempt by the external consultants to verify that Angloco had worked previously with a Breamach Chassis.

Refer to Action Plan No 5

- 1.12 From the date of acceptance of the tender to provide fire and rescue vehicles to the pre build meeting and beyond to the construction review meetings it was clear that issues were arising. Despite this no adverse report was received from the external consultants.

- 1.13 With hindsight it is clear that our legal and engineering responses to the vehicle build delays and technical shortcomings should have been much better co-ordinated. It is important that a manager involved in the ultimate operation needs to be assigned the responsibility for the specific contract management while the co-ordination of the legal and engineering processes, to ensure that conflicting messages are not perceived by the supplier/on-site contractors/tenants regarding the Council’s course of action, remains the project manager’s responsibility.

Refer to Action Plan No 6

- 1.14 The contractor for the Oban runway works has submitted a claim for delay and unforeseen ground conditions. This he is entitled, indeed, required to do under the contract and the Council will be liable for at least an element of delay. However the claim concerning ground conditions will be resisted. Delays occurred as it was impossible for the Terminal Buildings work and the civil engineering work to proceed simultaneously for part of the time and work instructions re rescue and fire fighting vehicles were being given late in the contract period. The final measure has now been agreed and significant progress has been achieved with regard to the claim.

Refer to Action Plan No 7

- 1.15 A very large quantity of aggregate material was required to be transported across Coll to the airfield site and in the process extensive damage was incurred on the island road. While the contract sum included an allowance (approx. 7.5%) for temporary road repairs the actual cost was hugely in excess of this with temporary repairs costing some £190k. and permanent reinstatement some £650k. It was considered that the allowance in the contract would cover temporary and permanent repairs to the equivalent of 1.5 kilometres when in fact some 8.5 kilometres were permanently reinstated.

- 1.16 The vehicles were due for delivery from Angloco in Mid January 2007. Following a pre build meeting in July 2006 attended by the external consultants and an unsatisfactory pre delivery inspection by the Council's Senior Airport Fire Officer in November 2006, the inspection trip to verify achievement of specification took place in March 2007 and was carried out by the Council's Senior Airport Fire Officer, during which major performance non-conformities were identified.

Refer to Action Plan No 8

APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	1.2	Fundamental	During the course of this project the Council consistently had to request tenderers to hold prices beyond the date the tender was open for acceptance.	Tenders for any supply or work to be carried out should not be invited unless a formal acceptance can be issued within the period the tender remains open for acceptance.	Head of Service, Roads & Amenity Services	The implementation of the Capital Programme Planning and Management Guide will assist this action. September 2008
2	1.3	Fundamental	(a) As the two lowest tenderers for the fire and rescue vehicles at Oban airport were in effect non compliant the Council was obliged to pay £53k. more than might otherwise have been the case. (b) A tender was invited from a supplier, whose tender was discounted, as his financial standing was not considered adequate when investigated by	Instruction should be issued to relevant managers that where the price gap between a lower but non compliant tender and the lowest compliant tender exceeds 20% the non compliant tender should be reviewed and the risks of acceptance by the suspension of Standing Orders assessed and reported to the Executive Committee.	Head of Service, Roads & Amenity Services	September 2008

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
			Strategic Finance			
3	1.4 to 1.7	Fundamental	This project commenced with the appointment of a working group on 7 th January 1998. The Licences for Oban, Coll and Colonsay airports were finally granted by the CAA on 5 th June 2008.	Major infrastructure projects, particularly involving a variety of non standard operations/services, must be formally considered and approved, with care taken to set aims and priorities such that adequate resources can be applied to the project and a programme of implementation/progress/ completion devised and agreed with all parties This could be achieved with adoption of the proposals within the Draft Capital Planning and Management Guide which is shortly to be finalised.	Head of Service, Roads & Amenity Services	The implementation of the Capital Programme Planning and Management Guide will assist this action. October 2008
4	1.8	Minor	The Oban airport terminal building Tender Opening Record compares an estimated value of £820K with a lowest tender sum	It is important that Property Services and/or Roads Design are consistent in their use and description of figures in order that like for	Head of Service, Roads & Amenity Services And	October 2008

