

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



Kilmory, Lochgilphead, PA31 8RT
Tel: 01546 602127 Fax: 01546 604444
DX 599700 LOCHGILPHEAD
e.mail –nigel.stewart@argyll-bute.gov.uk

26 February 2010

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **MEMBERS' ROOM, KILMORY, LOCHGILPHEAD** on **FRIDAY, 5 MARCH 2010** at **11:00 AM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**
Audit Committee 11 December 2009 (Pages 1 - 8)
4. **E-PROCUREMENT SCOTLAND**
Report by Exchequer Services Manager (Pages 9 - 12)
5. **BEST VALUE REVIEWS**
Report by Head of Improvement and Strategic HR (to follow)
6. **SERVICE REVIEW OF INTERNAL AUDIT**
Report by Head of Strategic Finance (Pages 13 - 22)
7. **FINANCIAL STATEMENTS 2009-2010**
Report by Head of Strategic Finance (Pages 23 - 24)
8. **AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2009 - 2010**
Report by Internal Audit Manager (Pages 25 - 38)
9. **ANTI FRAUD STRATEGY REVIEW**
Report by Internal Audit Manager (Pages 39 - 40)
10. **NATIONAL FRAUD INITIATIVE 2008/2009**
Report by Internal Audit Manager (Pages 41 - 42)

11. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2009 - 2010**
Report by Internal Audit Manager (Pages 43 - 46)
12. **AUDIT PLAN 2009 - 2010**
Report by Grant Thornton UK LLP, External Auditors (Pages 47 - 66)
13. **ANNUAL AUDIT PLAN 2010 - 2011**
Report by Internal Audit Manager (Pages 67 - 84)
14. **EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2009 - 2010**
Report by Internal Audit Manager (Pages 85 - 104)
15. **RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY**
Report by Governance and Risk Manager (to follow)
16. **INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2009 - 2010** (Pages 105 - 108)
 - (A) REVIEW OF CONTRACT MANAGEMENT (PAGES 109 - 118)
 - (B) CAR ALLOWANCES (PAGES 119 - 126)
 - (C) REVIEW OF EUROPEAN FUNDED PROJECTS (PAGES 127 - 134)
 - (D) REVIEW OF STRATEGIC RISK REGISTER (PAGES 135 - 146)
 - (E) REVIEW OF BUSINESS CONTINUITY (PAGES 147 - 154)
 - (F) REVIEW OF PURCHASING - COMMUNITY SERVICES (PAGES 155 - 164)
 - E1 (G) FILE TRANSFER REVIEW (PAGES 165 - 176)

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

The appropriate paragraph is:-

- E1** **Paragraph 14** Any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

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 COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 11 DECEMBER 2009**

Present:

Ian M M Ross (Chair)

Councillor Gordon Chalmers
Councillor Andrew Nisbet

Christopher Valentine

Attending:

Iain Jackson, Governance and Risk Manager
Bruce West, Head of Strategic Finance
Jane Fowler, Head of Improvement and HR (for items 7 and 9)
Lisa Bond, Strategic HR Officer (for item 9)
Carol Keeley, Emergency Planning Officer (for item 8)
Alan Brough, Exchequer Manager (for items 4 and 5)
Kate Connelly, Operations Manager – Trading Standards (for item 6)
Alex Colligan, Internal Audit Manager
Gary Devlin, Grant Thornton UK LLP, External Auditors

The Chair ruled, and the Committee agreed, to consider the business dealt with at item 20 of this Minute as a matter of urgency by reason of the need for the Service to progress with actions identified by the External Auditors in their 2008/2009 Audit Report.

The Chair ruled, and the Committee agreed, to vary the order of business to allow Officers to deal with other commitments following presentation of their reports at the meeting.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Devon, Kinniburgh and Councillor Robb.

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The Minutes of the Audit Committee meeting held on 18 September 2009 were approved as a correct record subject to the following amendment:-

The sentence immediately before item 16 of the Minutes should read “Councillor Chalmers left the meeting at 4.00 pm”.

4. E-PROCUREMENT SCOTLAND

The Audit Committee, at its meeting on 18 September 2009, requested that a report be prepared providing a note of the general development with e-procurement and an update on the PECOS system used by the Council which was now before the Committee for consideration.

Decision

Noted the progress made to date on electronic procurement and the potential for further efficiency within the purchase to pay process.

(Reference: Report by Exchequer Services Manager dated 23 November 2009, submitted)

5. AUDIT SCOTLAND - IMPROVING PUBLIC SECTOR PURCHASING

The Audit Scotland report entitled "Improving Public Sector Purchasing" provides an overview of the Public Procurement Reform Programme in Scotland which followed publication of the McClelland Report in 2006. The Audit Scotland report makes a substantial list of recommendations, aimed at the Scottish Government, the Centres of Expertise and individual public bodies and a report outlining the Council's position in respect of each of the recommendations for individual organisations was considered.

Decision

1. Noted the contents of the report; and
2. Agreed to request the Exchequer Services Manager to bring a report to the next meeting on 5 March 2010 detailing the cashable and non cashable procurement savings achieved each year since 2004/05.

(Reference: Report by Exchequer Services Manager dated 25 November 2009, submitted)

6. BEST VALUE REVIEW OF PROTECTIVE SERVICES AND LICENSING

The Best Value Review of Protective Services and Licensing was approved by the Council in February 2009 and a report providing an update on progress on the work of this review was before the Committee for consideration.

Decision

1. Noted the Committee's concern at the slippage in the timescale in delivering the Best Value Review; and
2. Agreed to request the Head of Legal and Protective Service to bring a report to the next meeting on 5 March 2010 detailing actual progress made with the delivery of the Best Value Review.

(Reference: Report by Head of Legal and Protective Services dated December 2009, submitted)

7. IMPLICATIONS OF BEST VALUE 2 WITHIN THE COUNCIL

The Accounts Commission published a consultation paper on Best Value 2

(BV2) in May 2009 which identified the proposed characteristics of a BV2 and sought views on the proposals. Following the consultation process the Accounts Commission identified 5 pathfinder BV2 Councils: Highland, Borders, East Ayrshire, Dundee and Angus and these Councils are currently undergoing an assessment and review process against the BV2 criteria. The findings of this process are being collated and will form the basis for guidance and preparation of a series of toolkits for Councils to use in the BV2 process. A report informing the Audit Committee on the implications for the Council presented by BV2 was considered.

Decision

Noted the progress being made by the Council in preparation for BV2.

(Reference: Report by Head of Improvement and Strategic HR, submitted)

8. AUDIT SCOTLAND REPORT - IMPROVING CIVIL CONTINGENCIES PLANNING

The Audit Committee, at its meeting on 18 September 2009, considered a recently published Audit Commission report entitled "Improving Civil Contingencies in Planning" and requested that the Emergency Planning Officer prepare a report for the next meeting advising on what the key issues for the Council were in terms of meeting its duties under the Civil Contingencies Act 2004, including completion of the self assessment checklist detailed at Appendix 2 of the Audit Commission report.

This report was now before the Committee for consideration.

Decision

Noted the contents of the report and approved the response for submission to the Accounts Commission subject to the following amendments:-

- a) Action 7 of the self assessment form should also include a "X" under the heading "In place but needs improvement" with reference made that this applies to Business Continuity Planning and that the "X" under the heading "In place and working well" should make reference to this applying to Emergency Planning; and
- b) The words "expected to" should be removed from the comments detailed at Action 13.

(Reference: Report by Chief Executive dated 18 November 2009, submitted)

9. ABSENTEEISM AND STRESS AND RECRUITMENT AND RETENTION

A report produced in response to a request from the Audit Committee of 26 June 2009 to report on HR policies and procedures relating to absenteeism and stress and recruitment and retention of staff was considered.

Decision

Noted and approved the contents of the report subject to the following suggestions made by the Committee being further investigated and reported back to the Committee in 6 months time:-

- a) Absence figures being reported within Pyramid on a moving annual average basis rather than quarterly basis;
- b) The target of 7.6 days lost per employee be revised depending on whether or not the employee is office based or a manual worker;
- c) In respect of the “unknown” category of absence – clarification sought on whether or not this could be reported more accurately; and
- d) Amendment of typographical error at paragraph 3.6.3 of the report - “complaint” should be “compliant”.

(Reference: Report by Head of Improvement and Strategic HR, submitted)

10. AUDIT OF BEST VALUE - COMMUNITY PLANNING - FOLLOW UP

A report on the Audit of Best Value and Community Planning was published in February 2006 by the Accounts Commission and the Commission agreed to require a further report on the best value audit of Argyll and Bute Council as at 31 December 2007. This report was issued in December 2008 and the Commission acknowledged that the Council had made progress in a number of key areas, including corporate leadership and strategic direction, but concluded that overall there was a clear need to increase the pace of change and ensure a number of systems and processes for supporting best value were successfully implemented.

As part of their 2008 – 2009 audit, Grant Thornton UK LLP, the Council’s External Auditors followed up the progress made by the Council in addressing the improvement agenda and prepared a response to the 2008 best value audit which was before the Committee for consideration. The audit covered the following key areas: an evaluation of progress in achieving Improvement Plan objectives; an assessment of the overall achieved improvement to date; and an assessment of the prospects for future improvement.

Decision

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

(Reference: Report Grant Thornton UK LLP dated 18 November 2009, submitted)

The Chair ruled, and the Committee agreed, to adjourn the meeting at 1.15 pm for lunch

The Committee reconvened at 1.40 pm.

11. AUDITED ACCOUNTS 2008/2009 AND EXTERNAL AUDIT REPORT

The External Auditors, Grant Thornton UK LLP, have completed their audit of the Council's accounts for the year to 31 March 2009. The audited accounts incorporating the audit certificate and the external audit report for 2008 – 2009, which were previously before the Council on 27 November 2009 were before the Audit Committee for consideration. The audit certificate contains no qualifications and the external audit report highlights key issues for the attention of Members.

Decision

Noted the audited accounts, the terms of the audit certificate and the external audit report and that the Audit Committee will monitor the action plans agreed in response to individual audit reports that have been issued during the year.

(Reference: Report by Head of Strategic Finance dated 5 November 2009, 2008 – 2009 Annual Accounts, and Report on the 2008 – 2009 Audit by Grant Thornton UK LLP dated October 2009, submitted)

12. ADDICTION SERVICES - ADDITIONAL BUDGET INFORMATION

The Audit Committee, at their meeting on 18 September 2009, considered a report detailing progress made by the Council against the recommendations of the Audit Commission (2009) report entitled "Drug and Alcohol Services in Scotland" and requested a further report detailing a breakdown of expenditure incurred on alcohol and addiction services by both Argyll and Bute Council and NHS Highland, including staffing and administration costs. A report expanding on expenditure on addiction services provided by Argyll and Bute Council and NHS Highland via the Argyll and Bute Community Health Partnership was before the Committee for consideration.

Decision

Noted the contents of the report and that the Needs Assessment requested by the Audit Committee at its meeting on 18 September 2009 is expected to be presented to the Committee in September 2010.

(Reference: Report by Director of Community Services, submitted)

13. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY

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

Decision

Noted the terms of the report.

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

14. REPORT ON TENDERING PROCEDURES

The Audit Committee, at its meeting on 18 September 2009, agreed to continue

consideration of the report on Tendering Procedures to allow for further information to be provided in respect of the first finding and recommendation. A report providing a further explanation of recommendation one as contained in the report issued in August 2009 was considered.

Decision

Noted the contents of the report.

(Reference: Report by Internal Audit Manager, submitted)

15. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2009 - 2010

An interim progress report covering the audit work performed by Internal Audit up to 13 November 2009 was considered.

Decision

Approved the progress made with the Annual Audit Plan for 2009 – 2010.

(Reference: Report by Internal Audit Manager, submitted)

16. AUDIT COMMITTEE TRAINING DAY - 29 MAY 2009

In addressing the CIPFA 2004 guidance the Audit Committee decided on 29 May 2009 to request KPMG LLP, the Council's Internal Audit Partners to facilitate a training day. A subsequent report was produced by KPMG LLP and presented to the Audit Committee for their review on 18 September 2009. A report advising on the Audit Committee meeting agenda, which details the issues to be reviewed by the Committee throughout the year, and on additional actions identified from the training day which are not captured in the draft meeting agendas, along with an agreed delivery timetable to ensure that these actions are addressed was considered.

Decision

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

(Reference: Report by Internal Audit Manager, submitted)

17. AUDIT SCOTLAND REPORTS TO AUDIT COMMITTEE

A report advising of the key messages of recently published Audit Commission Reports entitled "An overview of the audits of Best Value and Community Planning Making an impact" and "Scotland's public finances – Preparing for the future" was considered.

Decision

1. Noted the contents of the report and that these will be followed up by

Internal Audit; and

2. Agreed to request that the Head of Improvement and HR bring a report to the next meeting on 5 March 2010 detailing the process for carrying out Best Value Reviews and determining when these should be carried out and to investigate a mechanism for Member involvement during these Reviews.

(Reference: Report by Internal Audit Manager, submitted)

18. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2009 - 2010

The Committee considered a report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 30 September 2009.

Decision

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

(Reference: Report by Internal Audit Manager, submitted)

19. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2009 - 2010

A report detailing final report summaries and action plans from recent audits was considered.

Decision

1. Noted the contents of the reports in respect of the following audits and that these will be followed up by Internal Audit:-

Treasury Management
Leader Funding
Leisure Stock Control System
Statutory Performance Indicators 2008/09
Debtors
Benefit Fraud

2. Agreed that the process of drawing up tenders should be the subject of a future Internal Audit; and
3. Agreed that Treasury Management should be included within the Council's Risk Register.

20. SERVICE REVIEW OF INTERNAL AUDIT

A report outlining the reasons for undertaking a service review of internal audit and the proposed scope and timescale of such a review was considered.

Decision

Agreed the proposed service review as outlined in the report and that an interim

progress report would be brought to the Audit Committee on 5 March 2010.

(Reference: Report by Head of Strategic Finance dated 7 December 2009, tabled)

ARGYLL & BUTE COUNCIL**AUDIT COMMITTEE****CORPORATE SERVICES****MARCH 2010**

E-PROCUREMENT SCOTLAND

1. BACKGROUND

- 1.1 There has been an awareness across the Council of the potential to achieve significant savings through Procurement since the Council joined the eProcurement Scotland programme in early 2004 and began to seriously engage with the public sector procurement agenda.
- 1.2 Until 2009 however and the implementation of the Process for Change programme there has been limited investment in purchasing capability by the Council and this has restricted the ability to deliver savings from Council contracts. Up until now savings have been delivered almost exclusively from collaborative contracts let by other organisations on the Council's behalf

2. RECOMMENDATIONS

- 2.1 That the Committee note the savings recognised by the Council from procurement over previous years and the significant potential for procurement activity to have a positive effect on the delivery of Council services from reducing budgets.

3. SAVINGS METHODOLOGY

- 3.1 The savings methodology applied to date has been calculated on a relatively simple basis. Price savings have only been applied where a clear baseline could be established from a previous price, either contracted or commonly purchased. The previous arrangement is the baseline and the savings are calculated for the length of the new contract, which becomes the new baseline on expiry.
- 3.2 Savings generated through Process for Change will be reflected directly in Council budgets and therefore a more rigorous methodology has been developed based on the benefits realisation methodology used for projects
- 3.3 Although cost reduction will continue to be a major objective when new contracts are being let, the new sourcing strategies will use a balanced

scorecard approach to objectives, including Enhanced Service Delivery, Internal Process Improvements and Sustainability with Cost.

4. HISTORICAL SAVINGS FIGURES

4.1 The Council has recorded cashable savings from procurement for a number of years, as follows;

CONTRACT	SAVINGS 2007/08	SAVINGS 2008/09	SAVINGS 2009/10
Stationery and Office Supplies	60,000	60,000	0
Light Vehicle Contract	37,500	50,000	62,500
Heavy Vehicle Contract	35,000	35,000	35,000
Microsoft Enterprise Licences	24,000	24,000	24,000
PCs and Laptops	71,000	120,000	0
Protective Clothing			50,000
Advertising			25,000
TOTAL	227,500	289,000	196,500

While almost all of the above contracts have been let by organisations on the Council's behalf, the Council have been instrumental in bringing many of the contracts to fruition. The light vehicle contract for example, is now used across Scotland but the concept was developed from an initial collaboration between Argyll and Bute, Renfrewshire and North Lanarkshire Councils.

The Council has also recorded non – cashable or time releasing savings from the use of the Pecos e-procurement system for purchase to pay. The savings are calculated on a transaction basis, obtained from time studies on a range of paper and e-transactions carried out by the Scottish Procurement Directorate across Argyll and Bute. The calculated saving per transaction is £3.40. The savings, over the same years are as follows;

2009/2010	£107,525	(estimated to end of March)
2008/2009	£107,341	
2007/2008	£56,814	

5. PRESENT AND FUTURE SAVINGS

5.1 The Council now has a sufficient complement of purchasing officers in place who, while still relatively inexperienced, will be able to deliver significant cost savings through better procurement practice and increasing the overall level of expenditure that is carried out under formal contract.

5.2 During 2010/11 it is expected that savings will be generated from a range of contracts covering but not restricted to postal services, car leasing, temporary and agency staff contracts, property maintenance and

Alan Brough
Exchequer Services Manager
17th February 2010.

This page is intentionally left blank

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

SERVICE REVIEW OF INTERNAL AUDIT

1. SUMMARY

A report was agreed by the Audit Committee on 11 December 2009 which outlined the reasons for undertaking a service review of internal audit and the proposed scope and timescale of a review. On 22 January 2010, a Project Initiation Document (PID) was presented to the first meeting of the Project Board for review. Thereafter, the PID was finalised and issued to the Project Board, a copy of which is provided in Appendix 1.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 The main purpose of the service review of internal audit is to review the performance of internal audit in order to develop a clear strategy setting out a vision for its future role, remit and structure to meet the new challenges facing local government. It is envisaged the future operating options will include in house delivery, strategic partnership, public sector consortium/shared service and externalisation.

3.2 The attached PID sets out the approach that will be undertaken by both the Project Board and Project Team.

3.3 A timetable is outlined in the PID for the service review commencing in January 2010 with a final report detailing recommendations to the Project Board in May 2010.

3.4 Section 12 of the PID outlines the 6 stages of the service review. It can be reported that there is ongoing progress between KPMG and Internal Audit on the first 2 stages of the project plan.

4. CONCLUSIONS

The final report will be submitted to the Audit Committee upon completion.

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).

27janfinalreport27jan 27 January 2010

PROJECT DOCUMENTATION

PROJECT INITIATION DOCUMENT

DRAFT

Project brief and project plan for best value review of internal audit

Date: 22 January 2010

Author: Ian Nisbet

Owner: Project Board

Document Number: v1.1

Project Initiation Document History**Revision History**

Date of this revision: 21/01/10

Date of next revision: 22/01/10

Date of next revision:

Revision date	Previous revision date	Summary of Changes
21/01/10	v0.1	First issue
22/01/10	V1.1	Amended PID - Project Board requested changes to sections of the PID.

Approvals

This document requires the following approvals.

Signed approval forms are filed in the Best Value review files.

Name	Signature	Title	Date of Issue	Version
Ian Nisbet		Project Manager		V0.1
Ian Nisbet		Project Manager		V1.1

Once approved, a signed copy of the document will be held in the Strategic Finance central filing system.

CONTENTS

1. Background 2

2. Project Definition 2

3. Project Objectives..... 2

4. Project Scope 3

5. Method of Approach 3

6. Project Outcomes 3

7. Constraints 3

8. Assumptions 4

9. Project Governance and Organisation..... 4

10. Communications Plan..... 4

11. Project Quality Plan 4

12. Project Controls 5

13. Project Risks..... 5

14. Project Management 5

1. Background

The current operational arrangements in internal audit have been in place for a number of years now including the partnership arrangement with KPMG. These arrangements came about following a review of internal audit in 2000. Internal Audit has had a successful partnership in place with KPMG over the last 8 years. The operating environment of the Council and the future outlook has changed significantly since then.

The increased emphasis on performance management, the adoption of the Planning and Performance Management Framework (PPMF) by the Council, the introduction of Best Value 2, the move from an internal financial controls statement to a wider corporate governance statement in the annual accounts and the challenging financial outlook for the public sector make this an opportune time to carry out a service review of internal audit.

The SMT have agreed to carry out a review of all services over a 3 year period and a review of internal audit would support that programme. The Council's external auditors have identified that the Council has yet to consider and set out a future strategy for internal audit. A review of internal audit will allow the Council to consider the current performance of internal audit and how it needs to change to meet future requirements. Secondly, external audit commented on the management structure within internal audit which still has 2 internal audit managers rather than a chief internal auditor to head the function. Carrying out a service review would address both these points.