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
			of £1067.825K.while the tender assessment record refers to cost plan of £704k. and accounts for the increases but does not provide an explanation between cost plan and tender estimated value.	like comparisons are made and explanations of differences can be relied upon rather than confusing to the reader. To this end standard terminology should be used and a glossary of terms prepared for use by Members and Officers.	Head of Facility Services	
5	1.11	Material	The consultants used to specify, and recommend possible suppliers of, fire and rescue vehicles do not appear to have been up to the task.	Project Board Terms of reference should be prepared and include:- Where specialist equipment or services are to be acquired as part of a project the Project Manager, reporting to a project board, should be given full responsibility for ensuring that the Council obtain the most technically competent and experienced consultancy expertise and/or staff to deliver the project.	Head of Service, Roads & Amenity Services	November 2008
6	1.12	Fundamental	Where a construction	Prepare Project Manager's	Head of	November 2008

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
			<p>project encounters delays or specification difficulties and other Council Services become involved in the process of resolution there appears to be a basis for abdication of responsibility.</p>	<p>Terms of reference should make it clear that the Project Manager of a project is responsible for the progress and completion of the construction of the project regardless of the input required from internal or external resources not necessarily under his direct control. To assist in this process a Project Board consisting of senior members and officials should be appointed at the start of a project. It is important that the selection of the project board members reflects the nature and complexity of the project!</p>	<p>Service, Roads & Amenity Services</p>	
7	1.13	Minor	<p>Two separately specified and tendered construction projects were carried out concurrently at the Oban airport site. Although</p>	<p>An instruction should be issued that this practice should be avoided if at all possible but when necessary must be</p>	<p>Head of Service, Roads & Amenity Services</p>	<p>October 2008</p>

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
			recognised at tender stage the contracts were adversely affected.	specified at tender stage and contractors advised to take account of the nature of both works in devising their contract programmes which should be formally approved by the Project Manager.		
8	1.16	Fundamental	Despite pre-build and pre-delivery inspections, of the fire and rescue vehicles ordered from Angloco, taking place, an inspection to confirm achievement of specification found serious non-conformances some time after the original delivery date had passed	Prepare Project Managers Terms of Reference to include:- All contracts involving a construction process must include a build programme and review process as part of the contract documentation and conditions. This should be extended to all contracts where appropriate and it should be the responsibility of the Project Manager to ensure compliance of the parties to the contract regardless of the involvement of consultants.	Head of Service, Roads & Amenity Services	November 2008

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
9	1.4 to 1.7	Fundamental	Projects involving a variety of skills in a concurrent time frame viz. Civil Engineering Building and construction Fire and rescue Airport operation Flight service provision Special licensing provisions also require unique project management skills not necessarily readily available in-house.	One or two senior project managers should be identified and selected for training on complex project management and the use of current techniques.	Head of Service, Roads & Amenity Services	This is in progress as part of our normal development and training process but will be further reviewed. October 2008



Grant Thornton

Argyll and Bute Council

Contract Management

March 2009

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Appendices

A Action plan

B Significant Capital Projects over £1million

1 Executive Summary

1.1 Introduction

The Council spends significant sums annually on its capital programme and needs effective contract management arrangements in place to ensure capital projects are prioritised in accordance with corporate priorities, contracts are awarded in line with legislative requirements, and good budget and project management arrangements are in place to deliver value for money.

A lack of effective contract management arrangements may lead to both financial and reputation risks for the Council, and poor value for money. As part of our 2007-08 audit, we have reviewed the Council's arrangements for contract management. Our findings will help inform the Council of any areas where action is required to strengthen arrangements.

As part of our audit, we reviewed the contract management arrangements for the Argyll Air Services contract. This contract included the construction of airports at Oban, Coll and Colonsay. The first scheduled flight between these airports took place in June 2008. Oban Airport was formally opened in August 2008, by the Minister for Transport, Infrastructure and Climate Change.

1.2 Scope

Our review covered the main aspects of contract management, including:

- the planning process for projects, including feasibility studies, business plans and initial budgeting and forecasting
- the procurement process
- the management and monitoring of projects during the construction phase
- the operational plans for projects, including financing and post project completion.

We carried out our work in tandem with internal audit, who have reviewed the contract and tendering arrangements for a number of key capital projects during the year

1.3 Key findings

We found a number of weaknesses in the Council's contract management arrangements, particularly in relation to the management of the Argyll Air Services Project. Our key findings are outlined below:

Contract design

- the preliminary studies for the project were commissioned several years before the project began, and were not fully updated for changes to the project
- the preliminary studies, and work of external consultants, did not fully cover all aspects of the Argyll Air Services project, resulting in unanticipated costs.

Contract management

- the Council appointed aviation consultants to undertake preliminary studies in preparation for the contract, but the project management team did not have specific experience air transport construction projects
- weaknesses in contract management arrangements, and external consultant performance, led to increases in the overall costs of the project
- the effect of the importation of construction materials on the Coll road network, although allowed for, was not sufficient to cover the damage caused and led to additional costs being incurred
- an operational or business plan for Argyll Air Services has not yet been developed.

We note that the Council has revised its project management arrangements since the commencement of the Argyll Air Services contract. All recent capital contracts have been managed under these new arrangements which meet good practice guidelines.

1.4 Looking forward

Our report makes 8 recommendations, of which 3 are categorised as high priority. In summary, the Council should review its capital planning and contract management procedures to become more effective in the following key areas:

- prioritising capital projects in line with corporate priorities
- ensuring key project decisions are fully documented at all stages of the contracting process
- developing arrangements for managing risk at all stages of the procurement and delivery stages of capital projects.

In addition, we have recommended that the Council consider setting up a separate management account for Argyll Air Services to ensure greater transparency in the decision making and monitoring arrangements for the Council's airports.

The findings and recommendations from our review are summarised in an action plan at Appendix A. The action plan has been agreed with management and incorporates the management response to audit recommendations. We will follow up the Council's progress in implementing the agreed action plan as part of our 2008-09 audit.

1.5 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.

1.6 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.

2 Detailed findings

2.1 Introduction

Contract management can be defined as the process that enables both parties to a contract to meet their obligations in order to deliver the objectives required from the contract. It also involves building a good working relationship between the parties that continues throughout the life of a contract and involves managing proactively to anticipate future needs as well as reacting to situations that arise.

The main objectives of contract management can be summarised as:

- obtaining the goods or services as agreed in the contract
- achieving the corporate and strategic objectives associated with the contract
- achieving value for money.

This requires optimising the economy, efficiency and effectiveness of the project the contract relates to, balancing costs against risks and actively managing the relationship between the parties. Contract management may also involve aiming for continuous improvement in performance over the life of the contract.

For public sector bodies, the most significant contracts are those related to the capital programme. The size and significance of the capital programme requires the Council to have effective arrangements in place to ensure capital projects are prioritised in accordance with corporate priorities, contracts are awarded in line with legislative requirements, and good budget and project management arrangements are in place to deliver value for money.

As part of our 2007-08 audit, we conducted an overview of the Council's contract management arrangements and a detailed review of the operation of those arrangements for the Argyll Air Services contract.

2.2 Background

Overall Capital Programme

The Council spends significant sums annually on its capital programme, with net expenditure of £15.6 million in the 2007-08 financial year. The total value of the Council's current capital programme is £153.7 million and a summary of planned capital projects with a projected cost in excess of £1 million is included in Appendix B.

The total capital programme involves the management of numerous contracts, each with their own unique requirements. Effective contract management arrangements are, therefore, an important aspect in achieving the Council's corporate objectives.

Argyll Air Services Contract

The Council own and operate 4 airports in Argyll and Bute sited on Coll, Colonsay, Glenforsa (Mull) and Oban. In addition, Highlands and Islands Airports Limited operate 3 airports in Campbeltown, Islay and Tiree.

In 2003, the Scottish Government signed an agreement with the Council to fund the expansion of the airport in Oban, with additional funding for Coll and Colonsay airports provided through GAE. This allowed scheduled passenger flights to operate between Oban and the two islands and the existing airport at Tiree. Previously, the islands of Coll and Colonsay could only be reliably reached by ferry and the provision of scheduled air services was seen as a strategic priority for improving local transport links and allowing an increase in the provision of public services to the islands of Coll and Colonsay.