The Audit Committee on the 11th of December 2009 agreed the proposed service review as outlined in this Project Initiation Document (PID) with a further report to the March 2010 Audit Committee.

2. Project Definition

It is proposed to carry out a Best Value review of internal audit with the purpose of reviewing the performance of internal audit in order to develop a clear strategy setting out a vision for its future role, remit and structure to meet the new challenges facing local government. It is envisaged the future operating options will include in house delivery, strategic partnership, public sector consortium/shared service and externalisation.

3. Project Objectives

This review will cover the internal audit function. In essence this is:

- Planning, delivery and reporting of internal audit;
- Reviewing overall audit risk;
- Reviewing compliance with corporate government assurance;
- Ad hoc and special investigations;
- Support to Audit Committee; and
- Relationships with the Council Executive, Audit Committee and External Audit;
- Future requirements, clear strategy and delivery arrangements; and
- Consider the role of internal audit in relation to the organisational /cultural changes within the Council.

4. Project Scope

The service review will cover the following areas:

- Environmental scan;
- Good practice review;
- Benchmarking exercise;
- Stakeholder input; and
- Options identification and assessment.

5. Method of Approach

Much of the detailed work will be led by the Project Team with KPMG tasked to complete a good practice review and benchmarking exercise. The involvement of KPMG will provide a level of external challenge/robustness to the good practice assessment and benchmarking exercise. The approach for each area will be:

- The environmental scan will identify future issues and challenges that face the Council;
- The good practice review will be undertaken by KPMG and will compare the internal audit service against the CIPFA Code of Practice for Internal Audit in Local Government, leading practice principles and the CIPFA Financial Management Model.
- Benchmarking exercises will be undertaken by KPMG to establish the performance of the internal audit service in relation to other councils and the other public and private sector organisations. The benchmarking will cover cost, structure, staffing and process;
- Stakeholder input from internal audit staff, senior management, elected members, audit committee and auditees will be carried out through questionnaires and interviews; and
- Options will be identified and assessed to inform the future development of internal audit methodology and preparation of a final report with recommendations.

6. Project Outcomes

The anticipated outcomes of this project are as follows:

- Preparation of a final report that outlines proposed future strategy and objectives for internal audit;
- An appraisal of the operating arrangements for delivery of the strategy and objectives to be adopted;
- A proposed implementation plan for the preferred option; and
- It is envisaged the future operating options will include in house delivery, strategic partnership, public sector consortium/shared service and externalisation.

7. Constraints

- The main constraints are availability of staff within Argyll and Bute Council; and
- Any constraints regarding third party involvement.

8. Assumptions

- Staff availability within the Council to participate in the project; and
- Other organisations will be willing and have the time and information available to participate in benchmarking.

9. Project Governance and Organisation

The Project Board will comprise of the following members:

Name	Title	Role	Organisation/ Dept
Ian Ross	Chairman, Audit Committee	Project Board Member (Chair)	Argyll & Bute Council
Bruce West	Head of Strategic Finance	Project Board Member	Argyll & Bute Council
Christopher Shirley	Quality Standards Manager, Education	Project Board Member	Argyll & Bute Council
Andi Priestman	Chief Internal Auditor	External Project Board Member	Inverclyde Council
Alex Colligan	Internal Audit Manager	Staff Representative	Argyll & Bute Council

The project team will be tasked to complete the review on behalf of the Project Board and will consist of the following members:

Name	Title	Role	Department/ Organisation
Ian Nisbet	Internal Audit Manager	Project Manager	Chief Executive Unit
Mhairi Weldon	Senior Audit Assistant	Project Support	Chief Executive Unit
To be advised	Manager	Project Support	KPMG

10. Communications Plan

Communications will be carried out through the follow up meetings held by the Project Board. Communications will also take place by email correspondence with the Project Board.

11. Project Quality Plan

Once the PID has been agreed and signed off, it will become the baseline upon which future progress of the project is managed and monitored. This will be achieved through the preparation of Progress Reports to the Project Board.

12. Project Controls

The following timescale has been outlined for the project plan.

Project Plan

Stage	Timeline	Responsibility
Environment Scan	January - March	Project Team
Good Practice Assessment	January - March	KPMG
Benchmarking Review	January - March	KPMG
Stakeholder Input	January - March	Project Team
Identify and assess options	April	Project Team
Recommendations	May	Project Team

The Project Board will meet initially to sign off the remit and project plan for the review. There will be 2 further meetings, one at the midway stage and another at the stage of drafting the final report.

13. Project Risks

Key risks for this project are highlighted below:

Risk	Probability	Impact	Mitigation
Unable to identify suitable benchmarking	Medium	High	Start early in identifying suitable benchmarking partners
Work pressures hinder internal staff involvement	High	High	Plan staff involvement in advance
Unable to secure external involvement on Project Board to provide challenge.	Medium	Medium	Compile back-up list of candidates
Generate too much data and unable to draw conclusions/identify way forward.	Low	Medium	Use of CIPFA FM model and proper planning of benchmarking

14. Project Management

The Project Manager will be responsible for the day-to-day running of the Project ensuring that it produces the required outcomes, to the required standard of quality and within the specified constraints of time and resources.

This page is intentionally left blank

**ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 March 2010**

FINANCIAL STATEMENTS - 2009-10

1 INTRODUCTION

- 1.1 This report advises the Audit Committee on the plans in place for financial year end 31 March 2010 and the preparation of the Council's Financial Statements for 2009-10.

2 RECOMMENDATIONS

- 2.1 To note that 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 2010 in line with the Scottish Government's requirements.

3 DETAIL

- 3.1 "An Audit Committees – Practical Guidance for Local Authorities" has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This suggests that Audit Committees should have an overview of the plans made for preparation of the council's annual accounts.
- 3.2 A set of instructions for the end of the financial year have been drafted. These cover year-end close down of the council's financial systems and the preparation of a set of accounts in line with professional and legislative requirements.
- 3.3 The project plan included with the instructions is detailed and includes the following milestones:
- Capital expenditure, capital charges and treasury management revenue accounts completed by 30 April.
 - Revenue expenditure, creditors, debtors, accruals and prepayments completed by 30 April.
 - Council Tax and NDR entries completed by 19 May.
 - Review and adjustments to ledger and central department cost allocations completed by 19 May.
 - Preparation of unaudited single entity financial statements including report by Head of Strategic Finance by 11 June.
 - Unaudited single entity financial statements considered by a meeting of the Full Council on 24 June. If the Group Accounts are ready by the Full Council Meeting they will also be considered by Members at this point in time.

- Submission of Unaudited Financial Statements to Accounts Commission by the statutory deadline of 30 June 2010.
- 3.4 The plans are in line with previous years. Previously external Audit has been satisfied with the quality of working papers and general arrangements for preparation of the financial statements. The plan should result in Financial Statements prepared by the required deadline of 30 June 2010 and with supporting documentation of a standard to enable completion of the audit by the required deadline of 30 September 2010.
- 3.5 This year there are a limited number of technical changes arising from the 2009 SORP. Planning and preparation for the full implementation of International Financial Reporting Standards (IFRS) into the public sector for the 2009-10 financial year is well underway. Accounting for PFI/PPP projects under IFRS is to be introduced for the 2009-10 financial statements and has been programmed in to the year-end timetable. Under IFRS restated opening balance sheets at 1 April 2009 will be required by March 2010 for our external auditors, Grant Thornton, to review.
- 3.5 Copies of both sets of instructions / timetables are available from the Head of Strategic Finance if required.

Bruce West
Head of Strategic Finance
19 February 2010

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2009 - 2010

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 and 2 are the most recent reports 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 In November 2009, Audit Scotland issued their first report on the planning for the delivery of the Commonwealth Games 2014. The report highlights a number of risks with funding being a key risk. In November 2009 the Games budget was increased from £373 million to £454 million. Although there are no specific issues in the report for this Council, the report's key recommendations provide guidance on major project management. An executive summary is provided in Appendix 1.

3.2 In January 2010, Audit Scotland issued a report entitled, Protecting and improving Scotland's environment. The report covers the progress that is being made in improving air quality, the water environment, biodiversity and waste management. The report highlights the fact that Scotland has successfully met several European and Scottish environmental targets. However, some targets are in danger of not being met. Argyll and Bute Council are currently achieving EU based Scottish Government Landfill Diversion Targets. In respect of the 40% Scottish Government Recycling target set for the Council to achieve by the end of 2010, the target has already been achieved. A report summary is provided in Appendix 2.

3.3 The full reports can either be viewed at http://www.audit-scotland.gov.uk/work/local_national.php 2009/10 or viewed in the Members room where copies of the above reports are available for review.

4. CONCLUSIONS

These 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).

19febfinalreport19feb 19 February 2010

Key messages

Commonwealth Games 2014

Progress report on planning for the delivery of the XXth Games

Prepared for the Auditor General for Scotland and the Accounts Commission

November 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.

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.

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 44 joint boards and committees (including police and fire and rescue services).

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.

Background

1. Glasgow is due to host the XXth Commonwealth Games 2014 (the Games) from 23 July to 3 August 2014. The Scottish Government has stated that the Games are intended to have a lasting legacy for the people of Scotland.¹
2. The Commonwealth Games is a major event for Scotland and affects its international profile and reputation. The special nature of the Games means that they bring particular challenges in planning for delivery:
 - The deadline is immovable.
 - Many partners are involved, leading to complex delivery structures to manage responsibilities.
 - They are vulnerable to environmental conditions, including the risk of poor weather during the Games.²
3. Hosting the Games depends on significant amounts of public money as well as relying on private sector investment. However, since Glasgow won the right to host the Games, there has been a major decline in the global economy. Political conditions have also changed and public bodies are facing tighter funding regimes. Those involved in planning for the Games will need to take account of the risks associated with these changes and their potential impact on the Games budget.
4. Four strategic partners are responsible for planning the Games: the Scottish Government, Glasgow City Council, the Organising Committee and Commonwealth Games Scotland.³ These partners signed a contract with the Commonwealth Games Federation to deliver the Games to an agreed standard. Commonwealth Games Scotland is the host for the Games, and the other three bodies are the main delivery partners. Other organisations, such as Strathclyde Police, are also contributing to delivering the Games.
5. The Organising Committee's primary responsibility is to deliver the Games. The council's responsibility is to deliver the majority of the venues needed to support the Games, while bringing lasting benefits to Glasgow. The Scottish Government's role is to put in place the necessary legislation for the Games, coordinate national security and deliver the Scotland-wide legacy. Commonwealth Games Scotland will select and prepare the Scottish team for the Games.
6. The Organising Committee's budget for delivering the Games is £373 million. The Scottish Government and the council are the main funders, contributing £238 million and £60 million respectively, 80 per cent of the overall budgeted cost. The remaining £75 million is intended to come from broadcasting rights, licensing, ticket sales and sponsorship.
7. One key feature of the Glasgow bid was that 70 per cent of the infrastructure, including venues, was already in place. However, five new facilities are to be built in Glasgow and a further ten venues in Glasgow and Edinburgh need major refurbishment or upgrading. The estimated cost of these in 2007 prices was £332.7 million – £269 million of this is not considered as Games costs as these venue developments were planned prior to the Games bid.
8. Glasgow City Council is managing its venues and the development of an Athletes Village as part of its Games infrastructure programme. The Organising Committee is liaising with the other venue owners to ensure they are ready in time for the Games.
9. Private developers are expected to cover most of the construction costs for the Athletes Village and Glasgow City Council has contributed the land with no initial charge.⁴ Following the Games, the Athletes Village will be developed into housing and the council can then recover some of the land costs from the developer.
10. Access to the Games also depends to varying degrees on almost £1.6 billion of other infrastructure projects such as the M74 extension. These projects were planned prior to the Games bid and are separately funded. Glasgow City Council is managing or monitoring these as part of its Games infrastructure programme.
11. The Scottish Government, as guarantor, has underwritten any potential additional costs for:
 - the Organising Committee, above the approved Games budget, adjusted for inflation
 - certain security costs.⁵

The study

12. This report provides an early assessment of governance, risk management, financial management and programme management arrangements. It identifies progress since our sport overview report up to August 2009, and further action required at this stage, particularly in the changed economic climate.⁶
13. It is still relatively early days as partners have almost five years to continue their preparations to host the Games. This report, therefore, is the first in a planned series of reports which will monitor and report on progress. It does not cover legacy planning, as we intend to look at this in a later report. At this early stage, we have not carried out a detailed review of the budget.

Key messages

1 There is a clear high-level governance structure and the strategic partners understand their responsibilities. They have set up several joint working groups at operational level, although the status and lines of accountability of some of these are not clear.

14. All partners have signed up to the vision for the Games, and are currently working together to achieve this vision.

15. The high-level governance structure for the Games is complex but clear (Exhibit 1). This is set out in a Minute of Agreement which the strategic partners signed in June 2008.⁷ The partners have set up a Strategic Group, chaired by the First Minister, which provides a forum for resolving issues between the partners. In addition to this, partners are developing their own internal governance arrangements.

16. The strategic partners have set up a number of joint working groups at an operational level but it is not always clear how these fit within the high-level and partners' own internal governance structures. To ensure good governance, it is important that partners formalise these groups' purpose, membership, decision-making powers and lines of accountability.

2 The strategic partners are developing independent programme plans to manage their responsibilities for the Games and all are at different stages of completing their plans. There is not yet an overall Games programme plan across all of the partners which includes all of the key milestones and interdependencies, although the Scottish Government intends to do this once all of the individual plans are complete.

17. Partners are developing their own programme management arrangements independently. All partners are clear on their individual responsibilities and have a shared understanding of most areas of joint responsibility. However, formal arrangements for joint responsibilities are still developing.

18. Glasgow City Council has set up a Programme Management Office (PMO) to manage its infrastructure programme. The PMO is also responsible for overall coordination of areas of joint responsibility with other partners.

19. The council's PMO is using suitable methods for managing this scale of programme and range of projects, and has developed a draft programme plan. Although the council has identified budgets and interdependencies between projects, it has not yet incorporated these into its programme plan. This is needed to monitor overall progress against key milestones and costs. The council intends to have this in place by the end of 2009.

20. The Organising Committee has also established a PMO. A new programme manager started in June 2009 and is currently developing a programme plan for delivering the Games, which the Organising Committee expects to be ready by December 2009. The Commonwealth Games Federation is satisfied with this timescale.

21. There has been slippage on some venue and transport infrastructure projects, and others have been re-phased, but all are still expected to be ready in time for the Games (Exhibit 2, page 4). Two venues and the Athletes Village present the highest risk if there is any delay to their current planned timescales, because they are not due to be completed until a few months before the Games.⁸ The experience of previous transport infrastructure projects is that there is a high risk of slippage, therefore these should also be closely monitored.⁹

22. The Scottish Government has set up a Games Delivery Team and a Games Legacy Team to coordinate and deliver its responsibilities. The Delivery Team is developing a programme plan to manage the Scottish Government's responsibilities for the Games and expects to complete this by the end of 2009.

23. The Scottish Government is also developing an overall Games programme plan which will collate the key milestones of all the partners. It aims to use this to monitor and report on partners' progress to the Strategic Group and its own Strategic Board. The Scottish Government intends to finalise this overall Games programme plan once all partners complete their individual programme plans, and it intends to implement this by the end of March 2010.

3 The strategic partners are adopting a structured approach to risk management for delivering the Games. They have still to refine their overall Games risk register, cost their agreed actions to manage each risk, and fully implement their arrangements for managing the risks across the programme.

24. Glasgow City Council has adapted its council-wide risk management framework for its infrastructure programme. The framework is generally sound but further work needs to be carried out to estimate the cost of its plans to manage risks to ensure they are realistic and affordable. The council has advised us that it has started working on this.

25. The strategic partners agreed that the Organising Committee would lead on coordinating risk management across the partners. The Organising Committee Board and the Strategic Group have approved the risk management approach. This approach is aligned with Glasgow City Council's risk management framework for its infrastructure programme. This ensures

consistency with the council's framework, which was already in place and working well.

26. The Organising Committee is working with the other strategic partners to establish an overall risk register for the Games. A total of 247 risks are recorded on the risk register, 85 of which affect more than one partner.¹⁰ The strategic partners have assessed the likelihood of each risk occurring and the impact if it happens and allocated an overall risk score. However, the scores allocated to some similar or related risks are inconsistent, which means they may be prioritised differently. The strategic partners have agreed responsibilities and actions for managing 198 risks so far. However, they have still to complete this and cost the actions to assess their affordability.

27. The Scottish Government has not developed its own risk management plan and reporting arrangements specifically for the Games. It currently records a limited number of risks on its existing risk management systems. The Scottish Government has advised us that it intends to address this once the overall risk register has been completed to ensure its approach aligns with the strategic partners' joint risk management arrangements.

4 Strategic partners are learning from the experience built up in other Commonwealth and Olympic Games. A key lesson is that there is a high risk of staff changes and a subsequent loss of knowledge in the lead up to the Games. The strategic partners are at different stages of planning to manage this risk.

28. The Commonwealth Games Federation has contracted specialist consultants to share knowledge built up from other Games. Commonwealth Games Scotland staff and company directors also have direct experience of previous Games. In addition, staff from the strategic partners are liaising with their counterparts in the London Organising Committee for the 2012 Olympic Games and with staff involved in other Commonwealth Games. This is currently working well.

29. The experience of other Games is that there is a high risk of losing knowledge if key staff change. The strategic partners need to manage this risk during the remaining five-year planning timescale. Staff have already changed in the Organising Committee and the Scottish Government, with different staff involved in the bid team and the current delivery team. The Organising Committee is currently developing staff continuity plans. The Scottish Government has protocols for handover when staff change and is considering measures to prevent losing knowledge if key staff change, particularly in the final year leading up to the Games.

30. So far, Glasgow City Council has not been affected by changes in key staff. As its PMO team is small, any change to staff is likely to have an impact on the council's ability to manage its responsibilities for the Games. However, it has arrangements to manage the risk of losing knowledge if staff change.

31. The team of staff and company directors at Commonwealth Games Scotland is also small and at risk of losing knowledge if there are any changes, and it recognises this risk.

5 The estimated cost of delivering the Games is £373 million. A further £269 million had already been committed towards developing venues before the bid. These estimates have not been updated since 2007 and there is a risk they may not be sufficient to deliver the current plans.

32. The Organising Committee's budget of £373 million includes £306 million for revenue and £67 million for capital costs. The capital budget includes £48.7 million to make changes to venues that are needed specifically for the Games.

33. An additional £269 million of funding is being spent on developing venues that will also be used by future generations. The £269 million is made up of:

- Glasgow City Council's budget of £128 million to build or refurbish its venues for the Games
- other venue owners' combined budgets of £141 million to refurbish other existing venues.

34. The Scottish Parliament approved the Organising Committee's Games budget of £373 million following the successful bid to host the Games. The experience of other Commonwealth and Olympic Games is that the actual cost of these events is usually significantly higher than the original bid budget.¹¹

35. The strategic partners are confident that the Glasgow bid budget is more robust than previous Games. This is because the Commonwealth Games Federation introduced a more structured and rigorous bid and evaluation process for the 2014 Games. The Federation concluded that generally the level of detail in Glasgow's bid budget was of a high quality but it highlighted some risks. These included optimistic assumptions for office costs and the Athletes Village, a very modest budget for the opening ceremony and insufficient costs for security. It also identified that the level of contingency in the budget was insufficient. The budget was increased from £344 million to £373 million following the evaluation of the bid. However, it is not clear whether the increase in the budget is sufficient to take account of these risks.

36. The approved budget is based on 2007 prices, with a general contingency for both revenue and capital of around £40.5

million. The total contingency is held centrally in the revenue budget, and the capital contingency element includes an allowance for optimism bias.¹²

37. The Organising Committee commissioned consultants to carry out a high-level review of the £373 million approved budget to help it set more detailed operational budgets.¹³ The consultants' report indicates that the budget may be insufficient to deliver the current plans, particularly in the current economic climate. It did not include an estimate of the overall potential shortfall. The report recommends that the Organising Committee carries out a more detailed budget review and uses this to develop an operational budget.

38. The Organising Committee has since appointed another firm of consultants and a number of Games specialists to help set a new operational budget.¹⁴ This work should be completed by October 2009.

39. As at August 2009, the top risk identified in the overall risk register is a potential shortfall in the Organising Committee's £373 million budget. If the further review of the budget also identifies a funding shortfall, the strategic partners will have to consider their options, which may include increasing the Organising Committee's budget or scaling down the plans to deliver the Games within the £373 million budget. Achieving partners' consensus on this may be difficult as public bodies are facing significant challenges due to tighter funding and the need to deliver increased efficiency savings.