The Argyll Air Services project is a large and complex capital projects, involving the following 10 contracts:

- a new runway and terminal building at Oban, Coll and Colonsay Airports (5 contracts)
- control tower equipment
- fire fighting and rescue vehicles
- provision of air services under a Public Service Obligation (PSO) format
- consultancy services to assist with the PSO tender
- consultancy services to assist with the licensing requirements for the 3 airports.

Funding for the project was provided by 4 partners, detailed in Table 2.

Table 2: Argyll Air Service project funding

Partner	Funding (£million)
Argyll and Islands Enterprise (AIE)	£1.492
Highland and Islands Transport (HITRANS)	£1.200
European Regional Development Fund (ERDF)	£1.986
Oban, Lorn and the Isles Area Committee Funds	£0.050
Total partner contributions	£4,728
Council contribution	£3,772
Projected Outturn	£8,500

Source: Argyll and Bute Council

The Scottish Government provides cover for the loan support charges resulting from the Council's capital contribution to the scheme, and will provide revenue support for the operation of Oban Airport and the operation of the public service obligation routes when the project is complete. The Council remains responsible for the cost of the operation of Coll and Colonsay Airports (Tiree Airport continues to be operated by Highlands and Islands Airports Ltd).

This arrangement ensures that the majority of costs associated with constructing and operating Oban Airport do not fall on the Council. The Council also receives additional funding for constructing Coll and Colonsay airports, but contributes £170,000 towards the overall costs of these airports.

2.3 Project planning

The scale and variety of the Council's capital programme means that the approach to contract management varies between projects. However, there are fundamental aspects of contract management that should be undertaken at the planning stage to ensure projects are properly approved before the Council is committed to fund expenditure.

In February 2007 the Council agreed an approach to weighting and scoring capital projects, requiring consideration of:

- the impact on corporate plans and strategic objectives
- affordability with respect to the capital and revenue budgets
- whether the project can be delivered successfully
- risk management.

Since this approach was introduced, the Council has completed a Corporate Plan and Statement of Intent and has introduced a 'Gateway Review' process for new capital projects. All new and recently commissioned capital projects will, therefore, be subject to the new review process.

Action plan point 1

Planning for the Argyll Air Services contract started with a number of preliminary studies commissioned by the Council and its partners between 1998 and 2003. The studies looked at the practicality of achieving licensed status and the construction works likely to be required in conjunction with this, and analysed the potential demand for air services between Oban and the islands.

The preliminary studies made assessments of Oban Airport, and Coll and Colonsay Airports covering topographical survey work, aviation assessments and drainage studies. These preliminary studies were commissioned by the Council several years before the contract and tendering phases of the contract began and there was no evidence that they had been updated to ensure key assumptions continued to apply prior to signing the contract.

Action plan point 2

The construction of an airport requires elements of specialism outwith the normal workings of the Council and, therefore, carries additional risk. Whilst the Council received advice from a range of specialist aviation consultants, a detailed assessment of the risks associated with the Project was not prepared prior to commencement of the works.

Action plan point 3

There was a significant overspend on Coll Airport, as the construction materials transported to the island to build the runway caused significant damage to the existing road network between the harbour and the airport, with the result that the road network had to be repaired. This led to an overspend of approximately £770,000 in the airport construction budget for Coll, but also resulted in 8.5km of high standard road on the island which will bring additional future benefit.

The preliminary assessment of the Coll airport site identified that approximately 1km of the network was likely to require repair work on conclusion of the site works and an allowance of 10% of tender cost included for this purpose - significantly below the eventual cost outturn. As the likelihood of these additional works were known in advance, the original budget should have incorporated a more realistic estimate for the costs.

Action plan point 4

2.4 Tendering

The Council's procurement procedures detail the steps to be followed when undertaking major procurement exercises. The procedures ensure the Council complies with European Union (EU) legislation on public procurement which are designed to ensure fairness and equity in the expenditure of public funds, and to prevent illegal state aid.

Internal audit carried out a review of the contract and tendering arrangements for Argyll Air Services, including compliance with Council and EU procurement guidelines.

Internal audit have reported their findings to management in their report, *Review of tendering procedures- Argyll Air Services*. The report concluded that the project complied with Council and EU procurement guidelines. However, internal audit noted the following points with regards to contract and tendering arrangements:

- during the course of this project the Council had to request tenderers to hold prices beyond the date the tender was open for acceptance
- there were discrepancies between the Oban airport terminal building Tender Opening Record and the tender assessment record but no explanation for the discrepancy between cost plan and tender estimated value was documented.

Management have accepted these findings and have agreed to take action to improve tendering arrangements.

2.5 Contract Management

In order to ensure effective management of contracts, a plan should be in place to monitor progress of the contract against the stated outcomes.

Each project is assigned a project manager. The role of the project manager is to manage the day-to-day running of the project. This includes preparation of tenders, monitoring contract delivery and reporting on the capital budget. The project manager is assigned from the service managing the contract.

The Argyll Air Services project was managed by different staff during the early stages due to changing responsibilities within the Council and moved between services due to structural

reorganisation. Project management originally rested with Development Services but was eventually managed by Roads and Amenity Services.

The project managers assigned by the Council were experienced civil engineers, but had no prior experience of the air transport industry. Subsequent appointments to the project included an Airport Development Manager and Senior Fire Officer, both of whom had significant prior experience in managing the operational and fire services at other UK airports. These appointments took place after the contract and tendering procedures had been completed and the construction phase had begun.

2.6 Monitoring arrangements

A pre-licensing inspection by the Civil Aviation Authority (CAA) identified a number of areas of non-compliance with the licensing requirements. The rectification of these matters by the Council led to a significant delay in obtaining the necessary licences to operate the 3 airports with a subsequent increase in the cost of the Project and a loss of income during the period when the airports could not be used.

One element of additional cost related to the outcome of the Council's contract for airport fire engines. During the build process, Council officers identified that the vehicles did not fully meet the contract specification and would be of no use in satisfying the CAA). The vehicles were therefore rejected as being non-compliant, and the Council had no choice but to acquire replacement vehicles at short notice to meet CAA licensing requirements. These replacement vehicles did not fit into the garaging facilities built to house the original fire engines resulting in a requirement for additional works.

Having reviewed the correspondence associated with this issue, it is our view that the Council took appropriate action on a timely basis to ensure CAA licensing requirements were met in relation to the availability of airport fire engines. We understand that the Council is seeking compensation from the contractor to recover payments made and any consequential costs incurred in relation to this matter.

Whilst some of the areas of non-compliance were outwith the Council's control, a number of issues added to the final cost of the project which the Council should have addressed in advance. These included:

- the cost of reconstructing roads on Coll which were damaged by the heavy construction materials transported to the island to build the new runway and terminal building (this was identified and addressed but insufficiently so)
- the identification by the Airport Development Manager of some CAA licensing requirements which had not been notified to the Council by its aviation consultants. This led to additional costs being incurred principally in the areas of emergency water supplies (£40k), radio and communication needs (£110k) and rescue aids in the event of an aircraft crashing into Loch Etive near Oban airport (£70k)
- the design specification for the control tower at Oban Airport did not allow for the safe installation of air traffic control equipment and an adjustment to the floor level was required as a result
- the control tower did not allow an unrestricted view of the runway in line with CAA requirements - this was overcome by the fitting of CCTV cameras.

Action plan point 5

2.7 Budget monitoring

Capital plan monitoring reports

A capital plan monitoring report is produced on a monthly basis by the Head of Strategic Finance. The report is reviewed by the Senior Management Team and is subject to quarterly review by the Executive.

The report analyses all the capital projects underway by service, and uses a "traffic lights" system to monitor:

- expenditure during the year
- project total cost
- project timescale
- project benefits
- project risk.

Service heads are required to produce a report for each project with a red classification. The report summarises the issue causing the performance rating, the proposed action to rectify the problems, and the implications of the action. In the case of the Oban airport contract, the cost increases and reasons for them were regularly identified and reported to senior management and members.

Argyll Air Services

Table 3 below shows performance against budget for the Argyll Air Services project as at March 2008 and June 2008 from the capital plan monitoring reports.