40. The private sector has a major role in delivering the Games, for example, developing the Athletes Village, constructing the venues and providing sponsorship. In the current economic climate, securing investment from the private sector will be a challenge.

41. The risk of insolvency among private construction companies is also higher, although there may be opportunities to achieve cheaper contract prices. This will require robust procurement and contract management arrangements. The strategic partners need to take full account of these risks and opportunities and their potential consequences for the budget, and ensure they put in place appropriate arrangements for managing them at this relatively early stage of planning.

42. The £332.7 million cost estimates for the venues included in the Games bid were mostly based on outline business cases.¹⁵ This is normal practice but it means that costs are only indicative until full business cases are developed and tender evaluations completed.

43. Toryglen Regional Indoor Training Centre is complete at a final cost of £15.7 million, which is in line with the council's final approved budget. This compared to the bid estimate (at 2007 prices) of £15 million. Scotstoun International Athletics and Rugby Stadium was completed by September 2009 at a cost of £17.9 million compared to £15.3 million (at 2007 prices) in the bid budget. The National Indoor Sports Arena and Velodrome project has reached contract stage and the agreed cost is £116.3 million, an increase of £16 million on the final approved bid budget (at 2007 prices).¹⁶

Key recommendations

Strategic partners should:

- document the purpose, responsibilities, membership, and lines of reporting for all cross-partner working groups to ensure all partners have a consistent understanding and that the accountability of the groups is clear
- review and update the overall Games risk register to ensure that scoring of similar and related risks is consistent
- fully assess the risks and potential consequences associated with the private sector contribution to, and investment in, the Games, including the potential impact on public sector funding
- estimate the cost of their plans to manage risks to ensure these are realistic and affordable
- develop and continue to review plans for managing staff continuity and ensuring that knowledge is retained in the organisation following any changes in key staff.

Delivery partners should:

- agree the required tasks to deliver on areas of joint responsibility and develop formal agreements to ensure these are allocated and managed appropriately.

The Scottish Government should:

- complete its programme plan to manage its responsibilities for the Games across its directorates by December 2009
- complete an overall Games programme plan that collates the key milestones from all partners' plans by March 2010
- coordinate its risk management approach, including aligning its risk registers and reporting systems for managing its own risks in relation to the Games across the Scottish Government.

Glasgow City Council should:

- estimate the cost of its plans to manage risks to its Games-related infrastructure programme to ensure these are realistic and affordable.

The Organising Committee should:

- review the underlying budget assumptions that are subject to uncertainty, at least annually, to determine whether these have changed materially, and make recommendations to the Strategic Group on the budget accordingly
- continue to explore opportunities for making savings and increasing income, while delivering the Games to a good standard and meeting its contract obligations with the Commonwealth Games Federation.

- 1 On your marks... Get set... Go: A games legacy for Scotland, Scottish Government, 2009.
- 2 We will consider contingency arrangements for managing adverse weather conditions such as rain in a future report on planning for the delivery of the Games.
- 3 Glasgow 2014 Limited, otherwise known as the Organising Committee, is a company limited by guarantee which the partners set up specifically to deliver the Games.
- 4 The Organising Committee is also contributing towards the cost of making temporary changes to the Athletes Village, which are needed specifically for the Games.
- 5 First Minister's guarantee in the bid document, 2007.
- 6 A performance overview of sport in Scotland, Audit Scotland, April 2008.
- 7 Minute of Agreement amongst the Commonwealth Games Council for Scotland, Scottish Government Ministers, Glasgow City Council and Glasgow 2014 Limited, 2008.
- 8 National Stadium Hampden Park, Strathclyde Country Park and the Athletes Village are due to be completed less than five months before the start of the Games.
- 9 Review of major capital projects in Scotland, Audit Scotland, June 2008.
- 10 Figures as at August 2009.
- 11 Manchester Commonwealth Games 2002 increased by 120 per cent, Delhi Commonwealth Games 2010 latest forecast increase of 280 per cent, Beijing Olympic Games operating costs increased by 75 per cent and London Olympics 2012 latest forecast increase of 300 per cent. These figures are approximate percentage increases between the baseline budget in the bid and the actual costs, or latest forecast costs for Games that have still to take place.
- 12 HM Treasury Supplementary Green Book Guidance – Optimism bias is a systematic tendency to underestimate the cost of a project by ignoring the likelihood of unforeseen costs. Early estimates should include an allowance for this.
- 13 Bid book budget review for Glasgow 2014 Limited, Deloitte, 2009.
- 14 The Organising Committee has appointed PricewaterhouseCoopers (PwC).
- 15 Venues that were already planned prior to the bid had outline business cases prepared, whereas venues being developed specifically for the Games did not necessarily have a business case separate from the bid.
- 16 The National Indoor Sports Arena and the Velodrome are adjacent to each other and are being managed as one project.

Summary



Scotland has made mixed progress against environmental targets.



Introduction

1. The environment is one of Scotland's greatest assets. Ensuring that it is protected and improved is central to sustainable development and meeting the Scottish Government's aim of achieving sustainable economic growth. One recent estimate suggested that Scotland's environment was worth £17.2 billion per year and supported 242,000 jobs.¹ Key Scottish industries such as food and drink and agriculture and tourism are dependent on the quality of the environment.

2. In 2006, the Scottish Environment Protection Agency (SEPA) published *State of Scotland's Environment*.² It concluded that the Scottish environment is generally of good quality but identified certain areas where further progress is needed. This study reflects these areas and provides an overview of the Scottish public sector's performance against targets for:

- improving air quality (Part 1)
- protecting and improving the water environment (Part 2)³
- protecting and improving biodiversity (Part 3)
- improving waste management (Part 4).

3. We have tried to minimise the use of technical language, but in some instances this is unavoidable and we have therefore included a glossary of terms at Appendix 1. The terms included in the glossary are highlighted in bold the first time they are used in the report.

4. The four areas identified above are not independent of each other. This can make it hard to identify simple cause and effect. For example, improving air quality may improve the water environment by making it less acidic, and this in turn may help to improve biodiversity.

5. Climate change is likely to affect Scotland's environment as temperatures rise, patterns and timing of rainfall change and storminess increases. The Climate Change (Scotland) Act 2009 sets a target of reducing greenhouse gas emissions by 80 per cent by 2050. The Scottish Government has, for the first time, prepared an assessment of the impacts of its planned spending on greenhouse gas emissions.⁴ This study did not consider the Scottish public sector's performance in understanding and reducing greenhouse gas emissions or adapting to climate change, as the Scottish Parliament was considering the Climate Change (Scotland) Bill during 2009 when this study was undertaken. Climate change will be a focus for future work by Audit Scotland.

6. In addition to the long-term risk of failing to protect and improve the environment, there are more immediate financial risks. Many of Scotland's environmental laws and targets come from Europe. The European Court of Justice can fine member states if European laws are not implemented and its targets are not met. The United Kingdom (UK) is a member state. As part of the UK, if Scotland was responsible for failing to meet targets, it would have to pay the fine. These fines could potentially be up to £127 million each year.⁵ To date, the Scottish Government has successfully managed this risk and has not had to pay any fines in relation to European environmental laws and targets.

The overall quality of Scotland's environment is good but there is a risk that some targets will not be met

7. Protecting and improving the environment contributes to all five of the Scottish Government's strategic objectives (wealthier and fairer, smarter, healthier, safer and stronger, and greener) and directly to three of its national outcomes. There are three national indicators in the Scottish Government's national performance framework that relate to the areas covered in this study. Two relate to biodiversity and one to waste management (Exhibit 1, overleaf).

8. Several public bodies are involved at a national level in protecting and improving the environment and councils play a key role at a local level (Appendix 2). Councils' single outcome agreements (SOAs) with the Scottish Government contain indicators reflecting local and national priorities. These indicators reflect councils' central role in the management of waste. All 32 councils include an indicator relating to waste management in their SOA. Councils' SOAs have less focus on the other three areas addressed by this study. Nineteen councils have an indicator relating to biodiversity, ten have an indicator specifically about air quality and seven have an indicator about protecting and improving the water environment.

9. Despite the overall good quality of the Scottish environment a number of targets have not been met or are at risk of not being met in the future (Exhibit 1, overleaf). Improving the environment further and meeting European and Scottish targets will be challenging and, in some cases, will require different behaviours and approaches to those that have been

1 *The Economic Impact of Scotland's Natural Environment*, Scottish Natural Heritage Commissioned Report No. 304, RPA and Cambridge Econometrics, 2008.

2 *State of Scotland's Environment 2006*, Scottish Environment Protection Agency, 2006.

3 This study did not consider the marine environment, as the Scottish Parliament was considering the Marine (Scotland) Bill during 2009 when this study was undertaken.




4 *Carbon Assessment of the 2010-11 Draft Budget*, Scottish Government, 2009.

5 *Handling EU obligations: a guide for Scottish Government officials*, Scottish Government, June 2009.

Exhibit 1

Summary of performance against environmental targets

There has been mixed progress against environmental targets.

Outcomes	To value and enjoy our built and natural environment and protect it and enhance it for future generations.		To reduce the local and global environmental impact of our consumption and production.	We live in well-designed, sustainable places where we are able to access the amenities and services we need.
	National indicators	Air quality 	Water environment 	Biodiversity 
Other key indicators and targets	Air quality (see Part 1)	Water environment (see Part 2)	Biodiversity (see Part 3)	Waste (see Part 4)
	PM ₁₀ (µg/m ³)	All water bodies to reach good ecological status by 2027	Halt the loss of biodiversity by 2010	Increase the amount of municipal waste being recycled to 40 per cent by 2010
	PM _{2.5} (µg/m ³)			
	Nitrogen dioxide (NO ₂) (µg/m ³)			
	Lead (Pb) (µg/m ³)	All water bodies to have water quality suitable for water systems by 2025	17 Scottish biodiversity indicators 7 indicators 3 indicators 4 indicators 3 indicators*	Stop growth in the amount of municipal waste by 2010
	Benzene (µg/m ³)			
	Ozone (µg/m ³)			
	Ozone (µg/m ³)	All bathing waters to meet European standards by 2015	All Scottish waters to meet minimum standards by 2012	Stop growth in the amount of municipal waste by 2010
	Ozone (µg/m ³)			
	Particulate matter (PM ₁₀) (µg/m ³)			
Particulate matter (PM _{2.5}) (µg/m ³)				

Key			
	Target being met		Target at risk of not being met
	Plans in place to meet target		Target not met
		* Data not available	

Source: Audit Scotland

adopted in the past. For example, controlling sources of pollution from industry has been successful in improving air quality and the water environment. However, to improve air quality further, the amount of pollution that comes from road transport needs to be reduced. To improve the water environment, a greater focus on **diffuse pollution** and on restoring the natural form of water bodies (eg, rivers, lochs and coastal waters) is needed.

10. Tackling these issues will require improved coordination and joint working across different policy areas. In some areas this is already taking place. For example, the Scottish Government has provided guidance for policymakers across a wide range of different areas, including energy, planning, tourism and agriculture, about how they can contribute to improving the water environment.⁶ In other areas, for example, air quality and transport policy, there is less coordination.

11. To protect and improve the environment, and meet European and Scottish targets, public bodies must promote cultural and behavioural change. For example, SEPA and Scottish Natural Heritage (SNH) must continue to work in partnership with land managers to tackle diffuse pollution from agriculture and improve biodiversity. In some cases, public bodies do not have control over all the factors that could protect and improve the environment (eg, engine standards are reserved to the European Union).

12. Several of the targets for protecting and improving the environment extend well into the future. For example, the Scottish Government aims to raise the

standard of most Scottish waters to **good ecological status** by 2027 and to recycle or compost 70 per cent of all **municipal waste** produced by 2025. Strong leadership and commitment are needed to ensure these long-term targets are met, particularly during a period of financial constraints when there may be pressures to divert funds to more immediate targets.

13. In some cases, Scottish environmental targets are more ambitious than European targets. For example, Scotland aims to recycle 60 per cent of its municipal waste by 2020 compared to the European target of 50 per cent. Scotland has tighter limits for three air pollutants than elsewhere in the UK or Europe. The costs of going beyond the required European targets were not estimated when these targets were set.

Better coordination of environmental and transport policies is needed to improve air quality

14. Air quality in Scotland is generally very good. However, in 12 council areas (38 per cent), there are 21 locations where air quality is poor and there is a risk of not meeting European targets. This compares with 59 per cent of councils in England with poor air quality, 42 per cent in Northern Ireland and 36 per cent in Wales.

15. In 19 of the Scottish locations where there is poor air quality, improving the quality of air is dependent on reducing the level of pollution from road transport. Improving air quality in these locations requires better integration of environmental and transport policy at both a national and local level. As the level of emissions coming from industry has reduced, the

relative importance of road transport as a cause of poor air quality has increased.

Scotland's water environment is good quality but new European targets mean it is now assessed differently

16. In the past, work to improve the water environment has tended to focus on improving the quality of the water itself. In 2000, 73 per cent of Scottish rivers were either excellent or good quality. By 2006, this had increased to 87 per cent. In particular, Scottish Water has invested significantly in new infrastructure and facilities (£593 million between 2003/04 and 2008/09) to improve the quality of the water environment. This investment has often focused on improving the quality of discharges into water bodies, for example from sewage treatment works.

17. In 2000, the European Union (EU) introduced a law that required member states to improve all European water bodies to meet a minimum standard of good ecological status by 2027. Good ecological status goes beyond just the quality of the water. It also looks at how far the natural shape and structure of a body of water has been altered by human activity and how the water is used. This broader definition of the water environment means that 65 per cent of Scotland's waters currently meet the European target.⁷ This compares with an average of 29 per cent in England and Wales.⁸ This does not mean that there has been any fall in the quality of Scotland's waters, rather they are now being judged against a broader range of criteria. The Scottish Government's plans will increase the number of waters with good ecological status to 72 per cent by 2015 and 97 per cent by 2027.

6 *Implementing the Water Environment and Water Services (Scotland) Act 2003: Promoting an Integrated Approach – A Policy Statement*, Scottish Government, 2008.

7 See Part 2 for further details. This value applies to the Scotland river basin district. In the cross-border Solway/Tweed river basin district, 49 per cent of waters currently meet the European target.

8 Department for Environment, Food and Rural Affairs.

18. Achieving these targets will require more focus on aspects of the water environment which have historically been less of a priority. These areas include:

- diffuse pollution
- how water is used for purposes such as hydro-electric power generation, agriculture and the supply of drinking water
- how the shape and structure of water bodies have been altered by human activity.

19. How land is used and managed has an effect on the water environment and on biodiversity. Two major Scottish Government funding schemes for land managers (the Single Farm Payments system and the Scotland Rural Development Programme) contribute to the protection and improvement of the water environment and also to biodiversity (see Parts 2 and 3). This study did not consider these schemes in detail but they represent a significant source of funding for land managers and contribute to the protection and improvement of the environment (see Appendix 3 for more details). In addition, forests and woodlands are important for biodiversity and can affect air quality and the water environment.

There is mixed progress in protecting and improving biodiversity

20. Scotland has many plant and animal species. These species and the places they live make up Scotland's biodiversity. The Scottish Biodiversity Strategy aims to halt the loss of biodiversity by 2010. This reflects a Europe-wide aim to stop the loss of biodiversity on the same timescale.

21. The goal to stop the loss of biodiversity across Europe by 2010 will not be achieved.⁹ In Scotland, there has been mixed progress against the 17 different indicators of the condition of Scotland's biodiversity. In 2009, seven indicators showed improvement, three showed deterioration, and for the remaining seven there was no clear trend or long-term data were not available.

22. Nearly a fifth of Scotland's land area is identified as being important for the protection of biodiversity in the form of protected areas. The Scottish Government's target is for 95 per cent of these areas to be in **favourable condition** by 2010. In 2009, 79 per cent of protected areas were in favourable condition and the target is at risk of not being met. The main reasons for the poor condition of the remaining protected areas are overgrazing and the presence of species that are not native to Scotland.

23. All Scottish public bodies have a duty to further the conservation of biodiversity. The existence of this duty is having limited effect due to the lack of sufficient guidance to public bodies on how to implement the duty and the absence of any monitoring or reporting system to enforce it.

Councils' plans for waste management after 2010 are insufficient to meet European targets

24. Over the last decade, Scotland has made significant progress in improving its waste management. In 1998, Scotland recycled four per cent of its municipal waste.¹⁰ Ten years later, in 2008/09, Scotland recycled or composted 34 per cent of its municipal waste. This is in line with the rest of the UK – 34 per cent in England, 33 per cent in Wales and 29 per cent in Northern Ireland. Scotland has succeeded in reducing the total amount of municipal waste sent to **landfill** by a third, from three million tonnes in 1998 to two million tonnes in 2008/09.¹¹

25. Audit Scotland published a report on *Sustainable waste management* in 2007.¹² Since then, the Scottish Government has changed its overall approach to waste management and has already met the European target to reduce the amount of **biodegradable municipal waste** sent to landfill by 2010. It plans to improve waste management further through its Zero Waste Plan, which will set out targets for waste management until 2025. Meeting these targets will be challenging and will require investment by councils in waste management facilities and further changes in public behaviour.

26. Councils' SOAs include targets to reduce the amount of municipal waste sent to landfill. However, collectively, the current targets in the 32 SOAs are not enough to meet European targets for the amount of waste that is sent to landfill after 2010.

⁹ *The Message from Athens*, European Commission, April 2009.

¹⁰ *Waste Data Digest 1*, Scottish Environment Protection Agency, 2001.

¹¹ *Ibid* and *Landfill Allowance Scheme Reports*, Scottish Environment Protection Agency.

¹² *Sustainable Waste Management*, Audit Scotland, September 2007.

This page is intentionally left blank

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

ANTI FRAUD STRATEGY REVIEW

1. SUMMARY

The Audit Committee on 11 December 2009 agreed their annual work plan. This lists issues to be reviewed by the Committee throughout the year 2010 - 2011. Scheduled for March 2010, is the review of the Council anti-fraud and corruption arrangements. This issue is listed within the Terms of Reference agreed by the Audit Committee on 6 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 The Council has an Anti-Fraud Strategy which was approved by Council in 2006. It provides guidance on how the detection and prosecution of fraud and corruption is dealt with by the Council. The Anti-Fraud Strategy contains the following documents:

- Fraud Response Plan;
- Public Interest Disclosure Policy;
- Prosecution Policy; and a
- Housing Benefit and Council Tax Benefit Security Strategy and Referral Policy.

3.2 Internal Audit has brought to the attention of the Corporate Services Department that the Anti-Fraud Strategy needs to be updated to reflect legislation changes. The Head of Democratic Services & Governance is aware that a review of the Anti-Fraud Strategy is being undertaken by Internal Audit as part of the New Legislation audit. The review will test controls in areas of potential fraud or corruption. The audit report recommendations will then be noted and incorporated into a planned review of the Anti-Fraud Strategy by the Head of Service. The updated Anti-Fraud Strategy will then be presented to the Council for approval.

3.3 The revised Anti-Fraud Strategy will be provided to the Audit Committee for review prior to the June 2010 meeting. Thereafter, it will be presented to the Council for approval. There have been no reported frauds in 2009 - 2010.

4. CONCLUSIONS

The Audit Committee will receive a copy of the New Legislation report with agreed action plan before the June 2010 meeting.

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).

19febfinalreport19feb 19 February 2010

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

NATIONAL FRAUD INITIATIVE 2008/09 - ANNUAL REPORT

1. SUMMARY

The Audit Committee on 11 December 2009 agreed their annual work plan which requires that an annual report covering the National Fraud Initiative (NFI) 2008/09 exercise is presented for the March 2010 committee meeting. This report therefore provides comment on Audit Scotland NFI 2008/09 exercise as at 22 February 2010.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, assisted by the Audit Commission in England. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or an error in payments.

3.2 The role of Internal Audit is to act as the Key Contact for the Audit Scotland NFI exercise. This involves planning for the NFI exercise, the distribution of referrals to departments for follow up, monitoring activities and reporting to senior management and external audit regarding progress with the exercise. The results of the 2008/09 NFI exercise as at 22 February 2010 are set out below in 3.3 with commentary provided in 3.4.

3.3 **NFI Exercise 2008/09**

	1	2	3	4	5	6
Title	Priority Filter Referrals.	Requiring Follow up	All Match Referrals	Filter sample	Requiring Follow up	Estimated Savings £
Housing Benefits	55	6	1455	81	1	29,253.13p
Payroll	3	0	148	6	0	0
Blue Badges	173	0	18	18	0	0
Private Residential Care Homes	5	0	69	69	0	0
Insurance Claims	2	0	0	0	0	0
TOTALS	238	6	1690	174	1	29,253.13p

- 3.4 Column 1, in the above table indicates the number of priority filter referrals by category that NFI Audit Scotland requires the Council to fully investigate. All 238 were investigated. Those priority referrals worthy of further investigation totalled 6 as detailed in Column 2. The remaining number of referrals is detailed by category in Column 3 and total 1,690. As recommended by NFI Audit Scotland a test sample size of 5% was chosen for each category. Sampling was extended where justified and in some cases the decision was taken to follow up all match referrals, where data for a category was provided for the first time. Of the 1,690 all match referrals, a total of 174 referrals were tested as set out in Column 4, with one requiring further investigation as shown in Column 5. Presently, there are on going investigations for 7 referrals with a potential savings estimate of £29,253.13p.
- 3.5 Outwith the NFI exercise in 2008/09 the Councils own Benefit Fraud Team identified 291 cases worthy of investigation of which 60 were found to be fraudulent claims worth £127,292.32p.
- 3.6 As a result of the NFI 2008/09 exercise, controls have been improved in relation to Blue Badge administration and data transfer between departments has also been improved. In future, the planning exercise will include a structured response timetable from those responsible for investigation of NFI referrals. The timetable will be approved by the SMT.

4. CONCLUSIONS

Internal Audit will follow up 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).

25febfinalreport25feb 25 February 2010

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2009 - 2010

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to 29 January 2010. The objective of the report is to advise members of the progress of the Annual Audit Plan. (See Appendix 1).

2. RECOMMENDATION

2.1 The Audit Committee is asked to approve the progress made with the Annual Audit Plan for 2009 - 2010.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2009 –2010, and are ordered by section and level of completion.

3.2 For the purpose of the progress report, Audits are deemed to be complete following fieldwork and issue of the Draft Report. Of the 20 completed audits, 17 reports have been finalised, 2 drafts have been issued and are listed below with one draft presently being finalised.

- Corporate Services – Payroll, draft issued 9 February 2010; and
- Operational Services – Payroll processes for Catering, Cleaning and Janitorial, draft issued 22 October 2009.

3.3 As at 29 January 2010, of 18 core financial systems audits set out in the audit plan presented on 6 March 2009, 12 have been completed. Of the remaining 6 audits 5 have been started.

3.4 As at 29 January 2010, of 15 non-financial audit areas set out in the audit plan presented on 6 March 2009, 8 have been completed. Of the remaining 7 audits 5 have been started.

3.5 A total of 100 direct audit days were set aside in the annual audit plan for Special Investigations / Contingency work. As at 29 January 2010, 100 days have been expended. The National Fraud Initiative (NFI) 2008/09 exercise has required days to be expended in planning, monitoring and reporting activities. A separate report has been provided to the Audit Committee detailing progress with the NFI 2008/09 exercise. A total of 97 days were set aside in the audit plan for Other Areas, to date 63 days have been expended.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2009 - 2010

- 4.1 It can be reported that Internal Audit continues to make progress with the Annual Audit Plan. Appendix 1 shows that a total of 713 direct audit days have been expended on planned audits as at 29 January 2010. At the same period in January 2009 a total of 616 direct audit days had been expended.
- 4.2 As noted above current progress with the Internal Audit plan remains relatively on schedule against the approved annual plan. Additional resources will be provided to complete the audit plan if required.

5. CONCLUSION

Progress is being made on audits planned for 2009 – 2010.

6. IMPLICATIONS

- 6.1 Policy: Update on audit plan for 2009 – 10.
- 6.2 Financial: The audit plan is based on budgeted provision.
- 6.3 Personnel: None
- 6.4 Legal: None
- 6.5 Equal Opportunities: None

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

19febfinalreport19feb 19 February 2010

Assessment of audit days: 2009-2010 strategic plan

AUDIT WORK SCHEDULE	Last audited	Risk ranking	Original Estimated Audit Days 2009-10	Revised Estimated Audit Days 2009-10	Actual Audit Days 2009-10	Balance
Core financial systems						
Complete						
Stocktaking/ Work in Progress	2008	2	25	25	14	11
Council Tax and Non-Domestic Rates	2008	2	15	15	10	5
Government & European Grants	2008	1	35	35	28	7
Tendering Procedures	2008	1	15	15	10	5
Treasury Management	2008	2	15	15	15	0
Debtor Accounts	2008	2	15	15	19	-4
Unified Benefits System	2008	2	15	15	21	-6
Purchasing/Creditors	2008	2	55	55	53	2
Car Allowances	2008	2	40	40	53	-13
Capital Accounting	2008	1	15	15	15	0
Capital Contracts	2008	1	15	15	15	0
Payroll	2008	2	15	15	15	0
Started						
Cash Income and Banking	2008	2	15	15	5	10
Asset Management	2008	1	15	15	1	14
Contract Hire and Operating Leases	2008	2	40	40	20	20
Payments to Voluntary Bodies (Following the Public Pound)	2008	2	40	40	1	39
General Ledger Operations	2008	2	15	15	3	12
Not Started						
Budgetary preparation and control	2008	1	40	40	0	40
Section Total			440	440	298	142
Non-financial Audits						
Complete						
Corporate Services - Business Continuity Management	-	1	30	30	25	5
Operational Services - Stock Control, Leisure systems	-	2	30	30	36	-6
Performance Indicators/Single Outcome Agreement	2008	1	86	86	53	33
Development Services - Partnership Project Funding	2007	3	30	30	15	15
Operational Services - Payroll Processes for Catering	-	1	30	30	9	21
Corporate Governance ICS	2008	1	30	30	25	5
Corporate Services - Information Computer Technology (ICT) - Applications	2008	2	28	28	20	8
Department Risk Plan Testing	2008	1	30	30	16	14
Started						
Chief Executive's - Single Outcome Agreement	-	1	30	30	14	16
New Legislation	2008	1	30	30	21	9
Computer Audit	2008	2	30	30	2	28
Review of HR Activities	2008	1	20	20	1	19
Department Business Continuity Plan Testing	2008	1	30	30	15	15
Not Started						
Community Services - Foster Care Services	-	2	30	30	0	30
Community Services - Adult Services Assessment & Care Management Processes	-	1	30	30	0	30
Section Total			494	494	252	242
Actual Direct Audit Time			934	934	550	384
Special investigations contingency						
Council Wide - NFI			100	100	70	0
Chief Executive's Unit - Performance Management					13	
Community Services - Carradale					6	
Corporate Services						
Development Services						
Operational Services - Report issued on Port Askaig Development					11	
Section Total			100	100	100	0
Other Areas						
Follow-up External & Internal Audit Management Letter Points			77	77	53	24
Risk Assessment, Strategic Plan, Annual Plans			20	20	10	10
Section Total			97	97	63	34
TOTAL			1131	1131	713	418

This page is intentionally left blank



Argyll and Bute Council

Audit Approach Memorandum 2009-10

11 February 2010

Contents		Page
1	Executive summary	1
2	Financial statements	3
3	Governance	7
4	Performance	10
5	Grant claims	13
6	Logistics and administration	14

Appendices

A- Planned audit outputs and timings

B- Planned areas of reliance on internal audit

1 Executive summary

1.1 Introduction

Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor of Argyll and Bute Council (the Council) for the five year period commencing 2006-07. This Memorandum outlines how we will approach the audit of the Council in the fourth year of our appointment, and reflects our statutory duties and risk based approach.

Specific duties for external auditors are contained principally in the Local Government (Scotland) Act 1973, the Code of Audit Practice and in the audit engagement letter issued to auditors by Audit Scotland. These include undertaking the audit in accordance with relevant legislation and Statements of International Auditing Standards and applicable Practice Notes issued by the Auditing Practices Board.

1.2 Summary of audit objectives

In accordance with the Code we have the following audit objectives:

Table 1: Summary of audit objectives

Area	Audit objectives
Financial statements	To provide an opinion on the Council's financial statements for the year ending 31 March 2010.
Governance	To review and report on the Council's corporate governance arrangements, including systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.
Performance	To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators. Auditors' responsibilities in relation to Best Value are primarily discharged by Audit Scotland.
Grants	To provide an independent auditor's report on specified grant claims in accordance with Audit Scotland guidelines.

1.3 Role and responsibilities

The Code of Audit Practice is issued by Audit Scotland on behalf of the Auditor General for Scotland and the Accounts Commission for Scotland. The Code defines responsibilities of appointed auditors when auditing public sector bodies.

The Code requires us to take a risk based approach and our risk assessment, together with planned audit outputs, in relation to each of the above areas is summarised in the following sections of this plan. We will keep our initial risk assessments under review and discuss any significant changes to the nature and scope of our audit with you.

In planning and carrying out the audit we will also have due regard to the Statement of Responsibilities, issued by Audit Scotland, which sets out the respective roles and responsibilities of the Council and its auditors.

1.4 Independence and robustness

We confirm that, in our professional opinion, Grant Thornton UK LLP will be independent under regulatory and professional rules. In addition, the objectivity of Gary Devlin, the audit engagement lead, and all audit staff is, and will not be, impaired.

To maintain our independence as auditors we ensure that:

- engagement leads are rotated off the audit every five years and audit managers every seven years
- Grant Thornton UK LLP, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council or its Group
- our fees do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead. We do not undertake non-audit work for the Council.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

1.5 Other matters

We set out in Section 6 details of our audit team and our proposed fee, based on our responsibilities and risk assessment.

A summary of planned audit outputs and reports for the 2009-10 audit is set out in Appendix A and our planned reliance on internal audit is set out in Appendix B.

2 Financial statements

2.1 Introduction

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintain proper accounting records
- prepare financial statements which give a true and fair view of the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice (SORP).

The auditor is required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

2.2 Overall approach

In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:

- internal audit, to determine the extent of reliance we can place on it for the purposes of our audit (Appendix B summarises the areas of internal audit work we plan to place reliance on)
- the internal control framework for key financial systems
- review of computerised controls operating across major IT systems
- the materiality of balances and transactions impacting on the financial statements
- the key risks relevant to the preparation and audit of the financial statements
- the Council's arrangements for the preparation of its financial statements and for the Whole of Government Accounts consolidation pack.

2.3 Risk assessment and response

Our audit work is risk based and proportionate. On the basis of our preliminary work to date, we have identified the following audit risks in relation to the financial statements aspect of our audit:

Table 2: Risk assessment (financial statements)

Key risk area	Our response
<p><i>The 2009 SORP- changes in the accounting arrangements for PFI schemes</i></p> <p>Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 (the 2003 Act) to observe proper accounting practices. The <i>Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice</i> (the SORP) constitutes proper accounting practice for the purposes of section 12 and, therefore, authorities are required to comply with the SORP when preparing their accounts.</p> <p>The most significant change to the SORP for 2009-10 is in respect of the accounting requirements for private finance initiative and similar contracts which are no longer based on Financial Reporting Standard 5 but on an interpretation of IFRIC 12 'Service concession arrangements' contained in the Government Financial Reporting Manual.</p> <p>The Council currently has 2 schemes which will be impacted by this change: the Waste Management PPP Scheme and the School's NPDO Scheme. It is expected the impact of the changes will be that the associated assets and liabilities of each scheme will now be included in the Council's balance sheet</p>	<p>Section 99 of the Local Government (Scotland) Act 1973 (the 1973 Act) places a duty on external auditors to be satisfied that authorities have observed proper accounting practices in the preparation of their accounts. We are therefore required to confirm that the Council has prepared their accounts in compliance with the 2009 SORP in all material respects.</p> <p>The Council has already started work on reviewing its PPP/PFI schemes and we plan to review this work at an early stage before the accounts are prepared.</p> <p>In addition, a joint Council/Grant Thornton workshop covering the 2009 SORP and accounts closedown and audit arrangements will take place on 9 March 2010. This gives us the opportunity to discuss in more detail the key changes to the accounts arising from the 2009 SORP.</p>
<p><i>International Financial Reporting Standards (IFRS)</i></p> <p>Local government bodies will be required to prepare their accounts on the basis of IFRS from 2010-11. A transition period is currently underway whereby the Council is preparing a shadow balance sheet under IFRS as at 31 March 2009. In addition, the 2009-10 accounts will be restated under IFRS.</p> <p>The Council has set up an IFRS project team, and has engaged the services of Pricewaterhouse Coopers-CIPFA to assist in the IFRS restatement exercise. An initial assessment of the key areas for the Council to consider has already been prepared and an action plan for future actions has been developed.</p> <p>The transition to IFRS is complex process, and requires detailed project planning to ensure the Council is able to fully implement the standard in line with the planned timetable. It should also be noted that the process requires Council wide co-operation, which will be critical for the success of the project.</p>	<p>We held a planning meeting with the Corporate Finance team to discuss the Council's progress in implementing IFRS and the results from the initial assessment.</p> <p>During the 2009-10 audit year, we intend to review the Council's arrangements for the transition to IFRS and review the key accounting judgements and journal entries for the shadow balance sheet as at 31 March 2009.</p> <p>In addition, we will address key IFRS accounting issues in the workshop arranged for 9 March 2010.</p>

Key risk area	Our response
<p><i>Specific accounting issues</i></p> <p>The following specific accounting issues were identified at the conclusion of the 2008-09 audit:</p> <ul style="list-style-type: none"> • The new police and fire pension schemes are not covered by the Local Government Pension Reserve Fund (Scotland) Regulation 2003. As a result, Councils were unable to reverse out the pension costs applicable under FRS 17, Retirement Benefits, and replace them with the actual pension contributions paid out of the general fund. The Scottish Government were looking to pass legislation to remedy this situation, although it is not clear if this will be resolved for the 2009-10 financial year, • We noted that no formal impairment reviews had been undertaken for assets held for sale. This increases the risk of misstatement if asset prices have declined due to the current economic conditions. • There were some discrepancies in the accuracy of the fixed asset register. The Council identified £0.3 million of fixed assets disposed of in the year that were not initially recorded in the fixed asset register. In addition, audit work on fixed asset disposals noted assets sold in previous periods and assets that had never been the property of the Council. 	<p>We will follow up the progress of agreed audit action points in our 2009-10 audit and report on the progress of implementation.</p>
<p><i>Financial position</i></p> <p>The impact of the credit crunch on the global economy has led to a significant deterioration in the financial position of the UK government. This will translate into reduced public sector funding across all public services for the foreseeable future, with the likely impact taking effect on the Council's funding from 2010-11 onwards. The Council is aware of this issue and is in the process of bringing forward plans to contain costs and safeguard core services.</p> <p>The Council has projected that it is likely to face a significant budget shortfall in the 3 year period to 2011-12. In response, the Council is currently identifying proposals to increase income and reduce expenditure to meet the expected budget shortfall. Although the Council has sufficient general fund reserves, the level of unearmarked reserves may not cover budget shortfalls.</p>	<p>We will follow up the Council's progress in implementing agreed recommendations to improve financial planning and budgetary control arrangements. This will take into account the improvements to financial arrangements as a result of the best value review of Strategic Finance.</p>
<p><i>Single Status Appeals</i></p> <p>During 2007-08, the Council implemented a new Pay and Grading Model and also revised staff</p>	<p>We will review the Council's progress in settling single status appeals and consider the valuation</p>

Key risk area	Our response
<p>terms and conditions. Each role within the council was reviewed, and given a grade within the new structure. Where the new grade resulted in an increase in pay, this was backdated to 1 April 2006.</p> <p>A number of staff have exercised their rights to appeal the determination of their allocated grade under single status arrangements. If an appeal is successful then any pay differential is normally backdated to 1 April 2006, and the Council is also required to honour the new salary scale increase for the particular individual or staff group. A provision of £0.8m was recognised in the 2008-09 accounts for all appeals known at that date. In addition, the Council recognised a contingent liability for those cases under appeal but where no final decision has been taken.</p> <p>There is a risk that the costs of the single status appeals will be significant and increase the pressure on the budgetary position.</p>	<p>of any provision as at 31 March 2010.</p>

2.4 Audit timetable and planned outputs

Table 3 summarises the audit timetable and planned outputs from the financial statements audit.

Table 3: Audit timetable and planned outputs

Audit output	Fieldwork	Target Delivery
Interim Report- core financial systems & governance	March 2010	31 May 2010
Interim Report- preparations for IFRS	February to May 2010	30 June 2010
Report on the 2009-10 financial statements audit	July to September 2010	10 September 2010

3 Governance

3.1 Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The Council's Audit Committee should have a role in monitoring these arrangements.

Commensurate with the wider scope of a public sector audit, the Code gives the auditor a responsibility to review and, where appropriate, report findings on the Council's corporate governance arrangements as they relate to:

- the Council's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the Council.

3.2 Overall Approach

We will assess the adequacy of the Council's governance arrangements by:

- reviewing the Council's overall arrangements in relation to each of the above areas
- reviewing the extent of compliance with the Code of Practice for Internal Audit in Local Government
- evaluating the Council's approach to risk management, including arrangements to address the key risks identified in this section of the audit plan.

3.3 Risk assessment and response

Our audit work is risk based and proportionate. On the basis of our preliminary work to date, we have identified the following audit risks in relation to the financial statements aspect of our audit:

Table 4: Risk assessment (governance)

Key risk area	Our response
<p><i>National Fraud Initiative</i></p> <p>The Council is currently participating in the 2008-09 NFI cycle. We have previously reported that although the Council has improved the planning and monitoring procedures for the NFI process, there continued to be a lack of progress in processing data matches.</p> <p>The NFI process is a key control in preventing and detecting fraud and irregularities.</p>	<p>We have followed up the Council's progress in processing NFI matches, and all the relevant matches have now been assigned.</p> <p>We will report on the Council's performance in the NFI cycle and summarise our findings in the interim management report.</p>
<p><i>Contract management</i></p> <p>The Council spends significant sums annually on its capital programme and needs effective contract management arrangements.</p> <p>In 2008-09, we reported on the Council's contract management arrangements, particularly in relation to the management of the Argyll Air Services Project. Our report noted several significant weaknesses in the Council's processes.</p> <p>Since then, the Council has made significant revisions to the arrangements for contracts and tendering with the aim of improving contract management.</p>	<p>We will carry out a follow up review of the Council's contract management arrangements, and will perform a detailed review on a sample of key contracts.</p>
<p><i>Internal audit</i></p> <p>The Council's internal audit section is a key part of the Council's governance arrangements. If internal audit is to be effective, it must be independent, properly resourced and comply with relevant best practice in planning and undertaking its work.</p> <p>The Council has not yet finalised 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. A benchmarking exercise is currently underway, and the results of this will be used to assess the Council's options on the future of the service.</p>	<p>We will review the Council's progress in developing a future strategy and vision for the provision of internal audit.</p>

Key risk area	Our response
<p data-bbox="389 304 687 338"><i>Corporate restructuring</i></p> <p data-bbox="389 371 895 595">The Council is currently undergoing a significant restructuring of the Senior Management Team and service heads. This will involve a reduction in the number of Directors from four to three, and a reduction in the number of heads of service from 15 to 12.</p> <p data-bbox="389 633 906 853">This is a significant change in the corporate structure of the Council and will involve careful planning to ensure it does not disrupt the delivery of services. In addition, the Council will need to ensure it is in compliance with relevant legislation and guidance on redundancies.</p>	<p data-bbox="928 371 1445 499">We will review the Council's process for undergoing the restructure process to ensure it is in compliance with relevant legislation and guidance.</p> <p data-bbox="928 535 1406 629">Our review will also consider the costs of the scheme and whether they offer best value to the Council.</p>

3.4 Audit timetable and planned outputs

Table 5 summarises the audit timetable and planned outputs from the financial statements audit.

Table 5: Audit timetable and planned outputs

Audit output	Fieldwork	Target Delivery
Interim Report- core financial systems & governance	March 2010	31 May 2010
Interim Report- contract management follow up	February to May 2010	30 June 2010

4 Performance

4.1 Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community
- achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

4.2 Audit Approach

There will be two significant changes to the way we discharge our audit responsibilities in relation to the Council's performance in 2009-10. Firstly, the *Crevar* report on the independent review of regulation, audit, inspection and complaints handling of public services in 2007 contained a series of recommendations designed to streamline the scrutiny landscape in Scotland. In their response to the report, Scottish Ministers asked the Accounts Commission to establish a single audit framework to reduce the burden of scrutiny for local authorities. The Accounts Commission has also made a significant change to its approach to auditing Statutory Performance Indicators.

Streamlining Scrutiny

Work has now begun on creating a more co-ordinated approach to audit and inspection. Local area networks (LANs) have been established at each council, which bring together local scrutiny bodies including Audit Scotland, HM Inspectorate of Education, the Scottish Housing Regulator and the Social Work Inspection Agency. Auditors are key members of the LAN for each council.