Table 3: Argyll Air Services performance against budget

Stage	Estimated expenditure £m	Variance from original tenders £m
Original tenders	5.5	-
March 2008	8.5	3.0
June 2008	9.0	3.5

Source: Argyll and Bute Council capital plan monitoring reports (March 2008 and June 2008)

The additional costs relate mainly to unforeseen spend for air traffic control equipment, fire engines, and safety works identified by the CAA. In addition, there was a budget overspend of £1 million in the construction of the runways at Oban and Coll Airports. A further £0.5 million was added to the budget between March and June to cover staff and consultancy costs associated with the delay in achieving CAA certification, and potential claims for excess costs by contractors.

Revenue budget figures have been prepared as part of the Council's service budgets for the 3 year period from 2008-09. Argyll Air Services is included with Roads and Amenities Services and there are separate cost centres that allow the costs and income for Argyll Air Services to be extracted and reported on. Reports have been submitted to the Council on several occasions showing 3 years financial projections for Argyll Air Services, however, there is no separate business analysis.

The Council has made no detailed assessment of whether the early projections for passenger numbers continue to be sustainable and the extent to which the airports will be required to rely on Scottish Government subsidy.

Oban Airport is funded to carry 592 passengers per month under the Public Services Obligation arrangement. Each flight has a capacity of 8 passengers, with approximately 74 flight movements expected each month. A total of 342 passengers used Oban Airport during September and October 2008, which is below the Council's projection of passenger numbers of 380 for that period. It is too early to determine if passenger demand for the service will meet expectations.

Action plan point 6

As Argyll Air Services operates separately from the Council's main activities and partly on a commercial basis, the Council should consider preparing detailed management accounts on a regular basis to improve budget setting and monitoring arrangements.

Action plan point 7

2.8 Post project completion

Post completion reviews

The Council's approach to capital planning was agreed by the Executive in December 2006. This requires a post completion review of major capital projects in line with good practice guidelines. The objectives of such a review are to:

- assess the performance of the Council and the contractor during the project
- consider whether the project has achieved its objectives
- evaluate the impact of the project
- identify good practice and areas for improvement emerging from the project and ensure good practice is applied to other projects going forward.

Post completion review are undertaken as part of a 2 stage process, firstly once the construction phase is complete and then after several years post completion to ensure the project is delivering the ongoing benefits outlined in the business case. The second stage review of the Argyll Air Services contract will, therefore, take place in due course.

Management of Argyll Air Services

Both the Airport Development Manager and Senior Fire Fighting Officer who were appointed during the construction phase have now left the Council. A permanent airport manager has been appointed. Going forward, airport staff will report to a Marine and Airports Manager who in turn will report to the Head of Roads and Amenity Services.

Airport administration is a specific specialism, outwith the normal activities of a local authority. As such the Council should consider the future development of the airports, in particular the following options:

- subcontracting the management of the airport to a third party
- selling the airport to a third party
- to retain the airport within existing structure of the Council.

If the Council decides to retain the airports, a business plan should be in place which details the financial and operational plans for the airports over the medium term.

Action plan point 8

A Action plan

No.	Observation	Recommendation	Priority	Management Response	Responsible officer and implementation date
Business planning and contract tendering					
1	The Council does not always adequately document the decision making process at key stages of the contract management process. For example, proposed capital projects should be subject to a documented review to ensure objectives match the strategic objectives set out in the Corporate Plan and Statement of Intent.	In implementing the Gateway Review process for contract management, future capital projects should incorporate a review prior to approval to demonstrate that project objectives match strategic objectives.	Medium	This point has already been actioned. All Strategic change capital projects require to complete initial, outline and final business cases that must pass through a gateway process before final approval is given	Already actioned
2	There was no evidence that preliminary studies completed for the Project in 1998 had been updated to ensure key assumptions continued to apply.	The Council should ensure business planning documents are kept up to date and remain relevant throughout the project life.	High	Final business cases which will be the final decision point for determining whether to proceed with a strategic change capital project will be based on tendered capital costs and updated revenue costs.	Already actioned.
3	A detailed assessment of the risks associated with the Project was not undertaken prior to commencement of the works.	All major capital projects should be subject to detailed risk management procedures, including a risk assessment prior to commencement of the works.	High	Initial, outline and final business cases will require risks to be identified and reviewed as a project develops. Use of Prince 2 approach will require projects to maintain a risk log.	Already actioned.