The LAN will develop a single corporate assessment and shared risk assessment for each local authority. From this, an assurance and improvement plan (AIP) will be prepared which would cover all scrutiny activity over a three year period for each council.

The LAN will agree what the appropriate scrutiny response should be over the next 3 years, based on the result of the shared risk assessment. This should be proportionate and aligned to the assessed level of risk. The Argyll & Bute LAN is scheduled to prepare a draft AIP at its meeting on 15th January. The draft AIP will be subject to review by a Quality and Consistency Review Panel, before being submitted to the Council for discussion and agreement.

Table 6: Risk assessment (performance)

Key risk area	Our response
<p><i>Best Value Follow Up / BV2</i></p> <p>A key component of the shared risk assessment will be the extent to which implementation of the existing BV Improvement Plan has had the anticipated impact.</p> <p>The timing of a BV2 audit visit is dependent on the results of the shared risk assessment undertaken by the LAN. This will be communicated in the agreed Assurance Improvement Plan.</p>	<p>We will continue to assess the progress that the Council is making against its agreed improvement priorities.</p> <p>We will report our findings locally and results will feed into future risk assessments.</p> <p>We will work with the Council, the local area network, and Audit Scotland to deliver a shared risk assessment and develop and assurance and improvement plan tailored to the Council.</p>
<p><i>Statutory Performance Indicators</i></p> <p>The SPI direction for 2009-10 incorporates two main requirements:</p> <ul style="list-style-type: none"> • that councils report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1); and • that councils report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2). <p>In reporting against SPIs 1 and 2, the Councils will be required to report performance against 25 indicators specifically defined by the Accounts Commission. However, this provides a key opportunity to develop and report on locally determined indicators that reflect how the Council is performing as a whole. It is essential that these indicators are developed from existing performance management measures and that arrangements are in place to ensure the reliability and accuracy of the information to be reported.</p>	<p>We will review the Council's arrangements for meeting the revised requirements. Specifically, we will consider where the range of performance information reported locally is sufficient to demonstrate that the Council is achieving Best Value.</p> <p>We will draw upon internal audit's work on the PPMF in undertaking this assessment.</p>
<p><i>Impact of National Performance Audit Reports</i></p> <p>As part of the development of joint scrutiny and shared risk assessment, Audit Scotland's national audit work will increasingly be informed by local risk assessments, with future studies programmes being more</p>	<p>We will review the progress that the Council has made in implementing recommendations from national reports. Where necessary, we will report on any weaknesses in the final audit report.</p>

Key risk area	Our response
<p>responsive to information and intelligence generated through local audit work.</p> <p>To maximise the impact of the national audit work programme, we are required to follow up national reports affecting the Council 3 and 12 months following publication.</p>	

4.3 Audit timetable and planned outputs

Table 7 summarises the audit timetable and planned outputs from the financial statements audit.

Table 7: Audit timetable and planned outputs

Audit output	Fieldwork	Target Delivery
Assurance and Improvement Plan	November 2009 - March 2010	30 April 2010
Statutory Performance Indicators	March to August 2010	30 September 2010
Best Value Follow Up	June to July 2010	31 August 2010
Response to national studies	Throughout the year	As required by Audit Scotland

5 Grant claims

5.1 Introduction

We will audit the grant claims notified to us by the Council at the start of the audit, and authorised for audit by Audit Scotland, which currently are:

- housing and council tax benefit subsidy
- education maintenance allowances
- non-domestic rates.

5.2 Overall approach

Audit Scotland issue guidance to auditors on the audit of grant claims authorised for audit in agreement with the Scottish Government. Audit Scotland's guidance determines the extent of audit testing required for each specific grant claim.

In order to gain sufficient assurance to support our opinion on each grant claim, we are required to carry out reviews of:

- the Council's arrangements for the preparation of each claim submitted for audit
- internal audit to determine the extent of reliance we can place on it for the purposes of our audit (Appendix B summarises the areas of internal audit work we plan to rely on)
- the effectiveness of the internal control framework for key financial systems relevant to each grant claim
- the materiality of balances and transactions impacting on each grant claim
- the key risks relevant to the preparation and audit of each grant claim.

Additional grant claims submitted for audit not listed above will be audited in agreement with Audit Scotland and subject to additional fee arrangements in negotiation with the Council.

5.3 Audit timetable and planned outputs

The following table sets out the submission and certification deadlines and planned timetable for each of the grant claim audits to be undertaken. We will provide an overview report on the outcomes from the grant audits at the end of the audit year.

Table 8: Key deadlines for the grant claim audits

Grant claims	Submission for audit	Timetable	Certification deadline
Housing Benefit and Council Tax Benefit Subsidy	31 May 2010	August-October 2010	30 November 2010
Education maintenance allowance	30 June 2010	July 2010	31 July 2010
Non domestic rates	30 September 2010	January 2011	February 2011

6 Logistics and administration

6.1 Audit team and contact details

Name and contact details	Role
Gary Devlin Engagement lead gary.j.devlin@gtuk.com 0131 659 8554	Gary is responsible for the overall delivery of the audit.
Stephen Vallely Audit Manager stephen.vallely@gtuk.com 0141 223 0759	Stephen is responsible for the day to day management of the audit.
Julia Robson Assistant Audit Manager julia.robson@gtuk.com 0131 659 8563	Julia is responsible for the onsite management of the audit team.
Grace Scanlin Assistant Audit Manager grace.scanlin@gtuk.com 0131 659 8526	Grace will be responsible for undertaking the performance aspects of the audit
Paul Spinks Senior Technical Manager paul.spinks@gtuk.com 0113 200 2554	Paul provides technical advice to the audit team on the financial statements, including advice on the 2009 SORP and IFRS and also leads the accounts workshop.

The core audit team will call on other specialist and support staff, as necessary, during the course of the audit.

If at any time you wish to discuss how our services may be improved or if you are in any way dissatisfied with the audit service you are receiving please contact Sarah Howard, our National Head of Government Audit Services (sarah.howard@gtuk.com, 0113 200 2530).

6.2 Audit Fee

Our audit fee is calculated in accordance with the guidance issued by Audit Scotland for determining the fee level for local government bodies. The fee is based on our professional assessment of the level of audit risk associated with a particular body. Audit Scotland requires that the agreed fee for the audit is set within the limits of the indicative fee range. Placement within the range depends on the level of work we consider necessary to perform the audit and is influenced by the number and level of risks facing the Council. In addition to the fee for the audit, Audit Scotland charges a fixed central overhead fee to meet its central running costs.

For our 2009-10 audit, we are proposing a decrease of £2,100 (1%) on the 2008-09 fee level. In the context of additional audit requirements around the implementation of BV2 and IFRS, the proposed fee reduction rewards the continued improvement in the Council's internal control systems and reflects the need for greater audit efficiency in challenging financial circumstances for the public sector.

The quoted audit fee includes:

- VAT and all travel and subsistence costs
- all of the work and outputs described in this plan, including additional work associated with the transition to IFRS
- attendance at audit committees and other key meetings
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues

The table below shows the proposed audit fee, plus Audit Scotland's fixed charge for the year ending 31 March 2010.

Table 9: Audit fee

	2009-10 £	2008-09 £	% difference
Grant Thornton UK LLP fee	208,000	210,100	-1%
Audit Scotland fixed charge	94,200	93,800	+0.4%
Total	302,200	303,900	-0.5%

Our fee is based on a number of assumptions, in particular:

- an effective and smooth closedown and audit of the accounts, in accordance with an agreed timetable
- availability of working papers at the commencement of the audit in accordance with our client working paper request list
- the completion by internal audit of reviews of the areas set out in Appendix B.

Where we are required to undertake additional work not outlined in this plan, any work directed by Audit Scotland, and grant claims not listed in Section 5, we will agree an additional fee with the Council in advance.

A- Planned audit outputs and timings

Audit area	Target Delivery
Financial statements Interim report- core financial systems Interim report- implementation of IFRS Report on the 2008-09 financial statements audit Audit opinion on the 2009-10 financial statements Whole of Government accounts return	31 May 2010 30 June 2010 10 September 2010 30 September 2010 30 September 2010
Governance Report to Audit Scotland on the National Fraud Initiative Interim report - governance follow up Interim report- contract management follow up	28 February 2010 31 May 2010 31 May 2010
Performance audit Shared Risk Assessment Audit and Assurance Improvement Plan Statutory Performance Indicators Best Value Follow Up National Performance Studies - impact assessments	30 April 2010 30 April 2010 30 September 2010 31 August 2010 Throughout the year
Grant claim audits Education maintenance allowance Housing Benefit and Council Tax Benefit subsidy Non Domestic Rates Grant overview report	31 July 2010 30 November 2010 15 February 2011 31 March 2011
Overall audit Report to members and the Accounts Commission for Scotland	31 October 2010

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland. Reports are addressed to Members or officers and are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

B- Planned areas of reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process, we carry out an annual assessment of the internal audit function.

The Council operates with a small internal audit section which has undergone a period of significant change in recent years. We will review the work of internal audit to determine the extent of reliance we can place on it for the purposes of our audit. This avoids unnecessary duplication of audit work, and minimises any disruption to the Council caused by the audit process.

Based on a review of the internal audit plan for 2009-10, we will plan to place reliance on the work of internal audit in the following areas:

- Capital accounting
- Capital contracting
- Cash income and banking
- Council tax and non domestic rates
- Creditor payments
- Debtors
- Housing Benefit and council tax benefit
- Asset management
- General ledger
- Payroll
- Treasury management
- Tendering procedures
- Stocktaking
- ICT applications
- Business continuity planning



www.grant-thornton.co.uk

© 2010 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

ANNUAL AUDIT PLAN 2010 - 2011

1. SUMMARY

The audit plan for 2010 - 2011 details year 3 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 outlines the areas that will be audited in 2010 - 2011. This complies with a good practice CIPFA guideline to provide additional information to management.

2. RECOMMENDATIONS

2.1 The Annual Audit Plan for 2009 - 2010 is approved.

3. DETAILS

3.1 Attached is the proposed Annual Internal Audit Plan for 2010 - 2011, which will be presented to the Strategic Management Team (SMT). It provides detail as to the proposed audits for the coming financial year.

3.2 This annual plan increases the awareness amongst departments of the audit objectives for 2010 – 2011, and it is hoped will aid departments with planning and preparation.

3.3 The annual audit plan has 2 audit categories. They are core and non financial audits. A table for both categories has been prepared listing each audit area, the date last audited and the number of assigned audit days for 2010 - 2011.

4. CONCLUSIONS

The Audit Plan addresses the key areas highlighted in our Audit Needs Assessment process and will assist the preparation of an annual assurance statement.

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 25 February 2009.
25fedeporfefb25



Argyll and Bute Council

Annual Audit Plan 2010 - 2011

25th February 2010

Draft for Audit Committee Approval

INDEX

	Page
1 Foreword	1
2 Internal Audit Resource Days: 2010 – 2011	1
Table 1 Internal Audit resources 2010 – 2011	2
3 Assessments of Core Financial Audit Days 2010 – 2011	3
Table 2 Assessment of Audit Days 2010 – 2011	4
4 Assessment of Non Financial Audit days 2010 – 2011	5
Table 3 Assessment of Audit Days 2010 – 2011	6
5 Assessment of Contingency Audit Days 2010 – 2011	7
6 Total Direct Audit Day Analysis 2010 – 2011	7
7 Scope & Objectives Core Financial Audits 2010 – 2011	8

1. Foreword

The audit plan for 2010 – 2011 details year 3 of the strategic audit plan approved by the Audit Committee on 27 March 2008 and ensures that Internal Audit resources are effectively planned and controlled. It should be seen as a flexible management tool, which provides the following:

- A clear view of the workload of the internal audit team;
- A base for assessment of the adequacy and future deployment of internal audit resources;
- A yardstick against which progress and performance can be measured;
- Authority to act once it is approved by the Audit Committee; and
- A permanent record of the factors considered and judgements made.

The 2010 – 2011 audit plan has been compiled in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ('the Code'). This requires the Internal Audit section to provide an objective assessment of the adequacy, reliability and effectiveness of the Council's internal control system. This strategic audit plan also takes into account the Internal Audit Mission Statement and Terms of Reference both of which have previously been approved by the Audit Committee. The plan has been discussed with Council's external auditors Grant Thornton UK LLP

The annual audit plan has 2 categories, core financial and non financial audits. The timing of audits will be discussed with management.

2. Internal Audit Resource Days 2010 – 2011

There are 4 elements to Table 1:

- The Number of Days Available to Internal Audit
- Total Working Days Available;
- Total Days for Non-Direct Audit Support Work; and
- Total Days Available for Direct Audit Work.

The total number of resource days available to Internal Audit is 1,597. The total number of working days available for 2010 – 2011 after deductions for Public Holidays, Annual Leave and Sickness Provision is 1,380.

The total number of days allocated to non direct audit work for 2010 – 2011 is 233. The non-direct audit day allocation covers tasks such as internal audit management, preparing committee papers, training and development and general administration issues.

The balance of 1,147 direct audit working days represents 83% of the total number of days available. Direct audit work days are those allocated to both core and non-financial audits.

Table 1: Internal Audit Resources 2010 – 2011

	Audit Manager	Audit Manager	Trainee Accountant	Trainee Accountant	Senior Audit Assistant	Computer Audit	Contract Auditors	Total
Number of Days in full year	261	261	261	261	261	28	264	1, 597
Less: Public Holidays	8	8	8	8	8	-		40
Annual Leave	32	32	32	24	32	-		152
Sickness Provision	5	5	5	5	5	-		25
Total Working Days Available	216	216	216	224	216	28	264	1,380
Non-Direct Audit Work								
IA Management	30	15	-	-	-	-	-	45
Planning and Reporting	25	15	-	-	-	-	-	40
Training and Development	10	10	30	30	10	-	-	90
Audit Internal Meetings	10	10	6	6	6	-	-	38
Advisory	10	10	-	-	-	-	-	20
Total Days for Non-Direct Audit Support Work	85	60	36	36	16	-	-	233
Total Days Available for Direct Audit Work	131	156	180	188	200	28	264	1,147

3. Assessment of Core Financial Audit Days 2010 – 2011

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 systems are as follows:

- Payroll Systems;
- Council Tax and Non-Domestic Rates;
- Main Accounting Systems;
- Creditor Payments Systems;
- Debtors;
- Treasury Management;
- Capital;
- Budgetary Preparation and Control;
- 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 introduction of the CIPFA control matrices has provided a wider audit focus than purely financial control.

The SBA control matrices cover the main financial systems. The adoption of the CIPFA control matrices has helped the section further develop its quality standards, compliance with the Code and enable departments to gain from participating in the audit methodology. The introduction and use of CIPFA SBAs enables self assessment and assists with the Council's drive for continuous improvement.

The core financial audits set out below in Table 2 are those detailed for year 3 of the strategic audit plan, and were selected using an Audit Needs Assessment methodology of risk ranking. These audits will enable Internal Audit over the next financial year to provide an assurance statement on the Council's overall control framework. Section 7 of this report provides the scope and objectives for the proposed audits outlined in Table 2.

Table 2 – Assessment of Audit Days: 2010 – 2011

<i>Core financial systems</i>	Risk ranking	Last audited	2010-11
Budgetary preparation and control	1	2009/10	15
Cash income and banking	2	2009/10	15
Car Allowances	2	2009/10	15
Council tax and non-domestic rates	2	2009/10	15
Creditor payments & purchasing	2	2009/10	40
Debtor accounts	2	2009/10	25
General ledger operations	2	2009/10	15
Government & European Grants including (LEADER programme)	1	2009/10	25
Payments to voluntary bodies (following the public pound)	2	2009/10	15
Payroll	2	2009/10	15
Stock taking / Work in Progress	2	2009/10	15
Tendering procedures	1	2009/10	25
Unified benefits system	2	2009/10	25
Major capital audit*	1	2009/10	115
<i>Subtotal core financial systems</i>	-	-	375

* Major capital audit will include: Treasury Management, Capital Accounting, Capital Contracts Contract Hire and Operating Leases and Asset Management.

4. Assessment of Non Financial Audit Days: 2010 – 2011

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

Internal Audit, in complying with the Code, has prepared this section of the report incorporating gross high risk areas extracted from the Council Risk Register. These will be reviewed in order to provide assurance to management that control is extant. The audit plan has also taken into account the objectives set out in the Council Corporate Plan.

The significance of Information Computer Technology (ICT) for controlling Council activities and the provision of management information is recognised in the audit plan. Internal Audit is required to review general ICT controls as well as the Council's ICT Security Strategy.

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 will continue to be adopted in 2010 - 2011.

Presently, the Council is involved in a modernisation programme of the management arrangements of the Council. The restructuring exercise will lead to a reduction in both Director and Head of Service posts. Therefore pressure will be placed on the new management team to maintain delivery and set out their service improvement plans. Direct audit days have therefore been included in that annual plan in support of this initiative as set out in Table 3 below. Discussions will be held with the newly appointed management team to further direct this part of the audit plan.

Table 3 – Assessment of Audit Days: 2010 - 2011

<i>Non financial audits*</i>	Risk ranking	Last audited	2010-11
Planning Performance Management Framework (PPMF)			
Planning and Performance Management	1	2009/10	75
Risk Management	1	2009/10	25
Best Value 2			
Partnerships	1	-	22
HR activities	1	2009/10	50
ICT systems	2	2009/10	50
Community engagement	1	2009/10	20
Sustainability	2	2009/10	15
Equality	1	2009/10	20
Procurement	1	2009/10	50
Public Service Improvement Framework (PSIF)	1	2009/10	110
Public Performance Reporting (PPR) and Statutory Performance Indicators/SOA	1	2009/10	80
Corporate Governance Statement	1	2009/10	30
New Legislation	1	2009/10	20
Business Continuity Plan Testing	1	2009/10	20
<i>Subtotal non financial audits</i>	-	-	587

* The detailed scope and objectives for the above audit areas will be developed in discussion with the new Strategic Management Team (SMT).

5. Assessment of Contingency Audit Days: 2010 - 2011

Audit days have been included within the annual audit plan for contingency. This is audit time for unforeseen events which, by their 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.

Clearly, the extent to which any contingency requirement will arise depends on the soundness of the Council's systems of control and the incidence of fraud or irregularity.

<i>Contingency days</i>	2010-11
Special investigations contingency	90
Follow-up external & internal audit management letter points	75
Risk assessment, strategic plan, annual plans	20
Sub Total	185

6. Total Direct Audit Day: 2010 - 2011

The table below, details the available direct audit days available by audit category.

<i>Direct audit days analysis</i>	2010-11
Core financial audits	375
Non financial audits	587
Contingency	185
Total	1147

7. Scope & Objectives – Core Financial Audits 2010 - 11

The following is a guide to the broad scope and objectives within the core financial systems audits to be covered in 2010 - 11.

Budgetary preparation and control - 15 audit days

Objectives

The specific objectives of this review will be to assess whether:

- A sign off procedure has been introduced, whereby the Head of Service will sign off payments processed within a budget monitoring month;
- Management review the budget variance reporting trigger mechanism in line with timescale alongside reviewing budget monitoring within the Best Value review of Strategic Finance.
- Budget variance pro-forma is being used consistently by departments. A record of discussions with budget holders regarding variances should be kept with the variance report.

Cash income and banking - 15 audit days

Objectives

The specific objectives of this review will be to assess whether:

- Officers receiving cash are able to misappropriate funds without detection;
- Cash is promptly and fully banked;
- Payments received are promptly processed and correctly recorded in the financial ledger;
- Security for non-banked cash is adequate; and
- Income arrears procedures are properly controlled.

Car allowances – 15 audit days

Objectives

The specific objectives of this review will be to assess whether:

- Classification of different types of car users is appropriate;
- Usage of pool cars is maximised; and
- Record keeping for pool cars is suitable for monitoring their usage.

Council tax & non domestic rates - 15 days

Objectives

The specific objectives of this review will be to assess whether:

- Barcodes are working in the live version of Comino.
- Council Tax system's passwords were set to expire after 90 days.
- Non-Domestic Rates system's passwords were set to expire after 60 days.
- There are proactive measures being used to encourage payment by direct debit.

Creditor payments and purchasing - 40 audit days

Objectives

The specific objectives of this review will be to assess the following system processes:

- Procurement and the PECOS system testing;
- Payments are made only for goods and services which were the subject of authorised orders;
- Procedures for adding to, and removing contractors from, the standing list, and for selecting tenderers, are properly controlled;
- All invoices are properly authorised and paid at the appropriate time;
- Payments are made only to valid creditors; and
- Payments are correctly recorded in the financial ledger.

Debtor accounts - 25 audit days

Objectives

The specific objectives of this review will be to assess whether:

- Accounts are properly raised and posted for all chargeable services;
- Accounts are issued promptly;
- Payments received are promptly processed and correctly posted to debtors' accounts;
- Write-offs, cancellations and credit notes are properly controlled; and
- Arrears follow-up procedures are properly controlled.

General Ledger Operations - 15 audit days

Objectives

The specific objectives of this review will be to review new systems developments in services:

- Prior year balances are correctly brought forward;
- All data input to the system is properly authorised;
- Data from feeder systems is correctly and timeously transferred to the financial ledger;
- Output properly reflects the financial data within the system; and
- Output is produced in accordance with a prescribed timetable and in a format which contributes to the financial management of the body.

Government & European Grants including LEADER programme - 25 audit days

Objectives

The specific objectives of this review will be to assess whether:

- All Government Grants are identified and applications made in accordance with grant requirements;
- Grants are only applied to the purposes provided;
- Amounts receivable / received are complete;
- The use of Government Grants is planned and controlled; and
- Adequate monitoring and reporting mechanisms are in place for management information.

Payments to Voluntary Bodies - 15 audit days

Objectives

The specific objectives of this review will be to assess whether:

- Grants are classified according to materiality and any monitoring arrangements determined and carried out according to the Council's assessment of risk;
- All grant payments are identified in a register of funding;
- A monitoring procedure is in place to ensure that available performance measures are collected and reported.

Payroll - 15 audit days

Objectives

The specific objectives of this review will be to assess whether:

- Payments are made only to valid employees;
- Payments are properly authorised; and
- Payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc.

Stock Taking - 15 audit days

Objectives

The specific objectives of this review will be to assess whether:

- Systems are in place for maintaining accurate stock records;
- Stock is held in a secure environment; and
- Adequate procedures are in place for management to count stock during the year and at year-end.

Tendering procedures - 25 audit days

Objectives

The specific objectives of this review will assess whether:

- The new Council Standing Orders reflect the required changes for effective control;
- Procedures for adding to and removing contractors from the Council's standing lists are properly controlled and make effective use of Constructionline services;
- Procedures for selecting tenderers are in accordance with the Council's Financial Regulations;
- Valid submitted tenders are recorded and held securely prior to formal opening;
- Tender opening procedures are properly controlled;
- Tenders comply with European Journal regulations where necessary;
- Only authorised alterations are made to tenders after opening process; and
- Procedures for evaluating tenders and selecting successful tenders are properly controlled.

Unified benefits system - 25 audit days

Objectives

The specific objectives of this review will be to ensure that:

Council Tax Benefits

- Benefit can be awarded only to valid applicants;
- Claims are accurately assessed and benefit calculated in accordance with Regulations;
- Claims are processed and determinations made within the timescales required by Regulations;
- Benefit awards are correctly recorded in the benefits system, the council tax debtors system and the financial ledger;
- Adequate steps are taken to prevent and detect fraud;
- Overpayments are recovered, where appropriate; and
- The annual subsidy claim is accurate and complete.

Housing Benefits

- Benefit (rent rebate and rent allowances) can be awarded only to valid applicants;
- Claims are accurately assessed and benefit calculated in accordance with Regulations;
- Claims are processed and determinations made within the timescales required by Regulations;
- Benefit awards are correctly recorded in the benefits system, the rent accounting system and the financial ledger;
- Adequate steps are taken to prevent and detect fraud;
- Overpayments are recovered, where appropriate; and
- The annual subsidy claim is accurate and complete.

Major Capital Audit - 115 audit days

Objectives

The specific objective of this review will be to carry out audit work in the following areas:

- Asset Management;
- Capital Accounting;
- Capital Contracts;
- Contract Hire and Operating Leases; and
- Treasury Management.

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

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 31 December 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 2007/08, 2008/09 and 2009/10 Internal Audit reports issued prior to December 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 31 December 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 October to December 2009. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by 30 September 2009 for the last Audit Committee. The same layout has been used for the reporting of External Audit report recommendations in Appendix 3.

3.3 Of the 22 outstanding recommendations 12 have been given revised implementation dates of 31 March 2010 or earlier. A report will be submitted to the first meeting of SMT in April 2010 and this will be circulated to the members of the Audit Committee.

- 3.4 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)

Points Outstanding From Previous Audit Committee

Audit	Report Date	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 31 December 2009	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
Review of Budgetary Control	May 2009	1	1	1	0	
Review of Contract Hire & Operating Leases	December 2007	2	2	1	1	B7
Review of Council & Committee Decision Follow-up	November 2007	1	1	0	1	C8
Review of Debtors 2008/09	January 2009	2	2	1	1	D5
Review of Health & Safety	March 2009	1	1	1	0	
Review of Income & Banking 2008-09	November 2008	1	1	1	0	
Review of Recruitment & Retention of Staff	February 2009	6	6	5	1	I1
Review of Tendering Procedures 2007/08	April 2008	1	1	0	1	L1
Review of the Prudential Code	April 2005	1	1	0	1	M1
Review of Risk Management Framework	January 2008	1	1	1	0	
Review of Unified Benefits	March 2009	1	1	0	1	N1
Total		18	18	11	7	

This page is intentionally left blank

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
A - REVIEW OF CAPITAL CONTRACTS							
1	MEDIUM	<p>Suppliers Selection</p> <p>No formal documented supplier selection process exists at present within the Operational Services Directorate.</p>	<p>1. Management should consider formalising the supplier selection process for the design group to ensure defined criteria are used to select contractors to be invited to tender. The results of the evaluation process should be documented to ensure the process is transparent and to provide assurance to all parties that they were afforded equal consideration.</p> <p>2. Management within the contracting group should consider periodically advertising an invite to contractors to apply for inclusion on a pre-tender list. This list will then identify contractors that are invited to tender depending upon the project.</p>	Head of Roads & Amenity Services	31 December 2009	31 March 2010	<p>1.Standing Orders have been amended and the Public Contract Scotland Portal will be used for tenders estimated over £50,000. Depending on circumstances the portal may also be used for certain jobs below this value.</p> <p>2.This has been superseded by use of the portal.</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
7	MEDIUM	Tendering Process Differing tendering processes are adopted by the design group and contracting group creating inconsistency in terms of approach. In addition, the £25,000 contract value threshold that stipulates when the detailed tendering process should be adopted is potentially inappropriate and does not allow for consideration of the potential contract values and associated risks to the Council.	1. Management should consider standardising the tendering processes adopted by both the contracting group and the design group to ensure consistency across the Council. 2. Management should consider amending the contract value threshold that triggers the detailed tendering process to be adopted to ensure it appropriately reflects the contract value and respective risks to the Council.	Operations Manager/Principal Engineers	31 December 2009	31 March 2010	When taking the role of client both groups will adopt the same procedure. For Operations when acting as a tenderer, appropriate arrangements will be used given the requirements of any particular tender. The £25,000 limit will be raised to £50,000.
B - REVIEW OF CONTRACT HIRE & OPERATING LEASES							
7	MATERIAL	The potential savings from the use of the advanced networking facilities available throughout the Council based on the experience gained from Manse Brae and Argyll House, the print usage and estimated savings at Kilmory and the savings in schools have not yet been estimated and reported to management.	Once the potential savings have been estimated a report is to be produced for management forecasting the potential savings. This report would need to be followed up with actual savings achieved. Such reports would be useful evidence towards showing Audit Scotland that the Council is achieving BV.	Head of ICT & Financial Services and Head of Democratic Services & Governance	31 March 2008 30 September 2008 31 October 2009	30 June 2010	The merger of the print rooms took longer than anticipated and more recently water ingress has damaged machines which require replacement. This, along with pressure to complete other tasks, has delayed progress on this audit action

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
C - REVIEW OF COUNCIL & COMMITTEE DECISION FOLLOW-UP							
8	MATERIAL	It has been identified that there are approximately 41 to 50 TPOs outstanding.	Legal Services has agreed with Planning Services that Legal staff will be directed to address the backlog of TPOs, on a prioritised basis to be agreed with Planning.	Head of Legal & Protective Services and Head of Planning	31 March 2008 30 November 2008 31 May 2009 31 December 2009	31 July 2010	Progress has been made though slower than expected due to complexity and limitations of available staff resources. Investigations have revealed that there were a total of 39 Orders which required attention. Of these 5 have had Orders made, 9 have had title investigations completed and orders will be made shortly, in 13 cases updated plans are awaited from Planning, and in the remainder further investigations into title and other aspects are required. The process should be complete by 31 July, 2010, assuming outstanding plans are received fairly shortly.
D - REVIEW OF DEBTORS 2008 - 09							
5	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 May 2009 31 October 2009	31 March 2010	Lack of staff resource had been an issue but this has now been addressed. Resource in place since January 2010 and targets being developed. It is intended that they will be in place by 31 March 2010.

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
E - REVIEW OF GENERAL LEDGER OPERATIONS							
1	MEDIUM	<p>e-Procurement User Group</p> <p>It was noted that an e-Procurement User Group was to be set up with representatives from each department from September 2008. A formal structure for this has yet to be achieved with separate communication continuing with separate user departments.</p>	<p>A formal e-Procurement User Group should be set up as soon as possible to address perceived failings with PECOS by the current users, to share knowledge, and to ensure that all users are made aware of changes to the system which impact on the functionality and the usability of the system.</p>	Exchequer Services Manager	31 October 2009	31 March 2010	<p>Nominations are now being sought from service departments for a Council wide PECOS user group. Invites will go out for the first meeting before the end of January 2010</p>
2	MEDIUM	<p>Reporting to SMT</p> <p>The emphasis on achieving faster settlement of invoices is clearly of benefit to suppliers in the current recession. However, there are underlying issues regarding the clearance of unmatched or mismatched entries on PECOS, and therefore also on Oracle, which require to be resolved by the user departments.</p>	<p>The follow-up report to the SMT on the impact of forced settlements should also assess the overall processing position to identify whether there are any underlying problems that may have accounting impact.</p>	Exchequer Services Manager	30 September 2009	28 February 2010	<p>Further analysis has now been undertaken with regard to the PECOS workflows and a report will be taken to SMT during February 2010.</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
3	MEDIUM	<p>PECOS Reporting Tools</p> <p>We noted that the reports being generated, prior to the force settlement of invoices, are being distributed to Finance Managers/Accountants who do not have management responsibility for the staff operating the PECOS system.</p>	<p>The role and responsibilities of the Finance Managers / Accountants in addressing operational issues, and the clearance of unmatched entries on PECOS requires to be fully resolved.</p>	Exchequer Services Manager	31 October 2009	31 March 2010	<p>Clarification has been sought from the Head of Strategic Finance regarding the role to be adopted (if any) by the Finance Managers regarding the settlement of invoices. Appropriate routes will be developed on that advice</p>
F- REVIEW OF IT SERVICE DESK							
2	MEDIUM	<p>Processes & Procedures.</p> <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. 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: 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>	Production Manager	31 December 2009	31 March 2010	<p>Procedures are being developed for all operations calls, including Second level support. This action is an ongoing and will only fully complete after full ITIL implementation across the department.</p> <p>Action Ongoing</p> <p>Delayed rescheduled</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
G - REVIEW OF PRE-SCHOOL EDUCATION							
4	MEDIUM	There is inconsistency between the inspections carried out on the external providers and internal providers.	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	17 November 2009	31 March 2010	Meeting arranged between Principal Officers Preschool, Early Years and Commissioning Team in February to determine responsibilities and programme of planned inspections. SEQ documentation is being received and is currently being risk assessed by Commissioning Team to determine the programme of planned inspections.
H - REVIEW OF PROCUREMENT FOR FLEET							
1	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	Head of Facility Services & Head of Roads and Amenity Services.	31 December 2009	Complete 31st March 2010	Hire Desk has been under the control of FM since May 2009. Now located in the same Office. A Policy for the Hire Desk which sets authorised signatory limits for the hire of all vehicles & plant will be considered for approval by the Asset Management Board by 31 st March 2010. This policy will incorporate a

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
			<p>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</p>			<p>31st December 2010</p>	<p>series of escalation limits which will require senior management authorisation to prevent the risk of unnecessary/uneconomic hire costs.</p> <p>A project Team under Fleet Manager with Community Services and Roads & Amenity Services will review the business case for introducing internal hire items. This review will be undertaken between Septembers to December 2010 following the introduction of the new Fleet Management system in June 2010.</p>
I- REVIEW OF RECRUITMENT AND RETENTION OF STAFF							
1	HIGH	<p>Head Teachers and teaching staff involved in the Recruitment and Interview process had not received any training.</p>	<p>Consideration should be given to rolling out Recruitment Training to all Teaching Staff involved in the Recruitment process.</p>	<p>Head of Planning & Performance</p>	<p>30 April 2009 31 December 2009</p>	<p>31 May 2010</p>	<p>Senior HR staff to provide recruitment training at the next meeting of Head Teachers in May 2010.</p>

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
J - REVIEW OF SOCIAL WORK COMMERCIAL CONTRACTS							
4	HIGH	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	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. Training on the updated procedures should be carried out.	Quality Assurance Manager	31 December 2009	31 March 2010	Training ongoing – Commissioning Guidance completed and approved by DMT 5/10/2009. Training is being implemented to all care staff, including the support staff that provide admin support to care staff. Sample feedback forms from training available, as are attendance records from events.
5	HIGH	Actions lists have been prepared for both Adult Services and Children and Families management detailing issues requiring action	Quality Assurance should monitor the progress of the action points detailed in the Action Lists.	Quality Assurance Manager	31 December 2009	31 March 2010	Training and procedures ongoing, see above

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
K-REVIEW OF TENDERING PROCEDURES							
1	MEDIUM	Tendering Procedures did not ensure compliance with the principals of transparency, non-discrimination and equal treatment which guarantee that tenders are assessed in conditions of effective competition.	<p>All consultants contracts, and building contracts less than £349,731, continue to be tendered as per the status quo. All other public works contracts in excess of £349,731 will be advertised in www.Publiccontractsscotland.gov.uk the Scottish Government's official national portal for Public sector contract opportunities and contracts in excess of £3,497,313 will also be advertised in the OJEU. In order to determine the appropriate award procedure a checklist and assessment matrix will be required to assist the decision between open and restricted procedure and thereafter to assess the pre-qualification bids and tender bids.</p> <p>It would be prudent if the Council sought clarity as to whether the circular also applied to works contracts.</p>	Asset Management Strategic Board	30 November 2009	31 March 2010	The guidance on this will be included in the procurement manual which will be submitted to a future meeting of the council

APPENDIX 2

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
L- REVIEW OF TENDERING PROCEDURES 2007-08							
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 01 October 2009	30 June 2010	This will be addressed by the procurement manual which will go to the Council by June 2010
M -REVIEW OF THE PRUDENTIAL CODE							
1	MATERIAL	The cost of the Campbeltown Community Project is significant and there would be benefit in carrying out a post completion review.	A post completion review of this project is to be carried out at the end of 2005/06	Head of Strategic Finance	31 March 2007 30 September 2007 30 April 2008 31 December 2008 30 August 2009	31 May 2010	Arrangements are being made with KPMG, our internal audit partners to carry out this review.
N - REVIEW OF UNIFIED BENEFITS							
1	MEDIUM	The roles and responsibilities for the duties of Back/Front office staff are not clear in regards to processing benefits	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 30 November 2009	31 March 2010	Draft SLA has been produced and discussed with Head of ICT and Financial Services. This will be passed to Democratic Services and Governance by the end of January 2010.

Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 31 December 2009	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
Audit Scotland - Commissioning Community Care Services for Older People	1	1	0	1	A2
Grant Thornton - 2007/08 Audit - Interim Management Report	1	1	0	1	B7
Grant Thornton - Progress Implementation Review - Internal Audit	1	1	0	1	C1
Total	3	3	0	3	

This page is intentionally left blank

APPENDIX 4

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
A - AUDIT SCOTLAND - COMMISSIONING COMMUNITY CARE SERVICES FOR OLDER							
2	MEDIUM	Officers should implement information sharing arrangement to enable access to services across social work, housing and health, including the requirement to obtain consent.	Paper version in place. IT infrastructure being negotiated.	Head of Integrated Care	30 April 2005 31 July 2007 30 April 2008 30 November 2009	31 May 2010	DELAYED BUT RE-SCHEDULED. Social Work has implemented an electronic assessment package that has been reviewed and new package will be implemented 1 st February 2010. Government central repository is available to connect the Council with the NHS but no equivalent NHS system available. Option of allowing NHS staff employed in joint teams controlled access to council system will be piloted during Feb-March 2010 and thereafter consideration will be given to full implementation via the Joint Health & Care Strategic Partnership in May.
B - GRANT THORNTON 2007-08 AUDIT - INTERIM MANAGEMENT REPORT							
7	HIGH	Financial Management and Budgetary Control The Council has not yet set out how it will measure and report efficiency savings generated and performance systems are not yet in place to measure	The Council should put in place mechanisms to record efficiency savings generated from the plan. Progress against the efficiency savings target	Head of Strategic Finance	31 December 2008 31 August 2009 31 December 2009	1 April 2010	This action has been broken down into 4 elements.. 3 of which have been completed. The outstanding element relates to reporting and this will be trialled at end of February 2010 and will be put

APPENDIX 4

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
		outputs and outcomes to support the measurement of efficiency.	should be reported on a regular basis to management and members. Management Response This will be addressed				in place for the new financial year.
C - GRANT THORNTON PROGRESS IMPLEMENTATION REVIEW - INTERNAL AUDIT							
1	MEDIUM	Scope of Internal Audit 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.	The Council Should update its 'guidance for staff reporting suspected fraud' to include specific reference to the role of Internal Audit. Management Response The Council Constitution will be amended to recognise the role of Internal Audit in the investigation of suspected frauds.	Head of Democratic Services and Governance	30 April 2008 30 June 2009 01 October 2009	30 June 2010	This issue will be addressed when the final set of policies are reviewed by Council as part of their phased consideration of the elements of the Council Constitution with a completion date of 30 June 2010
D - GRANT THORNTON REPORT ON CONTRACT MANAGEMENT							
8	MEDIUM	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. Current view of the Council is that the airports should remain in Council ownership, albeit the need for ongoing	Marine and Airfields Manager with Head of Roads and Amenity Services	31 December 2009	30 April 2010	The Airport is currently preparing submissions for gaining quality assurance accreditation and the recent audit from the CAA raised several observations that require addressing by specific deadlines. This has led to the business plan development being deferred.

APPENDIX 4

ACTION PLAN NUMBER	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION	REVISED DATE	COMMENT/EXPLANATION
			review of the business and operational plan for Argyll Air Services and the airports will be part of the Departmental Service Planning process.				

This page is intentionally left blank

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 MARCH 2010**

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2009 - 2010

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. See attached appendices.

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. The reports have been issued prior to the circulation of the committee papers.

3.2 In the attached Appendices are the Executive Summaries and Action Plans where applicable from finalised audit work. The Action Plans detail only those recommendations where Internal Audit in agreement with management has classified the findings either High or Medium. Therefore findings and recommendations classified as Low 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. A list of reports is provided in Appendix 1.

3.3 There are 33 planned audits set out in the Internal Audit Plan 2009 – 2010 and 17 final reports have been provided to the Audit Committee. The remaining reports will be provided to the Audit Committee prior to the June 2010 meeting. A review of Performance Management has been carried out and the final report will be sent to the Audit Committee prior to 5 March 2010.