No.	Observation	Recommendation	Priority	Management Response	Responsible officer and implementation date
4	There was limited evidence supporting a review of the condition of the road network on the island of Coll, and there was a significant overspend against the original budget.	The Council should ensure there is adequate evidence to support estimates incorporated in capital projects.	High	With final business cases being based on tendered costs and with review of risks there should be sufficient evidence and challenge to back up capital cost estimates. However a contingency by its nature is always going to be an estimate.	Already actioned
Business planning and contract tendering					
5	A number of issues added to the final cost of the project which the Council should have identified and addressed in advance.	The Council should ensure contract preparation arrangements adequately identify all material costs likely to be incurred for major contracts.	Medium	The final business case for strategic change projects will also act as a double check on adequacy of capital cost estimates and cross check these to project scope.	Already actioned

6	It is too early to determine if passenger demand for Argyll Air Services will meet expectations and justify the significant investment in the scheme.	The Council should plan to review existing projections for passenger numbers at its airports to ensure the original business model continues to be sustainable.	Medium	<p>It is agreed that the project should be reviewed and it is felt a complete year's operation would allow such a review to establish performance against the initial PSO model.</p> <p>This is against the position of the investment having been made to promote social cohesion and support for remote island communities on Coll, Colonsay and Tiree.</p>	Marine and Airfields Manager with Head of Roads and Amenity Services
7	Argyll Air Services operates separately from the Council's main activities and partly on a commercial basis ..	The Council should consider preparing separate management accounts for Argyll Air Services to improve budget setting and monitoring arrangements.	Medium	Financial and service performance targets will be set for the Air Service project as part of the Planning & Performance Management Framework. This will include targets set in the service plan and included in the performance scorecard. We see no case to establish separate planning & performance management arrangements out with PPMF for a single aspect of a service. Within the service it will monitor performance and budget.	

No.	Observation	Recommendation	Priority	Management Response	Responsible officer and implementation date
8	If the Council decides to retain the airports, a business plan should be in place which details the financial and operational plans for the airports over the medium term.	A business and operational plan should be prepared for Argyll Air Services. This will detail the Council's plans for managing the airports going forward.	Medium	Current view of the Council is that the airports should remain in Council ownership, albeit the need for ongoing review of the business and operational plan for Argyll Air Services and the airports will be part of the Departmental Service Planning process.	Marine and Airfields Manager with Head of Roads and Amenity Services. Budget process for 2010/11

B Significant Capital Projects over £1million

Table 1: Significant capital projects over £1m

Project	Budget £million	Details
Campbeltown Grammar School	£3.151	Refurbishment of the school estate
Port Askaig Pier	£12.910	Redevelopment of Port Askaig Pier
Oban Development Road	£13.154	Construction of a new road in North East Oban
Cuan Ferry Slipways	£3.300	Reconstruction of ferry slipways
A848 double track road construction	£13.220	Construction of double track road between Gualan Dhubh and Salen
Argyll Air Services	£9.010	Upgrade of Oban, Coll and Conolsay airports for scheduled flights
Rothesay Harbour	£14.083	Redevelopment of Rothesay Harbour
Dunoon Pier	£4.800	Redevelopment of Dunoon Pier
Bridge Strengthening Project	£4.683	Council wide project for bridge strengthening and replacement
Kilbride Road	£1.200	Flood prevention scheme
Milton Burn Road	£2.913	Flood prevention scheme
Flood Prevention General	£1.439	Council wide drainage improvement schemes
Helensburgh Operational Services Depot	£1.364	New Operational Services Depot
Mull and Islay Landfill Sites	£4.060	Redevelopment of landfill sites on Mull and Islay
Roads Reconstruction	£15.070	Reconstruction of priority roads in the Council area
Oban High Community Facility	£1.053	Football pitch construction

Source: Capital Monitoring Report March 2008



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