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

25febfinalreport25feb 25 February 2010

Appendix1**List of Internal Audit Reports for Audit Committee 5 March 2010**

No.	Report Title	Draft Issue	Final Management Response	Final Issue
1.	Capital Contracts	9 February 2010	24 February 2010	25 February 2010
2.	Car Allowances	20 November 2009	9 February 2010	10 February 2010
3.	European Grants	13 January 2010	10 February 2010	9 February 2010
4.	Risk Management	15 December 2009	10 February 2010	10 February 2010
5.	Business Continuity	13 July 2009	9 February 2010	9 February 2010
6.	ICT Applications	23 November 2009	21 January 2010	26 January 2010
7.	Review of Purchasing	5 November 2009	24 February 2010	25 February 2010

This page is intentionally left blank



Internal Audit Report

Chief Executive's Unit

Review of Contract Management

February 2010

CONTENTS

	Page
1. BACKGROUND	1
2. AUDIT SCOPE AND OBJECTIVES	1
3. AUDIT APPROACH	1
4. AMENDED PROCESS	2
5. SUMMARY OF MAIN FINDINGS	4
6. ACTION PLAN	4
7. CONCLUSION	5
8. ACKNOWLEDGEMENTS	5

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 Capital contracts/Contract Management as part of the 2009-10 Internal Audit programme.
- 1.2 The Organisational Development Policy and Performance Group (PPG) considered a report dated 30 January 2009 by the Head of Roads and Amenity Services outlining the history of the Port Askaig redevelopment project and reporting on the contractual issues associated with the completed Phase 2 Marine Works contract, customer expectations and project management issues. The Executive Committee, at its meeting on 19 March 2009, agreed to a recommendation made by the PPG that this project be the subject of a financial audit and referred this to the Audit Committee for attention with a request that they report back to the Executive with their findings.
- 1.3 Internal Audit carried out a review of the Port Askaig redevelopment project and this was considered by the Audit Committee in September 2009
- 1.4 The Audit Committee agreed that, rather than wait for the next post completion audit, Internal Audit would investigate the current status of Process and Contract Management for ongoing projects to see whether or not processes that have been put in place for Contract Management are robust and effective.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The objective and scope of the audit is to look at Capital Projects in entirety. This will involve the recording of the process from project inception to project completion.

The following areas will be reviewed and investigated:

- Capital planning.
- Gateway process and use of business cases IBC, OBC and FBC and Benchmark Sheets; challenge and approval thereof.
- Procurement and Tendering Process
- Project Plans
- Project Management including individual contract management
- Completed project handover process and responsibilities.

3 AUDIT APPROACH

- 3.1 We carried out initial desktop research to set out the process by which a project should be identified; included in capital plans; approved; procured;

planned; managed and monitored and completion signed off.

- 3.2 At least three different Heads of Service have responsibility for the management of contract works capital contracts but equally specialist vehicles or IT projects are subject to the same processes. Three current capital projects were selected and a questionnaire, devised from the information obtained by the desktop research and objectives and scope set out above, submitted to the appropriate Head of Service for completion with supporting evidence. These questionnaires were then evaluated.

4 **AMENDED PROCESS**

4.1 Project Initiation

Capital Works Projects can only proceed if they have been included in a Service Capital Plan. Annually each Service prepares a proposed Capital Plan on a three year rolling basis. This is done around October each year and submitted to the Asset Management Strategic Board (AMSB). The proposed plan should include all capital projects envisaged in the next three years and required to meet the Council's Corporate Plan objectives supported by the Asset Management Strategy (AMS) and Corporate Asset Management Plan (CAMP).

Each project will have a project sponsor and this will be the Head of Service unless an alternative person has been delegated this responsibility. No Project Sponsor may proceed to commit any expenditure to a project until it has satisfied the requirements of the Capital Projects Business Gateway process, full details of which are explained in the Capital Programme Planning and Management Guide.

The first stage in this process is that the Project Manager, if one appointed, or the Project Sponsor will prepare an Initial Business Case (IBC) for submission to the AMSB. The AMSB meets quarterly to consider IBC's and assess and rate each IBC before presenting the proposals to the Strategic Management Team (SMT)/Executive Committee for approval. An IBC has four key areas to address, namely, Impact; Affordability; Deliverability and Risk and includes a Benchmarking Sheet for Project Monitoring Purposes. For Asset Sustainability projects approval of the IBC means approval of the project and the project would move to the procurement/tender stage. Asset Sustainability Projects are those required to maintain the status quo and are not expected to be in excess of £250k.

For Service Development or Strategic Change projects the approval of the IBC only moves the project to the next gateway, the Outline Business Case (OBC), with a limit on the spend to achieve that stage. OBC's are submitted to the AMSB and will be assessed and rated similarly to an IBC but more detail is expected especially in support of the option appraisal aspects as well as life cycle revenue and capital costs. The challenge aspects at OBC stage are expected to be rigorous both by the AMSB and SMT/Executive Committee. The OBC will normally be prepared by the project manager and submitted by the project sponsor. The project board and project plan if not included in the IBC should be selected and prepared at this stage. While not essential it is anticipated that all impediments to the project will have been recognised and

dealt with by this stage. Where impediments remain then the risk should be clearly stated. "Clean" OBC's are more likely to succeed than risky OBC's. When approval for an OBC has been given and the project does not exceed £1m the project would move to procurement/tender stage.

For projects over £1m in value the approval of the OBC signals the move to Final Business Case (FBC). This involves the appointment of an independent senior manager to examine the OBC to confirm the robustness of all the assumptions made in the OBC. When signed off by the independent examiner the FBC will be submitted to the AMSB who will further challenge the assumptions and make recommendations to SMT/Executive Committee. When the FBC is approved the project will move to procurement/tender stage.

4.2 Project Procurement/Tender Stage

This stage of the project is largely controlled by the Council's Constitution and in particular the Contract Standing Orders. There are various thresholds when actions should be taken and these vary for goods and services and for contract works. For our purposes here we are considering only contract works contracts. In assessing project value all contracts included in the project require to be aggregated. For projects for contract works less than £349,731 the Council continues to use Constructionline approved contractors and consultants. For projects valued in excess of £349,731 all contracts must be advertised on Scottish Government's official national portal for public sector opportunities viz. www.Publiccontractsscotland.gov.uk. Projects in excess of £3,497,313 also require to be advertised in the official journal of the European Union (OJEU). Where there are some smaller contracts within a larger project provided they do not individually exceed 1m. Euro or 20% of the project value in aggregate the advertising rules do not apply.

When advertising we are required to use one of two procedures. These are the Open or Restricted Procedures. Open procedures require us to send tender documents to every reply requesting their receipt and could involve an excessive number of responses. Restricted procedures imply a process of selection and the basis of this must be stated in the appropriate adverts; the responses are assessed and a restricted number qualify to receive the tender documents.

Tender opening procedures are defined in the Council's Constitution. The lowest qualifying tender will be accepted provided it is within 10% of the OBC assumed cost. Tenders in excess of 10% of the assumed cost will require to be referred to the Executive Committee if they are to be approved.

4.3 Project Plans

A Project Plan will have been prepared with the OBC but if for any reason an OBC was approved without a project plan it must be prepared now. The key areas of this stage are:

Agree monitoring and control procedures within the needs of the Council's Capital Plan Monitoring regime.

Plan and Schedule work. Recognise key milestones, activities, resource needs, work packages, OBC comparison.

Evaluate risks. Probability, impact, action required.

4.4 Project Management

Prince 2 sets out processes for this stage but also permits the use of other standard work plans e.g. Institute of Civil Engineers (ICE), or Royal Institute of British Architects (RIBA). Since the Council's officers are usually qualified members of these bodies or the Royal Institute of Chartered Surveyors (RICS) then it is almost certain the forms of contract promoted by these bodies are the ones likely to be used. At this stage contract management follows the contractual requirements of the various forms of contract used but in addition is subject to the Council's monthly capital plan monitoring processes.

4.5 Completed Project Handover

The Project Board or project managers are responsible for arranging the handover of a completed project to the operating Service and the completion of the Project Outcome Review.

5 SUMMARY OF MAIN FINDINGS

- 5.1 Internal Audit found that The Benchmarking Sheet is an integral part of an Initial Business Case (IBC). In all three cases an IBC was approved by the Executive Committee when no Benchmarking sheet had been prepared.
- 5.3 The Audit found that The Executive Committee had not been advised that at the IBC stage a spend limit should be set to achieve an OBC having approved an IBC.
- 5.4 The Audit found that the new processes currently being implemented by the Asset Management Strategic Board were adopted but these changes are only now (last eight months) being driven forward.

6 ACTION PLAN

The action plan attached at Appendix 2 has been compiled on the basis that the Council's accepted procedures and processes have not been followed in specific instances

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.

7 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 7.1 The work of the Asset Management Strategic Board has, over the last nine months, set new parameters which affect all aspects of Capital Contracts/Contract Management within the Council. These changes have and are being introduced progressively and our findings affect one matter which it was felt had been addressed but two which had still to be dealt with. It will be of interest to the Audit Committee that the 2009-10 Review of Asset Management will be available in March 2010 and will provide a detailed picture of what has been achieved and what has yet to be done.
- 7.2 The Business Case gateway process has been followed as a result of the introduction of the draft Capital Programme Planning and Management Guide in 2007, this has yet to be issued as a final document with its supporting templates. This will be addressed by the AMSB.
- 7.3 During 2009/10 no large strategic change projects outside CHORD have been added to the capital plan under the auspices of the new guidelines therefore any project so reviewed will fail to a greater or lesser extent to meet the Council new process requirements e.g. the formation of Project Boards which is considered a fundamental improvement.
- 7.4 In the experience gained by Internal Audit when reviewing capital contracts in the past it is our opinion that the perception of poor project management can be attributed to a failure to establish a realistic net cost prior to a project being admitted to the Capital Plan. In the main projects were included in the capital plan prior to the final project specification and before it was deemed an affordable, deliverable, risk managed priority of the Council.

8 ACKNOWLEDGEMENTS

- 8.1 Thanks are due to The Roads and Amenity Services, Facility Services and Community services 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 department has prepared this report. Our work was limited to the scope in paragraph 2.1 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 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	1.1 to 1.3	Medium	The Benchmarking Sheet is an integral part of an Initial Business Case (IBC). In all three cases an IBC was approved by the Executive Committee when no Benchmarking sheet had been prepared	The Asset Management Strategic Board be requested to ensure that the scoring and rating process they employ ensures that Benchmarking Sheets are completed for each IBC.	Internal Audit Manager on behalf of Audit Committee	31 March 2010
2	1.4 to 1.5	Medium	The Executive Committee were not advised to set a spend limit to achieve an OBC having approved an IBC.	The Executive Committee are recommended by the AMSB that where an IBC is being approved to permit progress to an OBC the spending limit to achieve an OBC submission is clearly defined.	Chairman AMSB	31 March 2010

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
3	1.1 to 1.5	Medium	There is a training issue for Members of the Executive who are required to approve business cases in respect of their understanding of what that entails.	The Asset Management Strategic Board be requested to organise training for the Executive Committee Members to provide a full understanding of their role in approving business cases at each gateway.	Internal Audit Manager on behalf of Audit Committee	31 March 2010
4	1.24	Medium	These processes have only been driven forward in the last 6 months. It was not possible to review the completed project handover for any of the projects.	Internal Audit will include a review of the projects in future annual audit plans.	Internal Audit Manager	5 March 2010



Internal Audit Report

Corporate Services

Car Allowances

February 2010

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	1
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	3
7	Audit Opinion	3
8	Acknowledgements	3
Appendix 1	Detailed Findings	4
Appendix 2	Action Plan	1

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Corporate Services, Car Allowances as part of the 2009-2010 Internal Audit programme.

The aim of the Audit of Car Allowances is over a 3-4 year period to review the whole system by looking at individual departments each year. Community Services, Development Services and Operational Services have been reviewed previously.

As required by the Standing Orders, Financial and Security Regulations 7.24 all claims for payment of car allowances, subsistence allowances, travelling and incidental expenses will be submitted to the Head of ICT and Financial Services, certified in an approved form, and completed by a specified day each month.

A random sample of 40 staff members was taken, the claims selected included Essential, Casual and Leased car users. A total of 182 individual claim forms were tested.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- Travel and Subsistence claims are being completed in accordance with Council policies and procedures and that they are in accordance with Argyll & Bute's Financial & Security Regulations.
- Travel and Subsistence claims are completed in full, signed by the employee and appropriately authorised in accordance with the Authorised Signatory list.
- Travel and Subsistence claims are being paid to the appropriate individuals at the appropriate rates.

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 Travel and Subsistence claims are being completed in accordance with Argyll & Bute Council policies and procedures and are being completed in accordance with the council's Financial Regulations.
- 5.2 The Financial and Security Regulations include guidance on Travel and Subsistence. These Regulations are found within the Council's Constitution and are available on Public Folders for staff to view.
- 5.3 Internal Audit found that the Council does not have a Green Policy in place. However, Argyll & Bute Council is committed to reducing car journeys and encouraging sustainable travel in order to benefit people's health and the environment. Internal Audit found that there was a considerable amount of information and advice on the Council's website with regards to travelling more sustainably.
- 5.4 Creditors issue a Travel and Subsistence time table, covering every pay run, to all services throughout Argyll & Bute Council for each financial year. Departments are required to submit claims within the stated time periods. It was found that not all staff are submitting claims on a regular basis.
- 5.5 There is a diary for the pool car at Kilmory, this is retained by Corporate Services staff. Analysis of the pool car diary established that this pool car was used, however it was noted that there were times when the pool car was available for use. This car is used by all departments at Kilmory.
- 5.6 All Forms tested were found to be authorised and dated, however, Internal Audit was unable to establish whether these had been signed by an 'authorised manager' as signatures in general were illegible. Provision has now been made on the claim form for the authorised officer to print their name. A List of Authorised Signatories for Travel and Subsistence Claims is available from Creditors and is available on the Public Folders.
- 5.7 The quality of information completed on Travel and Subsistence Claims varied greatly. An analysis of the Forms tested found that information was not always complete or was not completed in sufficient detail.
- 5.8 Internal Audit found that there were robust procedures in place within Creditors to ensure that only authorised and completed Travel Claims were processed and that staff were paid at the appropriate rates.
- 5.9 There is some uncertainty regarding the deduction of home to work mileage from travel claims and, corporately, advice needs to be provided to staff throughout the Council..

6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit, one has a high priority and four medium priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that Travel and Subsistence Claims are being paid to the appropriate individual at the appropriate rates and that the Council has robust procedures in place for the checking and processing of Travel and Subsistence Claims.

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 Creditors Supervisor 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	Argyll & Bute Council is committed to reducing car journeys and encouraging sustainable travel in order to benefit people's health and the environment. Internal Audit found that there was a considerable amount of information and advice on the Council's website with regards to travelling more sustainably.	Medium	Staff should be made aware of the information available on the Council's website with regards to sustainable travel and should be encouraged to consider this advice when planning their journeys.	Head of Improvement & HR	28 February 2010
2	Departments are required to submit claims within the stated time periods according to the issued timetable. Internal Audit found that several employees submitted numerous claims in the one payment period.	Medium	Instructions should be issued to staff stating that travel and subsistence claims should be submitted to Creditors for payment in accordance with the Travel and Subsistence Time Table.	Head of ICT and Financial Services	Completed

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	A pool car is available from Kilmory and this is maintained by Corporate Services staff. Analysis of the pool car diary established that this pool car was used. However it was noted that there were times when the pool car was available for use.	Medium	Staff should be made aware of all pool cars that are available for use throughout the Council and they should be encouraged to use the pool car whenever possible.	Director of Operational Services (Fleet Management)	Completed
4	An analysis of the Forms tested found that information was incomplete or was not completed in sufficient detail. Examples of categories not completed are home address, normal home to work mileage, subsistence claim section, journey departure times, return times and purpose of journey.	Medium	Authorised Signatories should check all information on the Travel and Subsistence Claims and where it is found to be incomplete or inaccurate these should be returned to the employee for amending and re-submission. Authorised signatories should be reminded of their responsibilities when checking that all sections of the claim form are completed by employees.	Head of ICT and Financial Services	Completed

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
5	Internal Audit found that there is some uncertainty with regards to when home to work mileage should be deducted from claims. As a result of the implementation of single status Strategic HR has confirmed that home to work mileage must be deducted from travel claims.	High	The Head of Improvement and HR should submit a report to SMT on the deduction of home to work mileage from travel claims. Staff should then be informed of these arrangements as soon as possible.	Head of Improvement and HR	28 February 2010



Internal Audit Report

Development Services

Review of European Funded Projects

February 2010

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Corporate Governance	1
4	Risk Assessment	1
5	Main Findings	2
6	Recommendations	2
7	Audit Opinion	2
8	Acknowledgements	2
Appendix 1	Detailed Findings	
Appendix 2	Action Plan	

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of European Funded Projects within Development Services as part of the 2009/2010 Internal Audit programme.

Internal Audit held a meeting with members of the European Unit and the Creditors Section to discuss the scope of the audit.

Internal Audit reviewed two European Funded Projects;

- Project Craftwork all Trades Training and
- Project Craftwork Oban and Lorn (Model Interventions).

Internal Audit inspected the files for the two projects to ensure compliance with the conditions of the grant.

The participants in these projects are the long term unemployed. The aim is to try and enter the participants into sustainable employment. These projects are administered by the employability team within Economic Development and Strategic Transportation.

2 AUDIT SCOPE AND OBJECTIVES

- All European Grants are identified and applications made in accordance with grant requirements;
- The use of European Grants is planned and controlled;
- Grants are only applied to the purposes provided;
- Adequate records are maintained and retained to satisfy the conditions of grant.
- The department has procedures in place to account for the expenditure incurred during the life of the grant.

3 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

4 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing the risk register was reviewed to identify any areas that needed to be included within the audit.

5 MAIN FINDINGS

- There were no formal written procedures in place for European Funded Projects.
- There was no information available from the creditors section of payments made by the council for the projects reviewed. If the projects were to be subject of audits by European auditors this could result in part or the whole of the grant being claimed back from the council.
- The Employability Team informed the auditor that for other European Funded Projects they had received back up information from the Creditors section that was unrelated to those particular projects.

6 RECOMMENDATIONS

Three recommendations were identified as a result of the audit, two of high priority and one of medium priority.

7 AUDIT OPINION

The auditor is satisfied that the Employability Team has answered all relevant questions concerning the process for applying for grant funding, how the funding is administered and an audit trail is maintained.

Based on the findings we can conclude that more detailed records need to be maintained to comply with the conditions detailed in the offer of grant.

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

- European Officer
- Employability Team Staff Member
- European Support Officer
- Creditors Supervisor

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	It was found that there were no written procedures in place for the recording of European funded projects	High	A Corporate procedure should be produced that defines the specific and financial requirements in order to meet the conditions of grant for European Funded Projects	Head of Economic Development and Strategic Transportation	31 March 2010
2	From the projects that were checked there were no bank statements showing total BACS Transactions for either Staff Salaries or other costs such as invoices.	High	The employability team needs to request the records they require from the payroll and creditors on a regular basis as detailed in the draft procedures. This is required in order to comply with the conditions of the grant and to avoid any claw back of any grant claimed and received by the council.	Head of Economic Development and Strategic Transportation And Head of ICT and Financial Services	31 March 2010
3	There could be a possible Data Protection issue with regards to the BACS transactions. In the past personal information has been available to	Medium	Only information relating to the projects should be held by the Employability Team	Head of Economic Development and Strategic Transportation And	31 March 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	members of the Employability Team to which they are not entitled to view. There are names, ledger codes and amounts paid to individuals not involved with the projects.			Head of ICT and Financial Services	
4	On the travelling expenses claim forms of the participants in one of the projects, no receipts were provided as evidence of costs incurred. The auditor realises that this may be a difficult task due to the abilities or willingness of the project participants but the Employability Team should endeavour to collect receipts.	Medium	The Employability Team should inform the participants in the projects that they must provide receipts for their travelling expenses.	Head of Economic Development and Strategic Transportation	31 March 2010

This page is intentionally left blank



Internal Audit Report

Corporate Services

Review of Strategic Risk Register

February 2010

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Corporate Governance	1
4	Main Findings	1
5	Recommendations	2
6	Audit Opinion	2
7	Acknowledgements	3
Appendix 1	Detailed Findings	
Appendix 2	Action Plan	
Appendix 3	Specimen Risk Framework	
Appendix 4	Strategic / Operational Risk Register Links	

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of the Strategic Risk Register, maintained by the Corporate Services Department, as part of the 2009/10 Internal Audit programme.

2 AUDIT SCOPE AND OBJECTIVES

An Internal Audit Review of Risk Management, carried out by KPMG LLP, was reported on in June 2009. A number of issues were highlighted including the need to define a risk aggregation process to ensure the effective aggregation of risks from 16 operational risk registers into one strategic risk register.

The Audit Approach for this review was therefore restricted to the following:-

- Obtain details of the Strategic Risk Register from within Pyramid, and review the identification and presentation of Strategic Risks, and
- Check that the Council's Strategic Risks are supported and appropriately identified within the departmental Operational Risk Registers on Pyramid.

3 CORPORATE GOVERNANCE

KPMG identified that the governance responsibilities for risk management have yet to be fully and clearly defined across the organisation. We understand that this is currently being addressed, to ensure that risk management continues to form an effective part of the Council's Corporate Governance arrangements.

As part of a separate audit we will shortly review the inclusion of the Council's Strategic Risks within the governance arrangements for the Community Planning Partnership, in support of the Single Outcome Agreement.

4 MAIN FINDINGS

- 4.1 Significant progress has been made in the identification and refinement of strategic risks, with the Pyramid system providing an appropriate structure and framework to aggregate risks from the underlying operational risk registers.
- 4.2 The Strategic Risk Register currently contains 34 assorted risks. Approval has been given by the Strategic Management Team (SMT) with regard to the grouping of these risks under appropriate risk headings to make the risk register more accessible and easier to understand.

4.3 A schedule has been prepared setting out the linkage of specific risks from the Strategic Risk Register to the underlying Operational Risk Registers, (see Appendix 4). Consideration should be given to preparing this schedule, or a suitably adapted version of this, on an annual basis to provide a management overview mechanism. This will also demonstrate that the appropriate linkages remain intact.

4.4 The KPMG LLP report in June 2009 noted that there were thirteen Operational Risk Registers, which has now increased to sixteen because there are separate registers for Communications, Policy & Strategy and Strategic HR which are sections within Improvement and Strategic HR. The Operational Risk Register for Improvement and HR has been prepared incorporating the relevant strategic risks while the three others contain risks which are specific to that department.

This is different from the way in which other services record the risks in their Operational Risk Registers which may cause some confusion. However, so long as the information in the Improvement and HR Operational Risk Register has taken account of the relevant information on the risks from the other three sections then there should be no problems.

4.5 It is recognised that the on-going development of the Strategic Risk Register and the underlying operational risk registers will involve further review and refinement of risk definitions. Our work has identified additional potential strategic risks and suggested refinements for consideration as part of this process.

5 RECOMMENDATIONS

Five recommendations were identified as a result of the audit, two of high priority and three of medium priority. The recommendations are shown in the Action Plan below.

6 AUDIT OPINION

Based on the findings we can conclude that significant progress has been made in embedding the risk management process across the Council. The Pyramid system now provides an appropriate structure and framework to aggregate risks from the underlying operational risk registers. Further work is on-going on the refinement of strategic risks and the establishment of a management framework to ensure that strategic risks are appropriately linked and supported by the underlying operational risk registers.

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.

7 ACKNOWLEDGEMENTS

Thanks are due to the Governance & Risk Manager for his 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 Risk Registers

An effective risk management framework requires recognition of risk management in all areas of the Council's activities, including Internal Audit. The risk based approach to auditing has therefore required this section to keep abreast of the development of the Strategic Risk Register to ensure that our work is appropriately scoped to address identified risks.

We have therefore monitored the development of the Strategic Risk Register from an Excel spreadsheet, with over 44 strategic risks, to the current Pyramid based system with 34 strategic risks. Significant progress has been made in the identification and refinement of strategic risks, with the Pyramid system now providing an appropriate structure and framework to aggregate risks from the underlying operational risk registers.

Recommendation 1

No further recommendation required

2 Strategic Risks

Our examination of the current 34 strategic risks found that these did not appear to be arranged in any particular order, although certain risks were similar in nature and could potentially be grouped together.

We therefore examined risk registers on the internet, for other broadly comparable local authorities, and also reviewed the Strategic Audit Risk Assessment ('SARA') approach adopted by Audit Scotland to identify key risk themes. This enabled the preparation of a specimen risk framework (see Appendix 3) containing 12 main themes which we have used as an audit tool. The current strategic risks have been provisionally grouped within these themes and this has enabled us to review the identification process of strategic risks.

Recommendation 2

Consideration should be given to grouping risks under appropriate risk headings to make the risk register more accessible and easier to understand. Our specimen risk framework containing 12 key risk areas has been provided in Appendix 3 for consideration.

3 Linkage of Strategic and Operational Risk Registers

Having provisionally allocated the Council's 34 strategic risks to the 12 key risk themes, our next objective was to ensure that each of the strategic risks was appropriately linked and supported within the underlying operational risk registers.

We have therefore extended our specimen risk framework to include strategic risks identified within the underlying operational risk registers. This identification of risks was carried out from an examination of the risks within the operational risk registers, rather than just following the linkage within Pyramid.

The preparation of this schedule provided a useful audit tool to further examine the linkage of the underlying risks to the strategic risk register and could provide the basis for management to ensure that the appropriate linkages initially exist and remain intact as risk management within the Council evolves.

Recommendation 3

Consideration should be given to preparing a schedule in a similar format to the Internal Audit version, outlined in Appendix 4, on an annual basis to provide a management overview mechanism. This will provide evidence that the appropriate linkages remain intact.

4. Operational Risk Registers

In examining the Operational Risk Registers it is not apparent which are strategic risks, included in support of the strategic risk register, and which are separate operational risks, identified as specifically relating to that service.

Recommendation 4

In the operational risk description within Pyramid the services should identify where applicable which strategic risk it is linked to.

5. Additional Points for Consideration

It is recognised that further review and development work is currently being progressed which will address the issues raised by KPMG in their Internal Audit Report of 22 June 2009. Our work has identified

additional potential strategic risks and suggested refinements for consideration as part of this process as follows:

- 5.1 Failure to realise efficiency gains should be amended to failure to develop shared services opportunities – Internal & External
- 5.2 Failure in reliable provision of core ICT infrastructure
- 5.3 Failure to develop e-procurement
- 5.4 Strategic risk 24 could be extended to cover ‘UK and European’ Government Policy (as well as Scottish Government)
- 5.5 Best Value – Policy & Strategy currently take corporate lead, but certain departments have identified a risk in respect of BV in their departments.

Recommendation 5

Consideration of the specific risk issues raised should be covered in the current review and development phase of risk management.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Significant progress has been made in the identification and refinement of strategic risks, with the Pyramid system now providing an appropriate structure and framework to aggregate risks from the underlying Operational Risk Registers.	N/A	No further recommendation required	N/A	N/A
2	Our examination of the current 34 strategic risks found that these did not appear to be arranged in any particular order, although certain risks were similar in nature and could potentially be grouped together.	High	Consideration should be given to grouping risks under appropriate risk headings to make the risk register more accessible and easier to understand. Our specimen risk framework containing 12 key risk areas has been provided for consideration. See Appendix 3.	Governance and Risk Manager	May 2010
3	The preparation of the Specimen Risk Framework schedule provided a useful audit tool to further examine the linkage of the underlying risks to the strategic risk register. This could also provide the basis for management to ensure that the appropriate linkages initially exist and remain intact as risk management within the Council evolves.	High	Consideration should be given to preparing a schedule in a similar format to the Internal Audit version, outlined in Appendix 4, on an annual basis to provide a management overview mechanism. This will provide evidence that the appropriate linkages remain intact.	Governance and Risk Manager	May 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	In examining the Operational Risk Registers it is not apparent which are strategic risks, included in support of the strategic risk register, and which are separate operational risks, identified as specifically relating to that service.	<i>Medium</i>	In the operational risk description within Pyramid the services should identify where applicable which strategic risk it is linked to.	Governance and Risk Manager	May 2010
5	<p>Our work has identified additional potential strategic risks and suggested refinements for consideration as follows:</p> <p>5.1 Failure to realise efficiency gains should be amended to failure develop shared services opportunities – Internal & External</p> <p>5.2 Failure in reliable provision of core ICT infrastructure</p> <p>5.3 Failure to develop e.procurement</p> <p>5.4 Strategic risk 24 could be extended to cover ‘UK and European’ Government Policy (as well as Scottish Government)</p> <p>5.5 Best Value – Policy & Strategy currently take corporate lead, but certain departments have identified a risk in respect of BV in their departments.</p>	<i>Medium</i>	<p>Consideration of the specific risk issues raised should be covered in the current review and development phase of risk management.</p> <p>Consideration will be given to including these risks 5.2 and 5.3.</p> <p>Consideration will be given to amending the risk description per 5.4.</p> <p>Creation of a link from the Operational Risk register to the Strategic Risk Register should be considered.</p>	Governance and Risk Manager	<p>The description in SR08 has been amended to reflect this point.</p> <p>5.2 to 5.5 will be completed by May 2010</p>

APPENDIX 3 SPECIMEN RISK FRAMEWORK

Specimen Risk Framework	In Charge	SR	Strategic Risk Register
1. Failure to focus clear Corporate Priorities - Partnerships	Chief Executive	14	Failure to implement the Single Outcome Agreement
	Chief Executive	9	Failure to progress community planning partnership
2. Corporate Governance	Chief Executive	6	Failure to provide strong leadership
	Corporate Service	13	Failure to comply with new regulations
	Head of Strategic Finance	16	Failure to have a robust internal control process and system
	Corporate Services	18	Failure to imbed risk management
	Corporate Services	20	Failure to ensure Council acts in accordance with law and on regulatory framework
	Chief Executive	24	Changes to Scottish Govt. Policy which impact on service provision
3. Performance Management	Chief Executive	7	Failure to maximise the benefits of Best Value
	Chief Executive	8	Failure to develop shared services opportunities
4. Financial Management	Head of Strategic Finance	15	Financial management processes need to be aligned with Council structures & objectives
	Head of Strategic Finance	17	Non recurring financial burdens and one-off financial crisis
	Development Services	26	Failure to attract external funding to assist strategic projects
	All Directors	33	Failure to achieve income targets
	Corporate Services	34	Failure to gather in Council Tax and NDR
5. Medium Term Financial & Capital Planning	Operational Services	10	Inefficient use of Council assets & consequent loss
	Head of Strategic Finance	11	Failure to meet capital/revenue spending targets
	Community Services	22	Failure to agree/implement School Estate Strategy
	Community Services	23	Demographic/societal changes significantly increase demand for services
	Chief Executive	27	Failure to implement agreed CHORD programme
6. Communication	Chief Executive	4	Adverse Media Coverage due to ineffective and inaccurate communication by Council
	Corporate Services	12	Failure of Members to maintain standards of conduct in public life
7. Workforce Strategy	Strategic HR	1	Long term staff absence
	Strategic HR	2	Recruit & retain quality staff
8. Young, Old & Vulnerable	Strategic HR	3	Failure to acknowledge and implement legislation in relation to young and vulnerable
	Community Services	21	Failure to maintain/improve attainment levels of school pupils
9. Protection of IT systems and records - It strategy and security - Development of e procurement	Corporate Services	5	Failure of loss of IT software/data
	X X		Failure in reliable provision of core ICT infrastructure (hardware, websites, etc) Failure to develop e procurement
10. Disaster	Corporate Services	19	Failure to progress business continuity programme
	Operational Services	31	Failure of ferries/damage to ferries/collapse of ferry contractor
	Operational Services	32	Failure to maintain Roads infrastructure
11. Health and Safety	Chief Executive	25	Failure to comply with Health and safety legislation
12. Efficiency savings	Operational Services	30	Failure to meet recycling targets



Internal Audit Report

Corporate Services

Review of Business Continuity

February 2010

CONTENTS

	Page
1. BACKGROUND	1
2. AUDIT SCOPE AND OBJECTIVES	1
3. AUDIT APPROACH	2
4. SUMMARY OF MAIN FINDINGS	2
5. ACTION PLAN	2
6. CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES	3
7. ACKNOWLEDGEMENTS	3

APPENDIX 1 – DETAILED FINDINGS

APPENDIX 2 - ACTION PLAN

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Corporate Services – Business Continuity Planning as part of the 2009/2010 Internal Audit programme.
- 1.2 Internal Audit carried out a review of Business Continuity Planning (BCP) in May 2008. The purpose of this current review is to report on the updated position with BCP and the implementation of the agreed action plan contained in the May 2008 report. The recommendations in the action plan were;
- Staff involvement must be maintained from all departments to ensure corporate approach;
 - A continuous review of the BCM will have to be carried out and exercises carried out to ensure that it is still suitable.
- 1.3 A BCP scenario exercise called ‘Ocean Drive’ was conducted by Glen Abbot, BCP consultants, for the Council in March 2009. The exercise involved members of the Council’s Business Continuity and Emergency Response teams. Members of the Strategic Management Team were also involved in the exercise.
- 1.4 Direct audit days were set aside within the 2009 - 2010 Internal Audit programme for an audit of Business Continuity. Internal Audit time was therefore expended to follow up on management progress regarding implementation of the 2 agreed recommendations detailed above and to review the progress being made with BCP together with the results of the ‘Ocean Drive’ exercise.
- 1.5 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 of this review is to assess the progress made by management in implementing the 2 agreed actions outlined in the Internal Audit report of May 2008 and the rollout of BCP throughout the Council.
1. Staff involvement must be maintained from all departments to ensure corporate approach;
 2. A continuous review of the BCM will have to be carried out and exercises carried out to ensure that it is still suitable.
- 2.2 A review of the Glen Abbot report on the ‘Ocean Drive’ exercise will be carried out.

3. AUDIT APPROACH

- 3.1 The following approach was used to satisfy the objectives of the audit:
- 3.2 Business Continuity activity is being co-ordinated by the Governance & Risk Manager, a member of Corporate Services staff. Internal Audit will review what progress has been made in the implementation and monitoring of Business Continuity, including the involvement of the appropriate staff since the previous Internal Audit report of May 2008. This will be done through:
- Meeting with the Governance & Risk Manager to assess what progress has been made ;
 - A review of Strategic Management Team (SMT) papers;
 - A review of the Risk Management Group (RMG) papers; and
 - A review of the report on the 'Ocean Drive' exercise by Glen Abbot.
- 3.3 A draft report was compiled after issues identified from the review were discussed with management. The final report includes an Action Plan, which lists the actions agreed with management.

4. SUMMARY OF MAIN FINDINGS

- 4.1 The Council does not have a Business Continuity Management (BCM) Policy. An initial attempt was made at producing a Business Continuity Framework although this was not completed for adoption by the Council.
- 4.2 A draft Business Continuity plan has been produced (dated 1 October 2008). This plan will ensure that the Council responds operationally to any incident and provided reassurance that the timetable for the completion of the policy document does not create an immediate risk to the Council.
- 4.3 The report on the 'Ocean Drive' exercise by Glen Abbot, which has been submitted to SMT and the Audit Committee highlighted areas for improvement and contained an action plan.
- 4.4 Although there is a Business Continuity folder within Public Folders some of the documents contained within may require review and possible updating. The existence of this folder should be communicated to staff throughout the Council in order to make them aware of the Council's position on BCP.
- 4.5 There does not appear to be a corporate budget for BCP and departments will have to fund any expenditure that may be incurred from their existing budgets. Democratic Services and Governance recharge each department in respect of Risk Management and Business Continuity.

5. ACTION PLAN

- 5.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Head of Democratic Services & Governance.
- 5.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

6. OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 6.1 The Governance and Risk Manager has a good working knowledge of the processes involved. However, during the course of the audit, some areas were identified as requiring improvement and therefore, various recommendations have been made, these have been discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)

7. ACKNOWLEDGEMENTS

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

APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	Paragraph 4.1	High	The Council has not produced a Business Continuity Management Policy.	A Business Continuity Management Policy should be produced and submitted to SMT for approval. The Governance & Risk Manager is aware of the need to have a formal policy approved.	Governance and Risk Manager	April 2010
2	Paragraph 4.2	High	The draft Business Continuity Incident Management Plan has still to be submitted to SMT.	The Business Continuity Plan will be reviewed by the Risk Management Group at its meeting in February 2010. A report will be submitted to SMT in March 2010.	Governance and Risk Manager	March 2010
3	Paragraph 4.3	High	The report from Glen Abbot on the 'Ocean Drive' exercise highlighted areas that required to be addressed.	Recommendations in the action plan will be met through an internal training programme which be developed by December 2009 and implemented by April 2010.	Governance and Risk Manager	April 2010

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
4	Paragraph 4.4	Medium	The fact that the Council has BCP plans is not widely known by employees.	<p>The Governance & Risk Manager has reviewed the information contained within Public Folders and has replaced it with the most up to date information.</p> <p>He has also instructed a review of the Departmental Recovery Plans (DCPs) and has asked the Risk Management Group to take forward the process of arranging meetings with the staff who will be involved in the invocation of the DRPs to ensure that they are aware of their responsibilities in relation to that process.</p> <p>It is hoped that these meetings will be completed by June 2010.</p>	Governance and Risk Manager	June 2010

This page is intentionally left blank



Internal Audit Report

Community Services

Review of Purchasing

February 2010

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	2
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	3
7	Audit Opinion	3
8	Acknowledgements	3
Appendix 1	Detailed Findings	4
Appendix 2	Action Plan	7

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Purchasing within Community Services - Secondary Education as part of the 2009/2010 Internal Audit programme.

Within Secondary Education a number of different methods of acquiring goods are in operation. These include; Pecos, purchase cards, accounts with local retailers, imprest account.

PECOS is the purchasing system operated by Argyll and Bute Council and can be used to order goods at any point during the day. It is available for the whole of the Scottish Public Sector. Each public sector body that signs up to the system must perform some customisation to meet their own requirements, for example local suppliers who are out-with normal framework agreements will need to be added to the system.

Purchase Cards have only recently been introduced within Argyll and Bute Council and there are about 100 of these cards in existence throughout the authority, three quarters of these were held in schools. Internal Audit visited two schools within the authority; Oban High School and Lochgilphead Joint Campus

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- There are appropriate procedures in place for the purchase of goods and that they are operated in accordance with Argyll & Bute Council's Financial & Security Regulations.
- Orders are appropriately authorised within limits set in accordance with Argyll & Bute Council's Financial & Security Regulations.
- There is an adequate audit trail available to support the ordering, receipt, authorisation and payments of purchases made through both Pecos and purchase cards.
- There are complete, accurate and up-to-date records kept of all Pecos/purchase card users and that system access levels and authorised expenditure limits are specified.

3 RISK ASSESSMENT

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 have been 5 significant findings resulting from this report. There have been recommendations made on all these issues to further enhance controls and the operational efficiency of the service.

The main findings resulting from this audit are as follows:

- There are appropriate, robust procedures in place for the purchase of goods through the Pecos system. Internal Audit found that there have been significant time delays in the payment of purchases, largely due to the mismatching of invoices on Pecos.
- Internal audit found that there are no formal written procedures in place with regards to the appropriate and acceptable use of Purchase Cards and that there are no formal written procedures in place with regards to the processing of transactions using Purchase Cards.
- Internal Audit found that in one school purchases could be made using the Purchase cards with no formal authorisation process in place. Internal Audit found that in this school there was an inadequate audit trail available to support ordering, receipt, authorisation and payment of purchases made using the Purchase Card.
- Internal Audit found that items being purchased using the Purchase Card could include VAT, the amount being paid to Natwest is paid gross. In order to reclaim VAT Creditors must receive VAT receipts. Internal Audit found that schools are not insisting on collecting VAT receipts, resulting in income being lost through Argyll & Bute Council being unable to reclaim VAT.
- Internal Audit found that the records kept of all Pecos and Purchase Card users had not been updated. It was also found that there was no

complete records available identifying Purchase Card holder spending limits, responsibilities, authorisation and categories.

6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit, two of high priority, two of medium priority and one of low priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that there are variations in the ways secondary schools are using the purchase cards and Pecos systems.

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 Secondary Education, Creditor's Supervisor and the Area Finance Assistants 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	Internal audit found that there were no written procedures surrounding the appropriate use of the purchase cards.	High	Consideration should be given to writing a detailed set of procedures covering guidance on the appropriate and acceptable use of Purchase Cards. This should emphasise that Purchase Cards should be used only when the goods or services are unavailable through Pecos or where there is a significant price difference. The Procedures should include controls on segregation of duties with regard to who holds the purchase card and provide an adequate audit trail for Purchase Card transactions.	Head of ICT and Financial Services	Completed
3	Internal Audit found that there could be time delays between receiving goods at the front office and receipting on them on	Medium	Consideration should be given to setting up a system that when goods arrive at the school they are checked by staff as convenient	Head of Secondary Education	31 March 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	Pecos.		against the delivery note. A copy of the delivery note should be passed to the relevant Faculty. The goods should be receipted no later than close of business the day following delivery (any delays in the process should be reported to the Head Teacher).		
4	Internal Audit found that items being purchased using the Purchase Card could include VAT, the amount being paid to Natwest is paid gross. In order to reclaim VAT Creditors must receive VAT receipts. Internal Audit found that schools are not insisting on collecting VAT receipts, therefore there is a potential loss of income due to Argyll & Bute Council being unable to reclaim VAT	High	Consideration should be given to writing a detailed set of procedures covering guidance on the processing of VAT receipts to the Creditors Section.	Head of ICT and Financial Services	Completed

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
5	Internal audit found that there were variations in procedures for purchasing perishables within the Home Economics Faculty.	Medium	Consideration should be given to setting up a written set of procedures in each of the schools in Argyll & Bute for purchasing perishables for the Home Economics Faculty that provides an adequate Audit trail from ordering to invoicing.	Head of Secondary Education	31 March 2010

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank