

**Argyll and Bute Council**  
Comhairle Earra Ghaidheal agus Bhoid

Customer Services  
Executive Director: Douglas Hendry



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8 March 2013

## NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 15 MARCH 2013** at **2:00 PM**, which you are requested to attend.

Douglas Hendry  
Executive Director - Customer Services

### BUSINESS

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**  
Audit Committee 7 December 2013 (Pages 1 - 8)
4. **PERFORMANCE MANAGEMENT QUARTERLY REPORT**  
Report by Head of Improvement and Strategic HR (Pages 9 - 10)
5. **REVIEW OF PLANNING AND PERFORMANCE MANAGEMENT FRAMEWORK**  
Report by Executive Director – Development and Infrastructure Services (Pages 11 - 14)
6. **AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013**  
Report by Chief Internal Auditor (Pages 15 - 30)
7. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2012 - 2013**  
Report by Chief Internal Auditor (Pages 31 - 34)
8. **ANNUAL INTERNAL AUDIT PLAN 2013- 2014 - DRAFT**  
Report by Chief Internal Auditor (Pages 35 - 48)
9. **INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**  
Report by Chief Internal Auditor (Pages 49 - 112)

- 10. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2012 - 2013**  
Report by Chief Internal Auditor (Pages 113 - 116)
- 11. CORPORATE PERFORMANCE AUDITS 2012 - 2013**  
Report by Chief Internal Auditor (Pages 117 - 118)
- 12. RISK MANAGEMENT UPDATE**  
Report by Head of Strategic Finance (to follow)
- 13. AUDIT COMMITTEE - AWAY DAY**  
Report by Chief Internal Auditor (Pages 119 - 130)
- 14. FINANCIAL STATEMENTS 2012 - 2013**  
Report by Head of Strategic Finance (Pages 131 - 132)
- 15. EXTERNAL AUDIT PLAN 2012 - 2013**  
Report by Audit Scotland (Pages 133 - 150)

## **AUDIT COMMITTEE**

Councillor Gordon Blair  
Councillor Maurice Corry  
Councillor Iain MacDonald  
Councillor Aileen Morton

Martin Caldwell  
Sheila Hill  
Councillor Duncan MacIntyre

Contact: Fiona McCallum

Tel. No. 01546 604392

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,  
LOCHGILPHEAD  
on FRIDAY, 7 DECEMBER 2012**

**Present:** Mr Martin Caldwell (Chair)

Councillor Gordon Blair	Councillor Duncan MacIntyre
Councillor Maurice Corry	Councillor Aileen Morton

**Attending:** Patricia O'Neill, Central Governance Manager  
Bruce West, Head of Strategic Finance  
Jane Fowler, Head of Improvement and Strategic HR (for item 6 and 7)  
Jim Smith, Head of Roads and Amenity Services (for item 4)  
Ian Nisbet, Chief Internal Auditor  
David Clements, Improvement and Organisational Development Programme Manager (for item 7)  
Carolyn McAlpine, HR Officer (for item 6)  
Kate Connelly, Trainee Solicitor (for item 5)  
Fiona Mitchell-Knight, Assistant Director, Audit Scotland  
David Jamieson, Senior Audit Manager, Audit Scotland  
Russell Smith, Senior Auditor, Audit Scotland  
Neil Robb, IT Auditor, Audit Scotland

**1. APOLOGIES FOR ABSENCE**

An apology for absence was intimated from Councillor Iain MacDonald.

**2. DECLARATIONS OF INTEREST**

None declared.

The Chair ruled, and the Committee agreed, to vary the order of business and consider the report regarding Maintaining Scotland's Scotland after the Minutes.

**3. MINUTES**

The Minutes of the Audit Committee meeting held on 21 September 2012 were approved as a correct record subject to the following amendment:-

Item 6 – Review of Business Continuity Planning: Action Plan Progress

A fourth decision should have been recorded to read "With reference to paragraph 10.1.3 of the Action Plan, agreed that a report regarding staff taking ownership of Business Continuity Planning be brought back to the September 2013 meeting of the Audit Committee".

The Committee resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public for the following item of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraph 8 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

#### **4. MAINTAINING SCOTLAND'S ROADS - FOLLOW UP WORK**

Audit Scotland as part of a national exercise issued a report to the Council in August 2012 entitled "Maintaining Scotland's Roads – Follow Up Work". The report summarised the findings from their review of Roads and Amenity Services activities and contained two agreed recommendations and was presented to the Audit Committee in September 2012. At this meeting the Committee requested a report come forward to the December 2012 Audit Committee indicating progress with development of a new suite of indicators and this report was now before the Committee for consideration.

The Head of Roads and Amenity Services also responded to a number of questions from the Committee.

##### **Decision**

1. Noted the contents of the report;
2. Noted that Argyll and Bute Council benchmark their performance against Dumfries and Galloway, Aberdeenshire, Highland, Scottish Borders, Cumbria, Northumbria, North Yorkshire, Shropshire, Durham, Devon, Cornwall, Powys, Carmarthenshire and Pembrokeshire Councils;
3. Noted the Committee's interest regarding how the Council's achievements could be benchmarked against other local authorities; and
4. Noted that the Head of Roads and Amenity services will bring to the Audit Committee in September 2013 an Annual Roads Report currently being developed in line with the SCOTS project.

(Reference: Report by Head of Roads and Amenity Services, submitted)

The press and public were invited back to the meeting.

#### **5. BUSINESS CONTINUITY PLANNING - UPDATE FOR COMMUNITY SERVICES**

Consideration was given to a report advising on progress with completing the Critical Activity Recovery Plans within Community Services.

##### **Decision**

1. Noted the position in relation to progress in completing recovery plans for Community Services as detailed in Annex 1 of the report; and
2. Agreed to request Internal Audit to review a sample of the recovery plans in conjunction with Community Services to ensure that recovery plans now address the issues identified in the previous report by Internal Audit dated December 2011.

(Reference: Report by Executive Director – Customer Services dated 29 November 2012, submitted)

## **6. MANAGING ATTENDANCE 2011/2012**

At the Audit Committee on 21 September 2012 the HR team were asked to return to the meeting in December with a standard format for future reports which included trend analysis, a more detailed breakdown of stress related absence and benchmarking performance with other Scottish local authorities. Consideration was given to an updated and amended version of the report presented to the Audit Committee in September which reflects these requested changes.

### **Decision**

1. Noted the contents of the report and agreed the standard reporting format outlined in Table 1.
2. Noted the changes made to the original report presented to the Committee in September 2012 in relation to updates and corrections;
3. Noted the Maximising Attendance at Work Policy and that this will be updated to note that sickness absence management information previously reported to the Executive will now be reported to the Performance Review and Scrutiny Committee;
4. Agreed that Managing Attendance should continue to be reported to the Audit Committee on an annual basis.

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

## **7. PERFORMANCE MANAGEMENT QUARTERLY REPORT**

A report updating the Committee on the progress being made across the Council relating to the key elements of the Planning and Performance Management Framework (PPMF) was considered.

### **Decision**

Noted the progress made in relation to performance management and improvement across the Council in respect of the following:-

- The Council's Annual Report 2011-12
- Service Annual Performance Reviews 2011-12
- Service Improvement Plans 2012-13
- Service Plans 2013-14
- Performance Review and Development
- Area Scorecards

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

## **8. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE**

A report advising of recently published reports by Audit Scotland entitled "Reducing Reoffending in Scotland" and "Managing Performance: Are You Getting it Right?" along with management responses in respect of these reports

was considered.

**Decision**

1. Noted the contents of the report which will be followed up by Internal Audit; and
2. Noted the issues highlighted in relation to reporting performance information and how this information is provided externally to the public and agreed that the Executive Director – Development and Infrastructure should bring to the Audit Committee in March 2013 a report providing an update on the review of the Council's Planning and Performance Management Framework.

(Reference: Report by Chief Internal Auditor dated 13 November 2012, submitted)

**9. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2012 - 2013**

An interim progress report covering the audit work performed by Internal Audit as at 2 November 2012 was considered.

**Decision**

Approved the progress made with the Annual Audit Plan for 2012 – 2013.

(Report by Chief Internal Auditor dated 14 November 2012, submitted)

**10. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2012 - 2013**

A report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 31 October 2012 was considered.

**Decision**

Noted and approved the contents of the report.

(Reference: Report by Chief Internal Auditor dated 14 November 2012, submitted)

**11. CORPORATE PERFORMANCE AUDITS**

Audit Scotland has published a number of Best Value (BV2) Toolkits as guidance for Councils to enable them to assess their performance against defined criteria. Internal Audit undertook an analysis of the BV2 toolkits with services in order to evaluate performance and a report on this was presented to the Audit Committee in June 2012. At this meeting the Committee requested that they be kept informed of progress with an update in December 2012 and a report in March 2013 and this update was now before the Committee for consideration.

**Decision**

1. Noted the contents of the report which will be followed up by Internal Audit;

and

2. Noted that the Chief Internal Auditor will provide Councillor Morton with a copy of the report considered by the Audit Committee in June 2012.

(Reference: Report by Chief Internal Auditor dated 13 November 2012, submitted.)

## **12. NATIONAL FRAUD INITIATIVE (NFI) EXERCISE 2012 - 2013**

Audit Scotland carries out data matching under 26A of the Public Finance and Accountability (Scotland) Act 2000 which provides that Audit Scotland may carry out data matching exercises, or arrange for them to be carried out on its behalf. The Audit Commission's NFI team carries out the matching work on their behalf. A report providing the current position regarding the Accounts Committee – Audit Scotland NFI exercise for 2012/13 was considered. This report details the steps recently taken by Internal Audit and services in preparation for the NFI referral matching exercise that will commence in January 2013.

### **Decision**

Noted the contents of the report which will be followed up by Internal Audit.

(Reference: Report by Chief Internal Auditor dated 28 November 2012, submitted)

## **13. RISK MANAGEMENT UPDATE**

A report advising on developments in relation to risk management over the last few months was considered.

### **Decision**

Noted the contents of the report.

(Reference: Report by Head of Strategic Finance dated 7 December 2012, submitted)

## **14. AUDITED ACCOUNTS 2011 - 2012**

The external auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2012. Consideration was given to the audited accounts incorporating the audit certificate for 2011-2012 which had been presented to the Council on 22 November 2012.

### **Decision**

1. Noted the audited accounts and the terms of the audit certificate;
2. Noted that the Short Term Creditors figure recorded within Appendix 1 of the Head of Strategic Finance's covering report in respect of the Balance Sheet should read (3,082) and not (33,082); and

3. Noted that at page 39 of the Audited Accounts under paragraph 1.6.3 (b) Local Government Pension Scheme - the discount rate should read 4.8% and not 6.9%.

(Reference: Report by Head of Strategic Finance dated 1 November 2012 and Audited Financial Statements for the year ended 31 March 2012, submitted)

#### **15. EXTERNAL AUDIT ANNUAL REPORT 2011 - 2012**

Consideration was given to a report introducing the external auditors Annual Audit report for 2011/12 which had been presented to the Council on 22 November 2012.

##### **Decision**

The Committee -

1. noted the external audit Annual Report for 2011/12; and
2. thanked the External Auditors for the report and expressed their commitment to continue working closely with them over the coming year.

(Reference: Report by Head of Strategic Finance dated 1 November 2012 and Annual Report on the 2011/12 Audit by Audit Scotland dated October 2012, submitted)

#### **16. EXTERNAL AUDIT REPORT - ICT SERVICE REVIEW 2011 - 2012**

As part of Audit Scotland's risk based assessment carried out during the initial planning stage of Argyll and Bute Council audit, Information and Communication Technology (ICT) was identified as a priority area for review in 2011/12. A report summarising the findings of this review and identifying areas where the Council may be exposed to significant risk was considered.

##### **Decision**

1. Noted the contents of the report which will be followed up by Internal Audit; and
2. Noted that the target date in respect of Action Point 4 of the Action Plan will be amended to read "December 2013" instead of "ongoing".

(Reference: Report by Audit Scotland dated October 2012, submitted)

#### **17. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**

A report detailing final reports, summaries and action plans (where applicable) from recent audits was considered.

##### **Decision**

Noted the contents of the reports in respect of the following audits and that these



will be followed up by Internal Audit:-

- (a) LEADER Funding – Annual Certification – Development and Infrastructure Services
- (b) Review of Fleet Management – Development and Infrastructure Services
- (c) CareFirst – Community Services
- (d) Review of Uniform System – Development and Infrastructure Services
- (e) Review of the Iken Case Management System – Customer Services
- (f) Review of Lagan Customer Service Centre System – Customer Services
- (g) Review of TOREX – Leisure Management System – Community Services
- (h) Review of Spydus Library Management System – Community Services

(Reference: Report by Chief Internal Auditor dated 13 November 2012, submitted)

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

#### **18. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**

A report detailing final reports, summaries and action plans (where applicable) from recent audits was considered.

##### **Decision**

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

- (a) Cash, Income and Banking – Customer Services
- (b) Glencruitten Hostel Review – Community Services

(Reference: Report by Chief Internal Auditor dated 13 November 2012, submitted)

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ARGYLL AND BUTE COUNCIL  
CHIEF EXECUTIVE'S UNIT

AUDIT COMMITTEE  
15 MARCH 2013

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**PERFORMANCE MANAGEMENT QUARTERLY REPORT**

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**1 Introduction**

**1.1** This report updates the Audit Committee on the progress being made across the Council relating to the key elements of the Planning and Performance Management Framework (PPMF), including

- National benchmarking project
- Developing SOA 2013-17
- Additional themed scorecards (RCOP, Complaints, Procurement, Voice automated telephony, Website development, Customer service management, CARPs, Benchmarking)

**1.2** The report provides a detailed view of a range of key areas of development and continuous improvement.

**2 Recommendation**

**2.1** It is recommended that the Audit Committee notes the progress made in relation to performance management and improvement across the council.

**3 Detail**

**3.1** The **National Benchmarking Project**, sponsored by SOLACE and delivered through the Improvement Service, is an improved method of comparing like-for-like performance across Scotland's councils. For more than a decade, all Scotland's councils have been required to gather, audit and report performance information across a range of services. These Statutory Performance Indicators (SPIs) have informed the focus of external auditors and inspectors as well as providing the Press and public with league tables of top-performing and poorly-performing councils. Many of the SPIs are flawed or do not accurately reflect local service provision. This was acknowledged by the Accounts Commission during 2009 when they issued a new direction, reducing the number of defined indicators from around 70 to just 25.

The Improvement Service has been working with councils to develop a new approach which has now been approved by the Accounts Commission to replace the defined indicators (SPIs). The suite of benchmarking data will be presented to CoSLA in early March 2013, relating to performance in 2011-12. The defined indicators (SPIs) will be replaced by the benchmarking data for 2013-14 and beyond. Thereafter, all councils will be required to publish the benchmarking data instead of the defined indicators.

Representatives of Argyll and Bute Council (finance and performance) have been involved in the working groups to ensure a clear and shared understanding of the benefits and risks associated with the project.

**3.2** The **Community Plan / SOA for 2013-17** is under development. This new Plan will supersede the interim one-year Plan which had been put in place during the national review of Community Planning. The new Plan is being designed to fit with the new management and governance arrangements for Community Planning in Argyll and Bute. Development of this vital document is benefitting from broad engagement and consultation across all areas and all partners. Although necessarily focusing on the Scottish Government's key priorities, the Plan will demonstrate a clear understanding of place, addressing local issues and concerns.

**3.3 Themed Scorecards.** As Pyramid users increasingly appreciate the benefits of using a shared approach to reporting and managing performance, specialist scorecards have been created. Although this is a commonly used feature of Pyramid, the past few months have been particularly active with scorecards being developed for (a) Reshaping Care for Older People (RCOP), (b) Corporate Complaints (at Head of Service level), (c) Procurement best practice indicators, (d) Voice Automated Switchboard monitoring, (e) Website development, (f) Customer Service performance (at Head of Service level), (g) summary of Critical Activity Recovery Plans (CARPs) and (h) National Benchmarking data. These scorecards are created to the specification of managers, evidencing the continued and increasing use of performance information in managing the council.

#### **4 Conclusion**

**4.1** The Planning and Performance Management Framework continues to be the structure against which performance is planned and measured. It is reviewed annually to capture ongoing improvements across the Council.

#### **5 Implications**

<b>Policy</b>	none
<b>Financial</b>	the Council's budget is set and monitored using the processes agreed in the PPMF
<b>Personnel</b>	none
<b>Legal</b>	none
<b>Equal Opportunities</b>	none

**Jane Fowler**  
Head of Improvement & HR

For further information:  
**David Clements**  
I&OD Programme Manager

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**ARGYLL AND BUTE COUNCIL  
DEVELOPMENT & INFRASTRUCTURE**

**AUDIT COMMITTEE  
15 MARCH 2013**

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**REVIEW OF PLANNING & PERFORMANCE MANAGEMENT FRAMEWORK**

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**1 SUMMARY**

- 1.1 This report provides an update for the Audit Committee on the review of the planning and performance management framework (PPMF).

**2 RECOMMENDATION**

- 2.1 The report is for noting

**3 DETAIL**

- 3.1 At its meeting in December the Audit Committee considered a report on the national review carried out by Audit Scotland on "Managing Performance - Are You Getting it Right?" The Councils position in this is that the areas for improvement were being taken forward through the project on Productivity and Service Improvement as part of the Corporate Improvement Programme. A key element of this project is the review of the Council's PPMF. The Audit Committee asked for an update on this to its meeting in March.

- 3.2 The Corporate Improvement Plan sets out a programme of improvement actions across a range of areas for the next 5 years. There are 12 projects in total covering;

- Asset Management
- Employee & Elected Member Development
- Workforce Planning
- Information Management
- Procurement & Sourcing Strategy
- Support Service Review Phase 2
- Outcome Planning for the CPP
- Health & Social Care Implementation
- Customer Management
- Equalities
- Sustainability
- Productivity & Service Improvement

- 3.3 The project on Productivity and Service Improvement has the following objective - to identify service efficiency savings and to develop approaches, proposals and tools that could be deployed by services to deliver the necessary savings. The Productivity and Service Improvement project is

divided into 3 sub-projects:

- Development of budget savings – this element would establish and manage the process for developing future budget savings options.
- Service efficiencies using PSIF/BPR – a second round of PSIF reviews will be carried out, redesigned to focus on areas of greatest impact. BPR reviews will provide an approach and tools to help services address areas for improvement identified through PSIF, annual reviews, audit, benchmarking etc.
- PPMF/PPR – these areas will be reviewed to provide better performance information with more focus on improvement and efficiency, for both management and the public.

3.4 A Project Initiation Document (PID) for the productivity & service improvement project is in the process of being finalised. The project Sponsor is Sandy MacTaggart, Executive Director of D&I, the project SRO is Jim Robb, Head of Adult Care and the project manager is Lyndis Davidson, IOD Project Officer.

3.5 The PPMF sets out the overall framework for planning and performance reporting and management. This covers preparing of service plans, reporting of performance information during the year and annual reporting of performance against plans. The revised PPMF will bring together all aspects of performance e.g. operating information on outcome & outputs, financial information, HR info, risk management info etc. It will set out to improve the cycle between planning, in year reporting and annual reporting and the learning/improvement that comes from that. It will cover service improvement as well as service delivery and benchmarking etc.

3.6. A key element in all this is how the information related to PPMF is reported to

- Officers / Managers
- Senior Management
- Elected Members & Performance Review and Scrutiny Committee
- General Public

The revised PPMF will set out how the differing needs of each group are to be met.

3.7 The review of PPMF is an important piece of work. The interest of Audit Committee is important as the PPMF is central to providing assurance to the Audit Committee that the Council has effective arrangements in place for performance management. The review will also want to take on board the requirement of the Performance Review and Scrutiny Committee. At this point the review is at an early stage. The target date for completing the review of PPMF is now 30 June 2013.

#### **4. CONCLUSION**

- 4.1 This report provides background information on the Corporate Improvement Plan project relates to productivity and service improvement and in particular the review of PPMF.

**5. IMPLICATIONS**

Policy	- None
Legal	- None
HR	- None
Finance	- None
Equalities	- None
Customer Services	- None
Risk	- None

For further information contact Sandy Mactaggart, Executive Director of Development and Infrastructure Services 01546 604141.

Sandy Mactaggart  
Executive Director of Development and Infrastructure Services  
8 March 2013

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
15 MARCH 2013**

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**AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013**

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**1. SUMMARY**

In compliance with the CIPFA Code of Practice for Internal Audit, on a quarterly basis the Audit Committee receives Audit Scotland reports pertaining to Local Government. There are 2 reports appended for the Audit Committee. Both reports contain a checklist for a management response.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 In December 2012, Audit Scotland published a report entitled, "Health Inequalities in Scotland. " The report highlights that while overall health has improved in the past 50 years, deep-seated inequalities remain.

Major differences remain in the health and life expectancy of different groups of people in Scotland. The problem is complex and addressing it requires a range of public bodies working together effectively; it is not just the responsibility of health services.

The report assesses how well public sector bodies are working together to target resources at health inequalities and monitor their collective performance, and review health services and initiatives aimed at reducing health inequalities.

The national report comes with a checklist for completion. Individual partners of the CPP have prepared an initial response to the checklist in the report. These are being brought together to create a unified response to the report recommendations and will be reported to the June committee.

3.2 Audit Scotland published a report in January 2013 entitled "Protecting Consumers". The report looks at trading standards and food safety services provided by Scotland's 32 councils to protect the public in areas ranging from food poisoning to doorstep cons and internet fraud. People depend on these services more in tough economic times – vulnerable groups such as older people and low income families are particularly at risk.

The following points have been identified in the report:

- Argyll and Bute has the largest percentage of businesses classified as high risk under Trading Standards at 5.9%.
- Argyll and Bute is one of 2 authorities that have over 20% of businesses unrated for risk in terms of food hygiene.
- Argyll and Bute is one of 6 local authorities providing no help with civil cases unless exceptional reason.

The report makes a series of recommendations to councils and COSLA on staffing, national co-ordination, and advice and support for the public.

An audit checklist has been completed by the appropriate Head of Service responding to key report messages and is attached for review.

- 3.3 Full reports can either be viewed at [http://www.audit-scotland.gov.uk/work/local\\_national.php](http://www.audit-scotland.gov.uk/work/local_national.php) 2012/13 or viewed in the Committee Room 1 where a copy has been made available.

#### 4. **CONCLUSIONS**

This report and attachments are submitted to the Audit Committee for consideration and review.

#### 5. **IMPLICATIONS**

5.1	Policy:	None
5.2	Financial:	None
5.3	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216). 5 March 2013

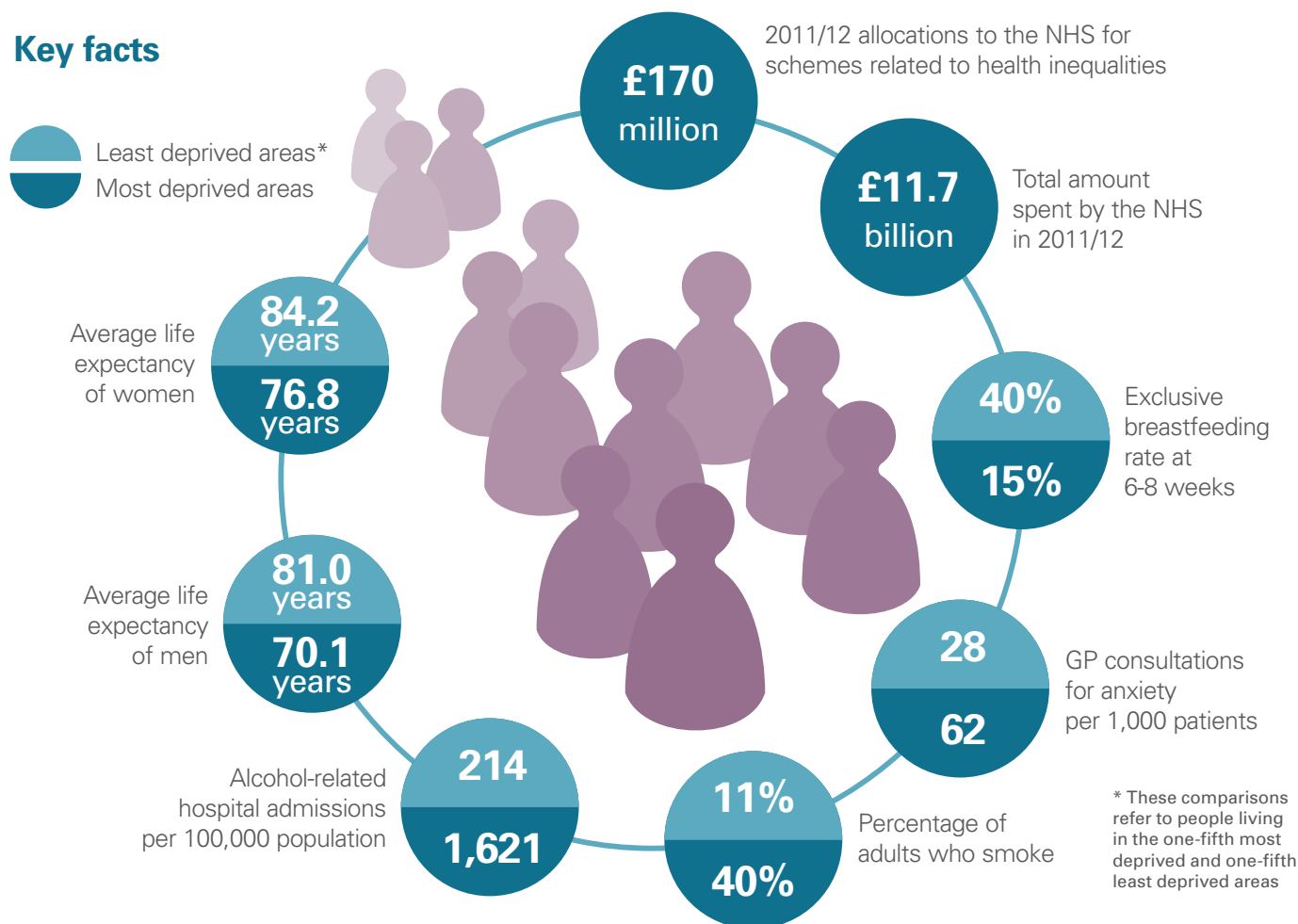
Key messages

# Health inequalities in Scotland

Prepared for the Auditor General for Scotland and the Accounts Commission  
December 2012



### Key facts



### Overall health in Scotland has improved over the last 50 years but there remain significant differences owing to deprivation and other factors

- There have been long-term increases in average life expectancy and major improvements in overall health but health inequalities remain a significant and long-standing problem in Scotland. Health inequalities are highly localised and vary widely within individual NHS board and council areas.
- Deprivation is a major factor in health inequalities, with people in more affluent areas living longer and having significantly better health. The average healthy life expectancy is around 18 years lower among people in the most deprived areas compared with those in the least deprived areas. People in more deprived areas also have higher rates of coronary heart disease, mental health problems, obesity, alcohol and drug misuse problems, diabetes and some types of cancer. Children in deprived areas have significantly worse health than those in more affluent areas.
- Reducing health inequalities has been a priority for successive governments in Scotland but most indicators show that inequalities are not reducing.

### Formulae for allocating money to NHS boards and councils take account of local needs but it is not clear how resources are targeted within local areas

- The Scottish Government takes account of local needs, including deprivation, in allocating funding to NHS boards and councils but it is not clear how NHS boards and councils allocate resources to target local areas with the greatest needs.
- It is difficult to track direct spend by the NHS and councils on addressing health inequalities. The Scottish Government allocated around £170 million to NHS boards in 2011/12 to address directly health-related issues associated with inequalities. This included around £15 million for programmes specifically aimed at reducing health inequalities by targeting particular groups within the population.
- Recent changes in quality payments to GPs mean that GP practices in deprived areas should receive additional resources to help address problems related to health inequalities.

### Better access to health services may help to improve outcomes for disadvantaged groups

- GPs have a critical role to play in helping to reduce inequalities but their distribution across Scotland

does not fully reflect the higher levels of ill health found in deprived areas. The distribution of other primary health care services, such as pharmacies and dentists, is more closely matched to need.

- People in the most deprived areas also require greater access to hospital services but they have poorer access and worse outcomes. They are also more likely to miss hospital appointments due to various factors such as a lack of access to transport.
- Policies designed to improve the health of the whole population, including cancer screening services and free eye tests, can increase inequalities due to higher uptake among people from more affluent areas.

**There is limited evidence that strategies and initiatives for reducing health inequalities have made a significant impact. Better partnership working is needed**

- National strategies which aim to improve health and reduce health inequalities have so far shown limited evidence of impact. Changes will only be clear in the long term but measures of short- and medium-term impact are important to demonstrate progress.
- Many initiatives for reducing health inequalities lack a clear focus on cost effectiveness and outcome measures. This means that assessing value for money is difficult.
- Current performance measures do not provide a clear picture of progress. Community Planning Partnerships' (CPPs') reports on delivering their Single Outcome Agreements (SOAs) are weak in the quality and range of evidence used to track progress in reducing health inequalities, and differences among SOAs means that a Scotland-wide picture is hard to identify.
- Reducing health inequalities is challenging and requires effective partnership working across a range of organisations. However, there may be a lack of shared understanding among local organisations about what is meant by 'health inequalities' and greater clarity is needed about organisations' roles and responsibilities.

**Key recommendations**

The Scottish Government should:

- introduce national indicators to specifically monitor progress in reducing health inequalities and report on progress.

The Scottish Government and NHS boards should:

- review the distribution of primary care services to ensure that needs associated with higher levels of deprivation are adequately resourced

- include measurable outcomes in the GP contract to monitor progress towards reducing health inequalities, and ensure that the Quality and Outcomes Framework is specifically designed to help reduce health inequalities.

The Scottish Government and CPPs should:

- ensure that cost effectiveness is built into evaluations of initiatives for reducing health inequalities from the start
- align and rationalise the various performance measures to provide a clear indication of progress.

CPPs should:

- ensure that all partners are clear about their respective roles, responsibilities and resources in tackling health inequalities, and take shared ownership and responsibility for actions aimed at reducing health inequalities
- build robust evaluation, using all available data and including outcome measures and associated costs, into local initiatives aimed at reducing health inequalities
- include in SOAs clear outcome measures for reducing health inequalities which demonstrate impact, and improve their performance reporting.

NHS boards should:

- monitor the use of primary care, preventative and early detection services by different groups, particularly those from more deprived areas. If this identifies systemic under-representation of particular groups, take a targeted approach to improve uptake
- monitor the use of hospital services by different groups and use this information to identify whether specific action is needed to help particular groups access services.

NHS boards and councils should:

- identify what they collectively spend on reducing health inequalities locally, and work together to ensure that resources are targeted at those with the greatest need.

**What happens now?**

The full report can be accessed on our website – [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). We will present our report to the Scottish Parliament's Public Audit Committee. The Committee can call relevant people at the Scottish Government and other public bodies to discuss the issues our audit has raised.

We will also monitor progress against our recommendations through our audit work.

Key messages

# Health inequalities in Scotland

If you would like to find out more on this topic, you can download a copy of the full report from our website or contact our report team at [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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Key messages

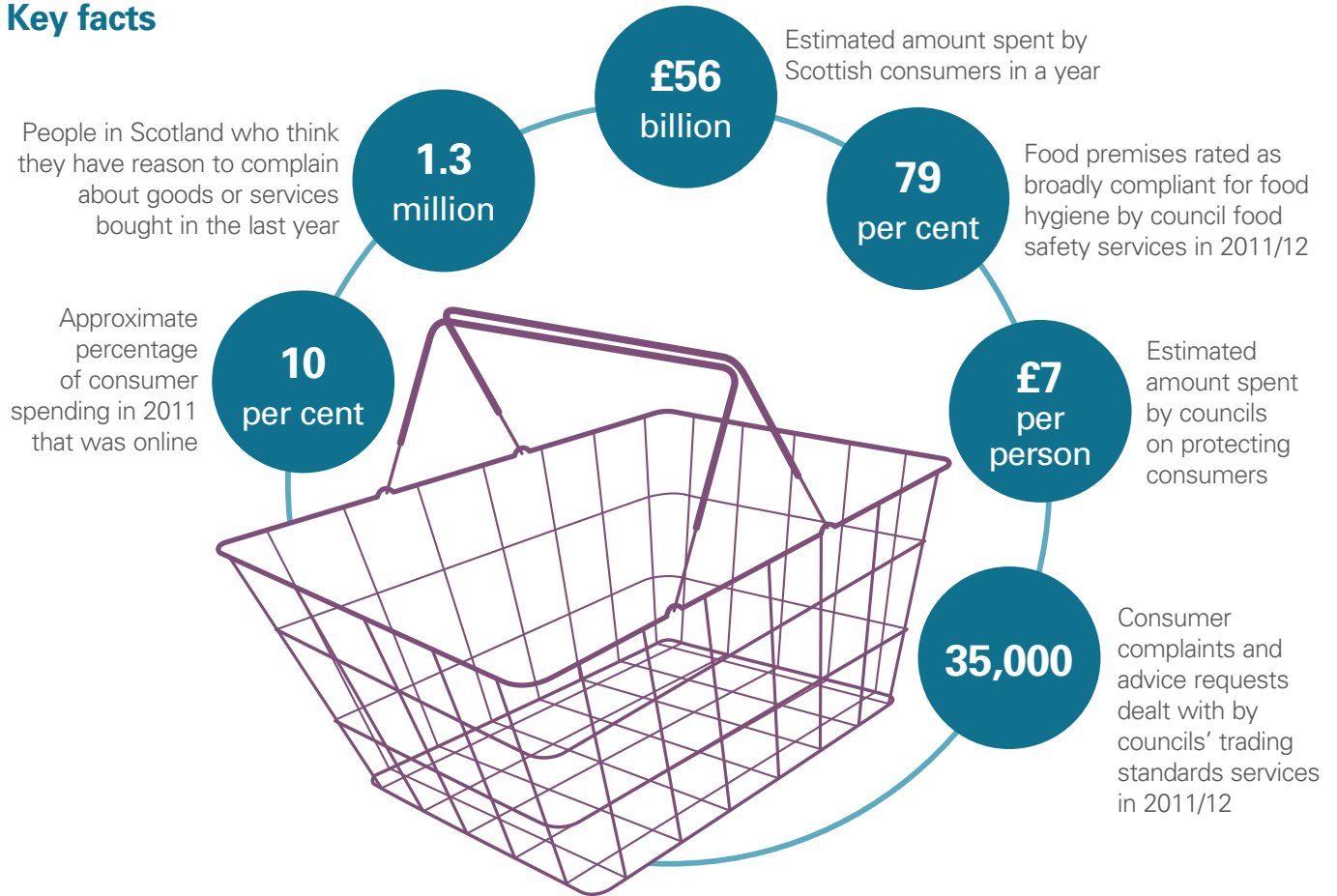
# Protecting consumers

Prepared for the Accounts Commission  
January 2013





## Key facts



### What's this report about?

We all expect what we buy to be safe and sold fairly and honestly. Councils work to protect us from unfair or unsafe trading when we buy goods and services. They do this through their trading standards and food safety services. Our report looks at the work of these services.

### Consumers can face serious risks when they buy goods and services

- Scottish councils consider the main risks facing consumers to be:
  - food contamination – which can result in serious illness or even death
  - scams – where consumers are misled into paying for goods or services that either do not meet their expectations or do not exist
  - doorstep crime – where consumers are misled or pressured into buying something by someone who calls at their door uninvited
  - Internet fraud – online shopping trebled between 2007 and 2011 but consumers may be unaware of their rights and private sellers unaware of their obligations.

- Changes in consumers' and businesses' behaviour due to the current economic climate have increased some risks as consumers seek lower prices and businesses seek to reduce their costs.

### The long-term viability of councils' trading standards services is under threat

- Councils' trading standards services are small compared to other council services, spending around £21 million a year, or less than 0.2 per cent of councils' budgets. They have a low profile among councillors and senior managers and have experienced greater than average staff reductions in the last four years (15 per cent compared to an average of ten per cent for all council staff). Staff reductions in food safety services, which spend an estimated £13 million, have been less severe but there are concerns about loss of experience and expertise, and too few trainee posts, in both services (see [paragraphs 36-37](#) in the main report).
- Trading standards services with eight staff or fewer have insufficient flexibility to deliver a full range of services. Nearly half (15 of 32) of councils now have eight or fewer trading standards staff, compared with ten in 2002. Urgent action is needed to strengthen protection for consumers (see [paragraphs 38-40](#) and [paragraph 48](#) in the main report).



### Councils are targeting their resources at the highest risk areas and reducing work on the lowest risks

- Inspections and other work with the highest risk businesses have been maintained, while enforcement activity with lower risk businesses has been reduced (see [paragraphs 50-52](#) in the main report).
- Targeting resources at high-risk businesses relies on good intelligence. But councils' trading standards services do not assess risks on a consistent basis, and a reduction in consumer advice and support means that, in some areas, councils have weakened their ability to gather local intelligence about risks to consumers (see [paragraphs 58-59](#) in the main report).
- The reduction in consumer advice and support means that some consumers may not get the help they need when things go wrong. Nearly a quarter of the Scottish population now live in areas where they will not necessarily receive support for civil matters from councils' trading standards services. In addition, many consumers are not aware of where to seek help, and for some types of problem, over a third do not know who to contact (see [paragraphs 61-71](#) in the main report).

### Trading standards services lack national standards and priorities and have no national system of performance reporting

- The Food Standards Agency in Scotland has supported the development of national standards and priorities and a reporting framework for councils' food safety services. It also audits and publishes information on councils' performance (see [paragraphs 15-16 and 75-79](#) in the main report).
- In contrast, there is no longer a national system of performance reporting for trading standards services and individual councils have adopted their own approaches. This lack of consistency makes it difficult for councils to benchmark their performance and demonstrate that services are being delivered efficiently and effectively. The absence of national standards and priorities results in variations in how different councils regulate businesses (see [paragraphs 17-21 and 80-83](#) in the main report).
- Current changes to the organisation of trading standards services at the UK level present the Convention of Scottish Local Authorities and councils with an opportunity to ensure strong national coordination in Scotland and improve these services by organising them more effectively (see [paragraphs 22-25](#) in the main report).

### Key recommendations

The Convention of Scottish Local Authorities and councils should:

- work together to ensure strong national coordination for trading standards in Scotland that includes:
  - maintaining effective links with UK-wide arrangements
  - analysing intelligence to identify national risks
  - agreeing national priorities
  - developing national service standards
  - establishing a system for scrutinising and publicly reporting councils' performance against these standards
- in developing arrangements for national coordination, explore a full range of options for redesigning trading standards services, including:
  - greater use of more formal joint working
  - creating fully shared services
  - establishing a national service
- liaise with the Scottish Government on the future of trading standards services where this involves organisational or service issues for which it has responsibility
- develop workforce strategies, which identify the staffing levels and skills required to sustain effective consumer protection services over the next 5–10 years
- work with Citizens Advice Scotland and others to increase awareness and understanding among consumers of where they can get advice and help.

### What happens now?

The full report can be accessed on our website – [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). The Accounts Commission is keen to see the issues raised in this audit further discussed by the general public and a wide range of public bodies and interested parties.

We will also monitor progress against our recommendations through our audit work.

## Key messages

# Protecting consumers

If you would like to find out more on this topic, you can download a copy of the full report from our website or contact our report team at [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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**AUDIT SCOTLAND NATIONAL REPORTS – PROTECTING CONSUMERS**

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementati on	Lead Officer
Does the Council work with the FSA in Scotland and, in future, the new Scottish food safety organisation to develop a workforce strategy, which identifies the staffing levels and skills required to sustain an effective food safety service over the next 5–10 years, and take action to address any shortfalls identified	Yes	<p>We have good relationships with the FSA and the Food Framework provides a standard for local authority food safety services. Our statutory food safety service plan is approved by Committee, and we are subject to audits by the FSA. We have on-going staff training and support to retain and improve competency.</p> <p><b>Actions:</b></p> <ol style="list-style-type: none"> <li><b>1. Review staffing levels and workforce planning within environmental health and prepare report for further consideration</b></li> <li><b>2. Identify clear priorities for service based on outcome of point 1 above into 14/15 service plan</b></li> </ol>	<p>31/10/13</p> <p>30/03/14</p>	Alan Morrison
Does the Council ensure they have access to, and make use of, intelligence to help determine their local priorities, and contribute intelligence to information systems that support the work of other Scottish and UK councils, and the national teams		<p>These are available through existing liaison arrangements direct with agencies (FSA, OFT etc.); liaison groups with other LA's, lack information and use of IT system to share information and intelligence, including MEMEX which we implemented in December 2012. We also attend meetings hosted by national Scottish Scambusters with input from IMLU &amp; IT teams.</p> <p><b>Actions</b> <b>None</b></p>		
Has the Council developed a new risk assessment scheme for trading standards that is sensitive to local intelligence about businesses		<p>We have a scheme of risk assessment although the report indicates that there is a high percentage of high risk premises in Argyll and Bute (5.9%) compared to other local authorities (Fife 0.5%, Highland 2%)</p> <p><b>Actions</b></p> <ul style="list-style-type: none"> <li><b>• We are in the process of preparing to implement a new national risk assessment scheme</b></li> </ul>	30 <sup>th</sup> October 2013	Alan Morrison

Key Point/Checklist/Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
		<p><b>which will update all risk assessments.</b></p> <ul style="list-style-type: none"> <li>• <b>As part of this implementation, it is intended to review whether all premises are coded correctly with respect to both the national score and the local score. Guidance will be provided to enforcement staff to ensure that local scores are applied consistently.</b></li> </ul>		
<p>Has the Council developed a clear direction for the future of their consumer protection services and satisfy themselves that they are allocating resources where they are most effective and in a way that appropriately reflects the risks, national and local priorities and the needs of local communities</p>		<p>Through the service review, we redesigned service delivery including that of consumer protection. Civil advice is issued by national agencies and not the Council and we have measures to ensure the public have access to these. This includes agreements with Citizens Advice Consumers Scotland and financial support to Argyll and Bute Citizens Advice Bureau,</p> <p>There is also improved information and links on our website and the Customer Management Centre are able to direct any consumer to appropriate advice services. Our trading standards service plan defines the consumer protection priorities for the year focussing on national and local priorities.</p> <p>Argyll and Bute Council are specifically mentioned in the Audit Scotland report as one of only 6 councils that do not take referrals from Citizens Advice Consumer Scotland, although second stage advice offered by the other local authorities is a non-statutory function and one which we ceased some time ago.</p> <p><b>Actions</b>  <b>We are to undertake a review of the local and national civil advice arrangements in Argyll and Bute to determine whether they meet the needs</b></p>	31/12/13	Alan Morrison

Key Point/Checklist/Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
		<b>of the consumer and are effective</b>		
Does the Council ensure their work on lower risk areas is sufficient to prevent them becoming more serious risks		<p>We have initiated an alternative enforcement strategy which seeks to achieve this.</p> <p><b>Actions</b>            To further develop alternative enforcement            To review the resource implications and success of the low risk intervention activities</p>		
Does the Council ensure they monitor and manage the performance of all their consumer protection services using appropriate measures of performance that enable benchmarking, and report performance regularly to councillors, senior management and the public.		<p>Performance measures are in place and we are working with APSE to develop a suite of performance measures in Scotland for trading standards and environmental health.</p> <p>Currently, performance is reported via the Councils Pyramid system and service plans detail future priorities and also report on performance. Our Balanced Scorecard also reports on performance and is available through our website</p> <p><b>Action</b>  <b>To participate in the pilot with APSE and other local authorities to develop better performance measures and benchmarking arrangements</b></p>	31/12/13	Alan Morrison
<p>Does the Council work with COSLA to ensure strong national coordination for trading standards in Scotland that includes:</p> <ul style="list-style-type: none"> <li>• maintaining effective links with UK-wide arrangements</li> <li>• analysing intelligence to identify national risks</li> <li>• agreeing national priorities</li> <li>• developing national service standards and keeping these under review</li> <li>• establishing a system for scrutinising and publicly reporting councils'</li> <li>• performance against these standards</li> </ul>		<p>This occurs at various level</p> <p>Elected Members via Consumer and Wellbeing Group/COSLA Leaders etc</p> <p>Officer level via</p> <ol style="list-style-type: none"> <li>1. work of SCOTTS and direct liaison with LA's and COSLA</li> <li>2. Working Groups</li> <li>3. Liaison with Scambusters, SIMLU and the IT fraud team</li> <li>4. Use of Memex &amp; TS Interlink to provide information</li> <li>5. Work with UK agencies (like NMO, OFT etc) on</li> </ol>		

Key Point/Checklist/Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
<p>Does the Council work with COSLA in developing arrangements for national coordination, explore a full range of options for redesigning trading standards services, including:</p> <ul style="list-style-type: none"> <li>• greater use of more formal joint working</li> <li>• creating fully shared services</li> <li>• establishing a national service</li> </ul>		<p style="text-align: center;">national projects</p> <p>Yes through work of SCOTSS. A recent example are the new arrangement for the delivery of consumer protection in Scotland and the provision of specialist units for money lending, Scambusters and IT fraud</p> <p>Actions Continue to support current liaison arrangements</p>	31/3/13	Alan Morrison
<p>Do the Council and COSLA liaise with the Scottish Government on the future of trading standards services where this involves organisational or service issues for which it has responsibility</p>		<p>Via COSLA Working Groups, SCOTSS and specific consultations</p>		
<p>Does the Council work with COSLA to develop a workforce strategy, which identifies the staffing levels and skills required to sustain an effective trading standards service over the next 5–10 years, and take action to address any shortfalls identified</p>		<p>Work has been through SCOTSS to date and has included funding arrangements of single-issue initiatives (e.g. tobacco enforcement) or the new consumer landscape.</p> <p>Actions Need to take forward recommendations of Protecting Consumers report with COSLA and others</p>	30/06/13	Alan Morrison
<p>Does the Council work with COSLA to ensure that councillors are fully informed and supported to make decisions about the future of services to protect consumers</p>		<p>Elected representatives attend various COSLA Working Groups Briefings provided by Trading Standards Manager/ Regulatory Services Manager on any relevant matters</p>		
<p>Does the Council ensure they monitor and manage the performance of all their consumer protection services using appropriate measures of performance that enable benchmarking, and report</p>		<p>These are in place and there is quarterly performance reporting. There is a trading standards plan although at present this does not go to Committee. Regular briefings are taking place with Lead</p>	31/03/14	Alan Morrison

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementati on	Lead Officer
performance regularly to councillors, senior management and the public		Councillor on emerging issues and the national agendas.  Actions Need to increase level of awareness of trading standards in Council. Service plan to PPSL Committee etc. (outcome of projects etc.)		
Do the Council and COSLA work with the Citizens Advice Service and others to increase awareness and understanding among consumers of where they can get advice and help when buying goods or services, particularly when things go wrong.		We have a written agreement with Citizens Advice Scotland and we refer consumer enquiries to their national advice line. We also support the local Argyll and Bute CAB  <b>Actions</b> <b>Agree new contract with ABCAB</b> <b>Reinstate reporting and liaison arrangements</b> <b>Consider funding options for 14-15.</b>	30/06/13	Alan Morrison
Does the Council work with COSLA to establish an effective system for analysing intelligence and agreeing national priorities for their work to protect consumers		COSLA role is minimal at present although with the demise of DTI, COSLA will need to be more involved		
Does the Council work with COSLA to review 'trusted trader' schemes and consider the need for a shared national approach or standards.		We are presently considering options for the provision of a trusted trader type scheme. However, I am not aware of any plans from COSLA to operate a national scheme of this type.  <b>Actions</b> <b>identify options for trusted trader scheme in Argyll and Bute Council</b>	31/09/13	Alan Morrison

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**PROGRESS REPORT ON INTERNAL AUDIT PLAN 2012 - 2013**

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**1. SUMMARY**

An interim progress report has been prepared covering the audit work performed by Internal Audit as at 8 February 2013. 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 2012 - 2013.

**3. BACKGROUND**

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2012 –2013, 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 a Draft Report.

3.3 Out of 21 audits listed under Financial Control only 5 remain to be completed. Of a planned 295 direct audit days 234 have been expended. This provides 61 direct audit days for the remaining 5 audits currently underway.

3.4 All Business Systems audits are complete.

3.5 As requested by the Audit Committee an update report has been provided for review which has been reported separately. The report provides an overview of management progress in implementing the recommendations set out in the June 2012 audit report entitled Corporate Performance Audits. Audit days have been included within the Draft Annual Audit Plan for 2013 – 2014 so that implementation progress can be reviewed and reported to the Audit Committee. The direct audit day allocation for this section of the plan was 165, as at 8 February 2013 a total of 114 days have been expended.

3.6 As at 8 February 2013, 123 days have been expended on audit work. A total of 155 days were set aside in the audit plan for Corporate/Departmental Service Plan audit work. The total has been reduced to 145 days with 10 days transferred to Special Investigations/Contingency. This section of the audit plan is near to completion.

- 3.7 In December 2012 it was reported to the Audit Committee that the number of direct days allocated to Special Investigations had risen from 50 to 65. A further 10 days have now been added making a total of 75 days. This has been done to cover additional work requests. As at 8 February 2013 a total of 74 days have been expended.
- 3.8 A total of 119 direct audit days were set out in the annual internal audit plan for Other Areas. As at 8 February 2013, a total of 102 days have been expended to date as outlined in Appendix 1.

#### **4. SUMMARY OF AUDIT ACTIVITIES FOR 2012 - 2013**

- 4.1 Appendix 1, shows that a total of 757 direct audit days have been expended as at 8 February 2013. As noted above the annual Internal Audit Plan 2012 – 2013 is nearing completion. The direct audit days expended to date is in line with that of the same period in 2011- 2012.

#### **5. CONCLUSION**

Progress has been made with the audit plan for 2012 – 2013 and is now near completion.

#### **6. IMPLICATIONS**

- |     |                      |  |
|-----|----------------------|--|
| 6.1 | Policy:              | Update on audit plan for 2012 – 2013.          |
| 6.2 | Financial:           | The audit plan is based on budgeted provision. |
| 6.3 | Personnel:           | None   |
| 6.4 | Legal:               | None   |
| 6.5 | Equal Opportunities: | None   |
| 6.6 | Risk                 | None   |
| 6.7 | Customer Services    | None   |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216) 20 February 2013.

## Assessment of audit days: 2012-2013 strategic plan

AUDIT WORK SCHEDULE AS AT 8 FEBRUARY 2012		Last audited	Risk ranking	Original Estimated Audit Days 2012-13	Revised Estimated Audit Days 2012-13	Actual Audit Days 2012-13	Balance
<b>FINANCIAL CONTROL AUDITS</b>							
<b>Complete</b>							
Stock and Work in Progress	2010	3	10	10	10	0	0
Treasury Management	2012	3	10	10	8	2	2
General ledger operations	2012	3	10	10	10	0	0
Unified Benefit System	2010	2	15	15	13	2	2
Government & European Grants	2010	1	20	30	29	1	1
Procurement	2010	2	15	15	14	1	1
eProcurement	2010	3	10	10	10	0	0
Council Tax	2010	1	20	20	20	0	0
Cash & Income Banking	2010	2	15	15	12	3	3
Non Domestic Rates	2010	2	15	15	13	2	2
Debtor Accounts	2010	2	15	15	13	2	2
Tendering Procedures	2011	2	15	15	15	0	0
Creditor Payments	2010	3	10	10	10	0	0
Capital Contracts	2011	2	15	15	15	0	0
Capital Accounting	2010	2	15	15	15	0	0
Contract Operating Leases	2012	3	10	10	7	3	3
<b>Started</b>							
Resource Link	2011	2	15	15	4	11	11
Electronic Timesheets	2010	4	5	5	2	3	3
Payroll	2011	2	15	15	5	10	10
Car Allowances & Subsistence	2011	3	10	10	1	9	9
Budgetary Preparation and Control	2011	1	20	20	6	14	14
<b>Section Total</b>			<b>285</b>	<b>295</b>	<b>234</b>	<b>61</b>	<b>61</b>
<b>BUSINESS SYSTEMS AUDITS</b>							
<b>Complete</b>							
Planning/Building Standards	2010	2	15	15	15	0	0
Environmental Health	2011	3	10	10	10	0	0
Customer Service Centre	2010	3	10	10	10	0	0
Leisure Management System	2010	3	10	10	10	0	0
IKEN Case Management	2010	4	5	5	5	0	0
Library Management System	2011	4	5	5	5	0	0
Licensing	-	4	5	5	5	0	0
Fleet Management	2010	3	10	10	10	0	0
Care First	2010	2	15	15	15	0	0
Comino	2011	3	10	10	10	0	0
Roads Costing System	2010	3	10	10	10	0	0
<b>Started</b>							
Pyramid Performance Management	2011	4	5	5	5	0	0
<b>Section Total</b>			<b>110</b>	<b>110</b>	<b>110</b>	<b>0</b>	<b>0</b>

<b>CORPORATE PERFORMANCE AUDITS</b>						
<b>Complete</b>						
Statutory Performance Indicators	2011	2	15	15	22	-7
<b>Started</b>						
Asset Management Partnerships	2011	1	20	20	10	10
Procurement	2010	1	20	20	10	10
Information Management	2011	2	15	15	8	7
Governance and Accountability	2010	2	15	15	8	7
Financial Management	2010	2	15	15	8	7
People Management	2010	3	10	10	8	2
Risk Management	2010	3	10	10	6	4
Sustainability	2010	3	10	10	6	4
Equality	2010	4	5	5	4	1
Performance Management	2010	4	5	5	4	1
Efficiency	2010	4	5	5	4	1
Public Performance Reporting	2011	4	5	5	4	1
Partnerships	2012	4	5	5	4	1
Community & Customer Engagement	2011	4	5	5	4	1
Customer Focus	2011	4	5	5	4	1
<b>Section Total</b>			<b>165</b>	<b>165</b>	<b>114</b>	<b>51</b>
<b>CORPORATE/SERVICE PLANS</b>						
<b>Complete</b>						
Customer Services - Corporate Governance	2011	1	15	15	13	2
Community Services - Payroll	2011	1	20	20	19	1
Community Services - Cash & Income Banking	2011	1	20	20	20	0
Chief Executive's Unit - Procurement	2010	1	10	10	7	3
Development & Infrastructure Services - Piers & Harbours	2011	1	35	35	28	7
<b>Started</b>						
Corporate	2011	1	80	45	36	9
<b>Section Total</b>			<b>180</b>	<b>145</b>	<b>123</b>	<b>22</b>
<b>Actual Direct Audit Time</b>						
			<b>740</b>	<b>715</b>	<b>581</b>	<b>134</b>
<b>Special investigations contingency</b>						
Chief Executive's Unit			50	75	58	1
Community Services					16	
<b>Section Total</b>			<b>50</b>	<b>75</b>	<b>74</b>	<b>1</b>
<b>Other Areas</b>						
Inverclyde Charity & Trust Accounts	2011		0	10	8	2
Follow-up External & Internal Audit Management Letter Points	2010		80	70	56	14
NFI	2010		39	39	38	1
<b>Section Total</b>			<b>119</b>	<b>119</b>	<b>102</b>	<b>17</b>
<b>TOTAL</b>						
			<b>909</b>	<b>909</b>	<b>757</b>	<b>152</b>

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
15 MARCH 2013**

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**ANNUAL INTERNAL AUDIT PLAN 2013/14 - DRAFT**

---

**1. SUMMARY**

This report introduces the draft Annual Audit Plan for 2013/14.

**2. RECOMMENDATIONS**

2.1 The draft Annual Audit Plan is approved.

**3. DETAILS**

3.1 The draft Annual Audit Plan in Appendix 1, outlines the audits and direct audit day apportionment for the financial year 2013/14.

3.2 The audits set out in the audit plan have been prepared from an internal audit database that gathers data from both external and internal sources and analysis it under 4 main areas: financial materiality, risk, controls effectiveness and performance management.

3.3 The database allows the audit plan to be prepared recognising the challenges facing the Council within an analytical structure. The collected data for the audit plan after initial analysis were then assigned to one of 4 audit areas: Financial Control Audits, Business Systems, Corporate/Departmental audits. The report also has a final section entitled Contingency. This covers direct audit days for special investigations, agreed recommendation follow up and National Fraud Initiative (NFI) audit work.

3.4 Prior to Departmental Management Teams (DMTs) all Heads of Service received the database output for their responsibility areas, and risk ranked totals. Having received feedback from Heads of Service a draft audit plan was prepared and presented for review and comment to each DMT. Following these meetings the draft report went to the Strategic Management Team (SMT) on 4 March 2013, for their consideration and approval. External audit have also been provided a copy for their review

**4. CONCLUSION**

Internal Audit in preparing the audit plan, undertook an exercise to determine the audits that will enable Internal Audit over the next financial year to provide an assurance statement on the Council's overall internal control framework. The annual audit plan will be progressed by Internal Audit.

**5. IMPLICATIONS**

5.1 Policy: None

5.2 Financial: None

5.3 Personnel: None

5.4 Legal: None

5.5 Equal Opportunities: None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216)

4 March 2013



**INTERNAL AUDIT  
DRAFT  
ANNUAL AUDIT PLAN  
2013 - 2014  
4 March 2013**

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## **1. ANNUAL AUDIT PLAN 2013 – 2014**

In accordance with CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, known as (the Code) and recommended Internal Audit practice, the draft Internal Audit plan for 2013 – 2014 covers risk, governance, and control effectiveness plus performance management.

As well as being compliant with the Code, the annual audit plan takes account of the Internal Audit Mission Statement and Terms of Reference both of which have previously been approved by the Audit Committee.

## **2. INTERNAL AUDIT RESPONSIBILITIES**

In preparing the draft annual audit plan Internal Audit has taken consideration of its responsibilities which are as follows:

### **Section 95 Officer/Head of Strategic Finance**

Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer. Internal Audit report on the effectiveness of the system of internal control operated within the Council.

### **Chief Executive**

Internal Audit has a dotted line responsibility to the Chief Executive, and monthly meetings are held to discuss the progress of the annual audit plan, reports issued and any areas of concern.

### **Audit Chairman**

Internal Audit has a dotted line responsibility to the Audit Chairman; discussions are held on a regular basis covering progress of the annual audit plan.

### **Audit Committee**

The Audit Committee's remit includes agreeing Internal Audit plans and ensuring Internal Audit work is properly planned with due regard to risk, materiality and coverage for the year 2013 – 2014. It is the responsibility of Internal Audit to report on the progress of the annual audit plan, provide extract summary audit reports and action plans from finalised audits. At the culmination of each year's audit work an annual report is prepared by Internal Audit and presented to the Audit Committee along with an annual Governance Statement.

Internal Audit reports to the Audit Committee on progress implementation by management of recommendations. This is done through the internal audit database matched with evidence gathering. In addition to quarterly reporting to the Audit Committee monthly reporting is undertaken for Departmental Management Teams (DMTs) and the Strategic Management Team (SMT).

### **External Audit**

Internal Audit has a responsibility to co-ordinate its activities with external audit. The relationship operated by Internal Audit with Audit Scotland, is one of joint working.

Regular informal consultations are held to co-ordinate work and where appropriate develop a joint audit methodology and strategy.

### 3. DIRECT AUDIT DAYS 2013 - 2014

#### AUDIT PLAN ANALYSIS AND PROCESS

The Code requires that Internal Audit not only audit financial systems controls but also other systems of management control used to ensure the Council's corporate objectives and core values are being addressed. The draft audit plan has therefore been prepared reflecting the current environment in which the Council operates and includes the wider considerations of risk as required by the Code.

The database used to develop the Annual Audit Plan identifies and ranks issues using 4 broad headings:

- Materiality – is an assessment of financial data;
- Risk – covers operational and strategic risk registers, the risk associated with a particular activity or reputational risk exposure;
- Control Effectiveness – is an assessment of External and Internal Audit report agreed recommendations, corporate governance and other external and internal inspection reports which reflect current control levels over inherent risk; and
- Performance Management – is an assessment of corporate and service plans plus improvement plans.

The development of the database follows the ethos of the Council's External Auditors who have adopted a Priorities and Risk Framework approach for the External Audit of local authorities. This methodology has been adopted to enable auditors to "...identify risks which are unique to individual councils" and "...gain a better understanding of the business priorities and risks facing the organisations they audit"

The output from the database was provided to Heads of Service for their review and discussion. The draft plan was then prepared and discussed with the Executive Director and Heads of Service at Departmental Management Team meetings. Thereafter the annual plan was presented to the Strategic Management Team. This process has allowed the draft plan to be fully discussed and agreed prior to its presentation to the Audit Committee.

Each of the 4 headings used in the database has a maximum weighted total of 30 and a cumulative total of 120 which when divided by 1.2 provide a final percentage figure. All scores from this exercise are set out under the following audit groups:

- Financial and Control Audits ;
- Computing Systems Audits; and
- Corporate/Service Plan Audits.

The 3 groups list audit topic final scores and are ranked highest to lowest with their 'total risk ranking' score. Highest risk totals over 30 are allocated a ranking of 1 and provided a total of 20 direct audit days. Risk totals less than 30 but above 20 receive a risk ranking of 2 with an allocation of 15 direct audit days,

Table 3.1 sets out the audit topic, ranking from the database exercise, the date last audited and direct day allocation for 2013 – 2014.

**Table 3.1 – Financial & Control Audits 2013 – 2014**

<b>FINANCIAL CONTROL AUDITS</b>	<b>Ranking</b>	<b>Last audited</b>	<b>2013-14 Audit Days</b>
Procurement	1	2012/13	20
Budgetary Preparation and Control	1	2012/13	20
Government & European Grants	1	2012/13	20
Cash & Income Banking	1	2012/13	20
Tendering Procedures	1	2012/13	20
Treasury Management	1	2012/13	20
Capital Contracts	1	2012/13	20
ResourceLink/Payroll	1	2012/13	20
Council Tax	1	2012/13	15
Non Domestic Rates	2	2012/13	15
Debtor Accounts	2	2012/13	15
Universal Credit	2	2012/13	15
Capital Accounting	2	2012/13	15
Contract Operating Leases	2	2012/13	15
Creditors	2	2012/13	15
General ledger operations	2	2012/13	15
Car Allowances & Subsistence	2	2012/13	15
Stock and Work in Progress	2	2012/13	15
<b>Total</b>			<b>310</b>

Table 3.2 provides the direct day allocation for Computing Systems Audits and in Table 3.3 direct audit days for Corporate/Service Plan Audits have been provided by totalling the risk totals for each service by department then audit days allocated. Both of these tables' audits were discussed and agreed with management at DMTs and presented to SMT.

**Table 3.2 – Business Systems Audits 2013 – 2014**

<b>BUSINESS SYSTEMS</b>	<b>Risk Ranking</b>	<b>Last audited</b>	<b>2013 –2014</b>
IT Strategy	1	-	20
Data Protection	1	2010	20
Pyramid Performance Management	1	2012	20
Care First	1	2012	20
Leisure Management System	1	2012	20
Roads Costing System	1	2012	20
Uniform System	1	2012	20
Fleet Management	2	2012	15
Customer Service Centre	2	2012	15
<b>Total</b>			<b>170</b>

**Table 3.3 – Corporate & Departmental Audits 2013 – 2014**

<b>CORPORATE &amp; DEPARTMENT AUDITS</b>	<b>Risk ranking</b>	<b>Last Audited</b>	<b>2013 - 2014</b>
<b>Corporate</b>	1	2012	55
<b>Community Services</b>	-	-	-
Outwith Authority Placements	1	2012	25
Health & Safety (Leisure)	1	2012	15
Allocating ASN Assistants Process	1	2012	10
<b>Development &amp; Infrastructure</b>	-	-	-
Section 75 Planning Obligations	1	2012	15
Marine Services	1	2012	15
Parking	1	2012	10
<b>Customer Services</b>	-	-	-
Business Continuity	1	2012	15
Corporate Governance Statement	1	2012	15
School Meals	1	2012	10
<b>Chief Executives Unit</b>	1	2012	-
Print and Design	1	2012	20
Community Engagement	1	2012	10
<b>Total</b>			<b>215</b>

#### 4. CONTINGENCY DAYS 2013 - 2014

Audit days have been included within the annual audit plan for contingency as set out in Table 4.1 below. There are 3 areas included in this section of audit activity they are:

##### Special Investigations

An estimate of direct audit days is made to cover 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 that cannot be accommodated within planned audits.

##### Recommendation Implementation Progress

Internal Audit reports on a monthly basis to both the Departmental Management Teams (DMTs) and Strategic Management Team (SMT) and on a quarterly basis to the Audit Committee, detailing management progress in implementing agreed audit report recommendations. In 2013 – 2014 as last year 80 days have been estimated in the plan.

##### National Fraud Initiative (NFI)

This is a statutory requirement and an annual exercise. Good progress was achieved in 2012 – 2013 and in order to maintain this, 40 days have been estimated for this activity.

**Table 4.1 – Contingency Direct Audit Days 2013 – 2014**

Audit Contingency	2013 - 2014
Special Investigations	100
Recommendation follow up	80
National Fraud Initiative (NFI)	40
<b>Total</b>	<b>220</b>

#### 5. NON DIRECT AUDIT DAYS 2013 – 2014

##### Overview

Tables 5.1 and 5.2 set out the resources and number of days available for 2013 - 2014. There are 3 elements to the tables:

- Total working days available;
- Non-direct audit days; and
- Direct audit days.

In arriving at the number of working days available for 2013 – 2014, deductions for annual leave and a potential sickness provision have been made, providing a total of 1,080 working days for direct and non-direct audit work.

The non-direct audit day allocation covers tasks such as management; provision of advice and information and continuing professional development (CPD). In addition, internal audit in 2013 – 2014 will commence a 3 year partnership contract with Grant Thornton and CIPFA. This will provide the Council with high level support on development of the internal audit function. This includes advice and support in relation to Internal Audit strategy, compliance with the CIPFA Code of Practice, performance review and improvement, quality and standards, and use of evaluation tools and techniques. The plan therefore includes an estimate of days that will be required for partner discussion and training of 50 days as set out in Table 5.1.

**Table 5.1 – Audit Resource Day Calculation 2013 – 2014**

		Chief Internal Auditor	Accountant	Accountant	Senior Audit Assistant	Senior Audit Assistant	Total
<b>Number of Days in full year</b>		261	261	261	261	261	<b>1,305</b>
Less:	Public Holidays	8	8	8	8	8	40
	Annual Leave	32	32	32	32	32	160
	Sickness Provision	5	5	5	5	5	25
<b>Days Available</b>		216	216	216	216	216	<b>1,080</b>
<b>Less Non-Direct Audit Days</b>							
	IA Management	40	-	-	-	-	40
	Planning and Reporting	40	-	-	-	-	40
	Training, Development &	10	10	10	10	10	50
	Audit Internal Meetings	11	6	6	6	6	35
<b>Total</b>		101	16	16	16	16	<b>165</b>
<b>Total Direct Audit Days</b>		<b>115</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>915</b>

Table 5.2 provides the overall allocation of days for 2013 - 2014. The total number of days allocated to direct audits for 2013 - 2014 is 915 which represent 85% of total working days available 1,080. This is compliant with the Code.

**Table 5.2 – Total Audit Day Allocation 2013 - 2014**

<b>ALLOCATION OF AUDIT DAYS</b>	<b>2013 - 2014</b>
Financial Audits	310
Business Systems	170
Corporate/Departmental Audits	215
Contingency	220
Sub Total	<b>915</b>
Non Direct Audit Days	165
<b>TOTAL AVAILABLE DAYS</b>	<b>1,080</b>

## **6. COUNCIL CORPORATE PLAN OBJECTIVES**

The Council's Corporate Plan 2009-2012 lays out four Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:-

1. Working together to improve the potential of our people;
2. Working together to improve the potential of our communities;
3. Working together to improve the potential of our area;
4. Working together to improve the potential of our organisation.

The Chief Executive's Service provides a range of functions for internal and front-line customers alike. These functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all four.

## **7. EQUALITIES ASSESSMENT**

An equality impact assessment needs to be carried out for functions, policies, procedures or strategies in relation to race, gender and disability and other relevant protected characteristics. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new and existing policies.

The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) and was assessed as not relevant for the purposes of EqIA.

## **8. STRATEGIC ENVIRONMENTAL ASSESSMENT**

Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS).



However, no action is required as the Act does not apply to the matters presented in this report. This is because the Committee are requested to note the contents of the report only and the Committee are not being requested to approve, adopt or agree to an action or to set the framework for future decisions.

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
15 MARCH 2013**

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**INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**

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**1. SUMMARY**

In compliance with good practice set out in the CIPFA Code of Practice for Internal Audit in Local Government (the Code); final report summaries and action plans from recent internal audits are attached for the Audit Committee to review. Appendix 1, lists the attached reports with dates for draft issue, final management comment and final issue.

**2. RECOMMENDATIONS**

2.1 The contents of this report are to be noted.

**3. DETAILS**

3.1 As at February 2013, final reports for 10 audits undertaken in the financial year 2012 – 2013 are presented to the Audit Committee for review.

3.2 The attached reports contain both the Executive Summaries and Action Plans which detail those recommendations where internal audit in agreement with management has classified the findings either high or medium. Recommendations classified as low have been removed.

**4. CONCLUSION**

The contents of this report will be followed up by internal audit.

**5. IMPLICATIONS**

5.1 Policy: None

5.2 Financial: None

5.3 Personnel: None

5.4 Legal: None

5.5 Equal Opportunities: None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216) 5 March 2013

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**Internal Audit Reports**  
**Audit Committee – March 2013**

List of Internal Audit Reports for Audit Committee

<b>Internal Audit Reports 2012 – 2013</b>				
	<b>REPORT TITLE</b>	<b>DRAFT ISSUE DATE</b>	<b>FINAL MANAGEMENT RESPONSE</b>	<b>FINAL ISSUE DATE</b>
1.	Treasury Management	14 February 2013	01 March 2013	05 March 2013
2.	General Ledger	14 February 2013	01 March 2013	05 March 2013
3.	Finance and Operating Leases	15 February 2013	01 March 2013	05 March 2013
4.	Capital Contracts	15 February 2013	01 March 2013	05 March 2013
5.	Capital Accounting	15 February 2013	01 March 2013	05 March 2013
6.	Roads Costing System	18 February 2013	01 March 2013	05 March 2013
7.	Tendering Procedures	13 February 2013	07 March 2013	08 March 2013
8.	Creditors	13 February 2013	07 March 2013	08 March 2013
9.	Procurement	13 February 2013	07 March 2013	08 March 2013
10.	Business Continuity (Social Work)	18 February 2013	08 March 2013	08 March 2013
11.				
12.				
13.				
14.				
15.				
16.				

**It should be noted that the Draft Issue date recorded above is when the first draft was sent out for review/comment by management. This date is recorded as the date that audit work ended. Subsequent draft reports can be issued thereafter as discussions with management over the audit findings and recommendations commence. Only when agreement is reached is the Final Management Response date recorded. This is reflected in the Final Issue Report Date column where in most cases the dates of issue are the same as the final management response date.**





**Internal Audit Report**

CHIEF EXECUTIVE'S UNIT,  
STRATEGIC FINANCE

**TREASURY MANAGEMENT**

JANUARY 2013

## 1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Treasury Management within Strategic Finance as part of the 2012/13 Internal Audit programme.

Treasury Management is defined as ‘the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

The Treasury Management function transaction values in 2011/12 were as follows:

Cash flow:	Total Income	£361.6m
	Total Payments	£358.5m
Treasury transactions:-		
	Deposits with banks	£52.5m
	Deposits returned by banks	£49.4m

## 2 AUDIT SCOPE AND OBJECTIVES

In consultation with Audit Scotland the Council’s external auditors it was agreed to co-operate on the audit of major financial systems. Therefore the agreed objective of the review was to ensure the Council has approved clear Treasury Management objectives, strategies and policies and that these are supported by sound operational practices, including the appropriate authorisation and recording of transactions and the reporting of performance to relevant stakeholders.

Internal audit reviewed the management and operational processes and controls in place to ensure the appropriate and efficient use of Council funds, with particular reference to the following areas:

- Borrowing and lending transactions are in accordance with statutory powers and approved policy and strategy;
- Annual borrowing requirements and daily balances are properly estimated;
- Borrowing and lending transactions are properly controlled
- Loan repayments and interest are paid on the due dates and in respect of valid loans;
- Deposits and interest are recalled/repaid on the due dates; and
- Borrowing and lending transactions are correctly recorded in bank accounts, financial ledgers and Treasury Management systems.



### **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA Systems Based Audit ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

- SF04 Failure to effectively manage the Treasury function, with particular reference to failures in adherence to codes of practice, leadership and direction, achievement of borrowing and investment target rates and the effective use of treasury consultants.

These risks have been addressed within the scope of this audit.

### **4 CORPORATE GOVERNANCE**

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

### **5 MAIN FINDINGS**

We found that the Treasury Management Section complied with the CIPFA Code of Practice on Treasury Management.

- 5.1 Internal audit found that Treasury Management have controls in place which are operating effectively and required systems backups are taking place.
- 5.2 To ensure continued compliance with the Code operational procedures and controls will need continued development and this has been discussed with management.

### **6 RECOMMENDATIONS**

Three recommendations of Medium priority and one of Low priority were identified as a result of the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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

## 7 AUDIT OPINION

Based on the findings of our audit it can be concluded that the Treasury Management function operates in accordance with the CIPFA Code of Practice on Treasury Management and meets its statutory requirements to have regard to the CIPFA Prudential Code. There are appropriate strategies, controls and procedures in place to safeguard the investment of Council funds although the level of assurance gained from these controls would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

Any 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 Finance Manager, Corporate Support and the Treasury Management Section staff for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2 ACTION PLAN**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The Treasury Management Practices (TMP) document has been updated and re-issued August 2012 but includes a number of tables and references which are not complete.	Medium	The TMP document should be reviewed and revised to ensure all tables and references are appropriate and complete.	Finance Manager, Corporate Support	30/4/2013
2	The Council's Constitution includes Treasury Management regulations within Part D, Financial Regulations, although this document requires review and update to reflect recent changes within the Council.	Medium	The Financial Regulations should be updated to reflect changes to Council committee roles and responsibilities implemented during 2012.	Head of Strategic Finance	31/5/2013
4	Steps are currently being taken to extend the range of users of the Logotech Public Sector Treasury Management System (PSTMS) and more fully utilise its functionality but operating procedures and controls are not documented.	Medium	In association with the planned developments in the use of Logotech, system control procedures should be enhanced to include all end-to-end processes including the authorisation and amendment of system users, standing data and system security back-up.	Finance Manager, Corporate Support	30/4/2013



**Internal Audit Report**

CHIEF EXECUTIVE'S UNIT,  
STRATEGIC FINANCE

**GENERAL LEDGER**

JANUARY 2013

## 1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of General Ledger controls and procedures maintained by Strategic Finance, Chief Executives Unit. The audit forms part of the 2012/2013 Internal Audit Planned programme of audits.

A review of specific aspects of General Ledger Operations is undertaken each year by Internal Audit as part of the annual audit plan. Last year's audit concentrated on entries to the financial management system.

General Ledger transaction values for 2011/12 obtained from a trial balance run are summarised below:

<b>Four Main Council Bank Accounts</b>	<b>Totals £ 2011/02 DR</b>	<b>Totals £ 2011/12 CR</b>
Income	449.9m	449.8m
Local Tax	67.6m	67.5m
Expenditure (Creditors and Payroll)	366.0m	364.3m
Housing Benefits	22.8m	22.8m
<b>Total</b>	<b>906.3m</b>	<b>904.4m</b>

As part of our ongoing dialogue and work co-operation with Audit Scotland, and to minimise audit interference in daily operations, the audit of the General Ledger was discussed with Audit Scotland and included agreed test sampling in key areas.

## 2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review and sample testing of the General Ledger to ensure the integrity and security of information input to and held on the General Ledger is robust and controlled. The areas reviewed included:

- Access to and operation of the General Ledger system;
- Authorisation of changes to the Chart of Accounts;
- Data from Feeder Systems is authorised, complete, valid and timely;
- Amendments by journals are authorised, complete, accurate and valid;
- Outputs are complete, accurate, appropriate and timely; and
- Data is protected against loss, corruption or system failure

### **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

- SR16 Failure to have a robust internal control process and system

This risk has been considered within the scope of our audit.

### **4 CORPORATE GOVERNANCE**

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

### **5 MAIN FINDINGS**

- 5.1 Access to the General Ledger system is restricted to appropriately approved members of staff with individuals granted different levels of access rights based on their specific job descriptions and user requirements. System reports of staff with user access rights are reviewed to confirm their continued requirements on a regular basis.
- 5.2 General Ledger procedures are documented and Oracle General Ledger User Manuals are widely available although there is no up-to-date list of user manual holders available for amendment and update purposes.
- 5.3 The Chart of Accounts provides a comprehensive, up to date listing of financial codes set up on the General Ledger system, consisting of Cost Centre and Account Codes, with all changes being subject to appropriate review and authorisation.
- 5.4 Data is input to the general ledger from subsidiary feeder systems, either directly or via the Payables system, in accordance with individual system timetables. All system import files accepted by the General Ledger are listed in the daily system validation and error control reports. Direct feeder systems are reviewed and monitored by the System Administrator and include Debtors, Payroll, Internal Recharges, Cash Receipting, Road Costing and Tranman .Indirect system feeds, including Payables, are all validated by other officers.
- 5.5 Amendments to data held on the General Ledger system are achieved by the input of journals, which can be created by staff with 'main user' system access rights but can only be posted by 'Accountant' users. The system will not accept for posting any journals with invalid codes or which do not balance

- 5.6 The accuracy and completeness of outputs is ensured by the production of daily Interface Log reports which confirm that input files have been successful, with any errors identified and reported for investigation and resolution by appropriate officers.
- 5.7 Data is protected against loss or system failure by the Council's approved mainframe security procedures with no additional back-up by the system administrator considered necessary.

## 6 RECOMMENDATIONS

One recommendation of Medium priority and three of Low priority were identified as a result of the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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



## **7 AUDIT OPINION**

Based on our findings we can conclude that there are appropriate controls and procedures in place to ensure the integrity and security of information input to the General Ledger although the level of control would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to the Strategic Finance Staff and the System Administrator for their co-operation and assistance during the course of 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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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
4	The duties and responsibilities of the General Ledger System Administrator are not clearly documented	Medium	The role of GL System Administrator should be clarified and documented	Finance Manager, Corporate Support	30/9/2013



**Internal Audit Report**

CHIEF EXECUTIVE'S UNIT,  
STRATEGIC FINANCE

**FINANCE AND OPERATING LEASES**

FEBRUARY 2013

## 1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of the policies and procedures in respect of Finance and Operating Leases maintained by Strategic Finance, Chief Executive's Unit. The audit forms part of the 2012/2013 Internal Audit planned programme of audits.

Reviews of specific aspects of the Council's leasing transactions have been undertaken in previous years by Internal Audit as part of the annual audit plans. The work undertaken during 2012/13 will form year one of a new 3 year programme.

Key transactions reported for the financial year ended 31 March 2012 are summarised below:

<b>DATA – Notes to Financial Statements</b>	<b>Value</b>
Finance leases; amounts paid to Lessors	<b>£304k</b>
Operating leases; amounts paid to Lessors	<b>£1,099k</b>
Finance leases; net value of assets held	<b>£42k</b>
Finance leases; payments outstanding	<b>£42k</b>
Operating leases; payments outstanding	<b>£649k</b>

## 2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review of lease policies and procedures and a limited amount of sample testing of transactions and records to ensure policies and procedures are appropriate, adequate and being complied with. The areas reviewed included:

- High level asset leasing procedures and guidelines are in line with IFRS and ensure effective management of leasing.
- Leasing agreements and transactions are correctly identified, recorded, managed and reported.

## 3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The areas identified were:

- SR10 Inefficient use of Council Assets

- SR13 Failure to comply with new legislation, regulations or statutory responsibilities

These risks have been considered within the scope of our audit.

## **4 CORPORATE GOVERNANCE**

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

## **5 MAIN FINDINGS**

- 5.1 Discussion with officers and review of documents confirms that leasing procedure/guidance notes are available although not subject to annual review.
- 5.2 Review of the guidance note confirms it includes high level reference to the categories of leases as required by IFRS/CIPFA.
- 5.3 Review of operational procedures and records confirms that officers are aware of leasing requirements. Responsibilities, procedures and objectives are not co-ordinated or documented.
- 5.4 Testing confirms that values included in the disclosure notes to the Financial Statements agree to supporting records.

## **6 RECOMMENDATIONS**

Two recommendations of Medium priority and one of Low priority were identified as a result of the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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

## 7 AUDIT OPINION

Based on our findings we can conclude that there are appropriate operational procedures in place to ensure that the management of leasing is adequate although the level of understanding and control would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

## 8 ACKNOWLEDGEMENTS

Thanks are due to Strategic Finance and Development and Infrastructure Staff for their co-operation and assistance during the course of 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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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
2	Leasing records in differing formats are maintained by numerous departments but responsibilities, procedures and objectives are not coordinated or documented to ensure records and controls are effective and efficient.	Medium	The range of records and controls maintained by different departments in respect of lease agreements and transactions should be reviewed and, where appropriate, revised or consolidated to avoid unnecessary duplication and ensure controls and reconciliations are appropriate and effective.	Finance Manager, Corporate Support	30/9/2013
3	The cost or benefit of leasing capital assets is not currently reflected in the revenue budgets / accounts of individual Services.	Medium	The process of accounting / budgeting for lease payments should be reviewed.	Finance Manager, Corporate Support	30/9/2013

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**Internal Audit Report**

CHIEF EXECUTIVE'S UNIT  
STRATEGIC FINANCE

**CAPITAL CONTRACTS**

FEBRUARY 2013

## 1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review to establish compliance with the Council's Capital Contract regulations and procedures. The audit forms part of the 2012/2013 Internal Audit planned programme of audits.

Reviews of specific aspects of Capital Contracts have been undertaken and reported on in previous years by Internal Audit as part of annual audit plans. The work undertaken during 2012/13 will form year one of a new three year programme intended to cover all aspects of capital contracts.

Capital expenditure budget approved for 2012-13 with potential for capital contracts summarised below:

Department	Value £000s
ICT	2,247
Facility Services	2,119
Carbon Management	1,912
Education	4,770
Communities & Culture	883
Private sector housing grant	1,334
Adult care	370
Children & families	91
Roads & amenity	15,469
CHORD	8,605
Cycling, walking & safer streets	104
<b>Total</b>	<b>37,904</b>

## 2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review of Council regulations and procedures and sample testing of a number of capital contracts entered into during 2012-13 to ensure regulations and procedures are appropriate, adequate and are being complied with. The areas reviewed included:

- Procurement regulations and procedures provide adequate details in respect of the initiation and approval of capital contracts and officers levels of responsibility
- Officers involved in the letting of contracts during the current financial year have access to the Council's contract regulations and

procedures, have received appropriate training and are aware of their roles and responsibilities

- Council Standing Orders Relating to Contracts and supporting Procurement Manual comply with Scottish Government and EU regulations and guidelines
- Contracts arising from capital projects approved for 2012-13 have been correctly initiated, approved and accepted in accordance with the Council's regulations and Procurement Manual

### **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

- SR16 Failure to have a robust internal control process and system

This risk has been considered within the scope of our audit.

### **4 CORPORATE GOVERNANCE**

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

### **5 MAIN FINDINGS**

- 5.1 The Council's Standing Orders Relating to Contracts adequately set out the high level requirements for the initiation of contracts and is supported by the Procurement Manual which provides further details of processes and levels of responsibility.
- 5.2 Standing Orders and the Procurement Manual are held on the Council's Hub, and are thus available to all officers involved on the capital contracts process.
- 5.3 Council Standing Orders Relating to Contracts and the supporting Procurement Manual include appropriate references to, and comply with, Scottish Government and EU regulations and guidelines.
- 5.4 Testing of a sample of contracts arising from 2012/13 capital projects confirms they have been correctly initiated, approved and accepted in accordance with the Council's regulations and Procurement Manual although the published Scheme of Authorised Purchasers was found to require update.

## 6 RECOMMENDATIONS

One recommendation of Medium priority was identified as a result of the audit. The recommendation is shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of Procurement team

Internal Audit considers that, in an effort to improve the quality of internal control, the recommendation should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

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

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

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

## 7 AUDIT OPINION

Based on our findings we can conclude that capital contracts are let in compliance with Council Standing Orders and procurement procedures and that the standing orders and procedures comply with Scottish Government and EU regulations and guidelines although the Council's level of internal control would be enhanced by the implementation of the recommendation set out in the agreed management action plan attached at Appendix 2.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to Strategic Finance and Facility Services Staff for their co-operation and assistance during the course of 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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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 noted that 2 of the sample contracts had been authorised by an officer not included on the published schedule of authorised signatories. Investigation confirmed that the officer was approved to authorise and had been omitted from the list in error.	Medium	The published Scheme of Authorised Purchasers should be reviewed and updated.	Procurement and Commissioning Manager	30/4/2013



**Internal Audit Report**

CHIEF EXECUTIVE'S UNIT,  
STRATEGIC FINANCE

**CAPITAL ACCOUNTING**

FEBRUARY 2013

## 1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of the Capital Accounting policies and procedures maintained by Strategic Finance, Chief Executive's Unit. The audit forms part of the 2012/2013 Internal Audit planned programme of audits.

Reviews of specific aspects of Capital Accounting have been undertaken in previous years by Internal Audit as part of the annual audit plans. The work undertaken during 2012/13 will form year one of a new three year programme.

Capital Assets reported on the Council's Balance Sheet at 31 March 2012 are summarised below:

<b>DATA – net book values by category</b>	<b>Value £000s</b>
Other land & buildings	296,463
Vehicles, plant, furniture & equipment	6,784
Infrastructure assets	153,761
Community assets	1,338
Surplus assets	5,117
Assets under construction	11,723
<b>Total Property Plant &amp; Equipment</b>	<b>475,186</b>

## 2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review of policies and procedures and a limited amount of sample testing of capital transactions to ensure policies and procedures are appropriate and adequate and being complied with. The areas reviewed included:

- The Council has an approved capital accounting policy
- The form and content of the asset register is in accordance with CIPFA guidance and the Council's approved accounting policy
- Asset valuations are undertaken in accordance with relevant guidance
- Additions and deletions from the asset register are correct and supporting evidence is appropriate and correctly authorised.
- Additions to the asset register are allocated to appropriate asset categories and depreciation is correctly calculated and charged to service revenue accounts
- The asset register is reconciled to the financial ledgers



### **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

- SR10 Inefficient use of Council Assets
- SR11 Failure to meet capital/revenue spending targets
- SR13 Failure to comply with new legislation, regulations or statutory responsibilities

These risks have been considered within the scope of the audit.

### **4 CORPORATE GOVERNANCE**

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

### **5 MAIN FINDINGS**

- 5.1A comprehensive capital accounting policy document has not yet been developed.
- 5.2 The Council currently uses the Logotech asset register system which provides adequate asset and depreciation data across categories in accordance with CIPFA guidelines and Code of Practice.
- 5.3 The Council carries out a rolling programme that ensures all assets are re-valued at least every five years and impairments are assessed annually in line with guidance.
- 5.4 Records are maintained by Strategic Finance for asset acquisitions, disposals and transfers although the process would be enhanced by the further development of procedures.
- 5.5 The asset register is updated and reconciled at the end of each financial year and depreciation charged as appropriate.

### **6 RECOMMENDATIONS**

There are 3 low recommendations resultant from the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable

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

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

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

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

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

## 7 AUDIT OPINION

Based on our findings we can conclude that there are appropriate operational procedures in place to ensure that capital accounting processes are adequate although the level of understanding and control would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

## 8 ACKNOWLEDGEMENTS

Thanks are due to the Strategic Finance Staff for their co-operation and assistance during the course of 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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.



**Internal Audit Report**

CHIEF EXECUTIVE'S DEPARTMENT

**Review of Roads Costing System**

January 2013

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Roads Costing System as part of the 2012/13 Internal Audit programme.

Management must ensure that software applications perform properly the business activity for which they were designed. The purpose of application controls is to ensure the completeness, accuracy, security and effectiveness of input, processing and output. These controls may be provided either by programming within the application system or by manual controls exercised by users or the IT Service.

## **2 AUDIT SCOPE AND OBJECTIVES**

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the Roads Costing Systems Administrator for completion.

The overall objective is to ascertain whether the system application incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made.

A systems-based auditing approach has been employed to assess the Roads Costing system's internal controls to ensure that they are sound and the transactions are properly recorded and processed.

The following areas were reviewed using Systems Based Auditing, ICQ approach for Application Controls. These areas must have procedures and processes in place and Internal Audit, through management completing the CIPFA SBA ICQ Questionnaires is able to gain assurance regarding the control environment.

- **Compliance**
- **Logical Security Controls**
- **User Security Controls**
- **Parameter Data**
- **Transaction Input**
- **Data Processing**
- **Output**
- **System Availability**
- **Audit Trail**

A request for system documentation has also been requested to be lodged with internal audit.

### **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA SBA Systems Based Auditing, ICQ approach, the Strategic Risk Register was reviewed to identify any areas that needed to be included within the audit.

SR 16 - Failure to have a robust internal control system.

### **4 CORPORATE GOVERNANCE**

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

### **5 MAIN FINDINGS**

There were no significant findings resulting from the tests that were completed during the course of the audit. The Roads Costing System team continue to provide a well-controlled service.

### **6 RECOMMENDATIONS**

The audit generated no recommendations to be discussed and agreed with management.

### **7 AUDIT OPINION**

Internal Audit is satisfied that the Roads Costing Systems Administrator has provided answers indicating adherence to current control requirements. The review of the CIPFA Systems Based Audit, ICQ answers identified one minor matter and this has been discussed with management.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

### **8 ACKNOWLEDGEMENTS**

Thanks are due to the Roads Costing Systems Administrator and their team for their co-operation and assistance during the audit and the preparation of the report and action plan.

Argyll and 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, 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.



## **Internal Audit Report**

Customer Services  
Review of Tendering

February 2013

## **1. INTRODUCTION**

1.1 As part of the annual audit plan for 2012/13 internal audit undertook a review of the Tendering system. There is a need to follow a recognised Tendering process; this can be evaluated by establishing that tendering regulations and procedures are adequately detailed in the Procurement Manual and being followed in such areas as roles, duties, authorisations and responsibilities. In addition, regulations need to be adhered to in terms of advertising, invitation, receipt, opening, evaluation; and that selection process is obtaining value for money.

1.2 Controls were reviewed to ensure that:

- Appropriate tendering method for goods and services is adopted
- Proper controls exist over the opening/assessment and award process
- Advertising of contracts
- Review selective/restrictive tendering
- Review Financial Assessments

## **2. AUDIT SCOPE AND OBJECTIVES**

2.1 An Audit Agreement Document (AAD) was prepared and agreed. The Agreement set out the main objectives of the audit approach and scope. The following areas were looked at:

- They have been submitted in accordance with the procurement regulations and procedures;
- Adequate public notice was given in journals and newspapers according to the type and value of the contract;
- Proper procedures have been carried out during the scoring process;
- Check that where contracts exceeded EU thresholds a contract notice was placed in OJEU in accordance with EU directives;
- Checks were made to ensure that the contracts awarded were within the constraints of the Council's budget-contract award recommendation report;
- Unsuccessful contractors were properly notified and feedback as to the reasons they were unsuccessful has been properly notified; and
- Adequate training is scheduled for Council personnel.

## **3. RISK ASSESSMENT**

3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system;  
RA03: Inaccurate management information.



**4. CORPORATE GOVERNANCE**

- 4.1 There were no Corporate Governance issues to be reported as a result of this audit.

**5. MAIN FINDINGS**

- 5.1 There were 5 projects chosen by internal audit to be reviewed. All 5 projects had been recently awarded. Of the 5, 3 were of low value i.e. <£50,000 and were tendered using the quick quote method one was tendered using the open tendered method and the other one was tendered using the restricted tender method.
- 5.2 All tenders were checked to ensure that the Councils rules and regulations were adhered to. Internal audit found that the documentation forwarded to ourselves concerning these 5 tenders, was in line with procedures laid down.
- 5.3 The introduction of a document management system would facilitate the Procurement team in the Tendering process.
- 5.4 The savings calculation used in the Contract Award Recommendation Report (CARR) has not taken into account the avoidance of future inflation costs in the new Transport contracts.
- 5.5 Strategic Finance should be consulted in cases where Equifax reports indicate a company has failed the financial criteria tests.
- 5.6 Tender review forms should be completed for all contracts over £50,000.

**6. RECOMMENDATIONS**

- 6.1 Four recommendations were identified as a result of the audit. The recommendations have the following priority ranking 3 medium and one low. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.
- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

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

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

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

## 7. AUDIT OPINION

- 7.1 It is Internal Audits view that based on the audit undertaken that the procedures laid out in the Procurement manual are being followed and consequently the procurement processes are in order.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## 8. ACKNOWLEDGEMENTS

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Procurement and Commissioning Manager; and
  - Purchasing Officers.
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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
2	<p>In assessing the financial aspects of the tenders in relation to savings achieved by the procurement team Internal Audit found that in certain types of tenders, the savings figure stated in the Contract Award Recommendation Report (CARR) was in fact understated. This related to contracts where Procurement has changed the detail of the tender as regards inflation. Where previously, as in Transport contracts, we have awarded annual inflation adjustments to the successful tenderer, the new Transport contracts no longer award inflation for future years other than for fuel. Procurement has worked out the annual savings without taking this material factor into account. The avoidance of this future cost on Transport contracts is very significant and Procurement should recognise this positive outcome in their savings calculation.</p>	Medium	<p>That Procurement recognise the savings that the Council will make for contracts that had previously had future cost inflation built but now no longer require to budget for this future cost such as in Transport contracts.</p>	<p><b>Procurement and Commissioning Manager</b></p>	<p><b>31<sup>st</sup> March 2013</b></p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	For large value contracts Procurement request an Equifax assessment of the financial health of the companies tendering for that contract. Procurement bases their decision on whether that company proceeds to the next stage on the financial scoring from the Equifax report. Where a company is rejected via the Equifax scoring method, Strategic Finance should be requested to give a second opinion as regards to whether they agree with this assessment as there are examples where on further scrutiny it was found to be financially viable.	Medium	In cases where a supplier is rejected as a result of failing an Equifax assessment a representative from Strategic Finance should be requested to verify the reasons for the rejection as Strategic Finance rather than procurement have the necessary financial skills to verify the Equifax assessment.	Procurement and Commissioning Manager	31 <sup>st</sup> March 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	Tender review forms as specified in Appendix 11 of the procurement manual are filled in by the contract owner after the award of the contract. This document provides a good feedback from customers as to how they felt the procurement process and it also acts as a powerful tool to assess how future contract documentation and procedures should be addressed. Internal audit found that this document is completed on an intermittent basis.	Medium	It should be ensured that for tenders over £50,000 the tender Review Form should always be completed by the contract owner.	Procurement and Commissioning Manager	31 <sup>st</sup> March 2013

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## **Internal Audit Report**

Customer Services  
Creditors Review

February 2013

## **1. INTRODUCTION**

- 1.1 As part of the Annual Audit Plan for 2012/13 Internal Audit undertook a review of the Creditor Payment system.
- 1.2 The Council makes payments for goods, services and utilities. The processes for undertaking these payments are considered as part of the auditor's risk appraisal or audit needs assessment. A robust internal control environment should therefore cover all forms of payments, reconciliation and monitoring of all monies paid, commensurate with the risks and sums involved.
- 1.3 The creditors section which is based in Campbeltown process some 12,000 invoices monthly and 150,000 invoices per annum. Creditors will, over the coming months, incur a number of fundamental changes to its operations, namely the introduction of Oracle purchasing, the upgrade to Oracle version 12, the upgrade of the Myview system and lastly, the move to the Purchasing Card Consultancy Limited agreement (PCCL). Consequently, the scope of the audit was limited to checking that there were fundamental controls operating around the creditor payment systems.
- 1.4 Controls were reviewed to ensure that:
  - Procedure manual is up to date and reflects changes
  - Payments are only made for Bona Fide charges or liabilities
  - Payments are made per the correct amounts
  - That all payments are properly accounted for within Council Financial records and systems.
  - Those payments meet required contractual terms and conditions

## **2. AUDIT SCOPE AND OBJECTIVES**

- 2.1 An Audit Agreement Document (AAD) was prepared and forwarded to the Creditors Supervisor for his agreement. The Agreement set out the main objectives of the audit approach and scope. The following areas were looked at:
  - System input and output controls will be reviewed;
  - The system will be reviewed for completeness, quality and accuracy of data streams;
  - Data reports produced will be evaluated for their relevance and usefulness;
  - Recommendations from the 11/12 audit report have been implemented.

## **3. RISK ASSESSMENT**

- 3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system;



RA03: Inaccurate management information.

**4. CORPORATE GOVERNANCE**

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

**5. MAIN FINDINGS**

5.1 The user manual for Creditors and Payments has not been updated for some time.

5.2 The Authorisation limits on the Council's hub require to be brought up to date.

5.3 The Council should consider making adequate resource available to eliminate the backlog of invoices waiting to be scanned into Comino.

5.4 The monthly reporting of payment statistics by the Creditors section can be generated more efficiently by the adoption of various Excel functions.

**6. RECOMMENDATIONS**

6.1 Four recommendations were identified as a result of the audit. The recommendations have the following priority ranking, one at high, 2 medium and one low. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.

6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.

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

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

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not

necessarily great, but the risk of error would be significantly reduced if it were rectified;

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

## 7. AUDIT OPINION

- 7.1 It is Internal Audits view that based on the findings of the audit that there are sufficient controls in place to ensure that invoices are being paid correctly for the goods and services delivered and that the accounting treatment thereof properly reflects the service being paid for.
- 7.2 The enhancement of reporting to user departments was identified as an issue but plans are in place to address this.
- 7.3 Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## 8. ACKNOWLEDGEMENTS

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Procurement and Commissioning Manager
  - Creditors Supervisor
  - Creditors section
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2****ACTION PLAN**

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
1	The Creditors Section relies heavily on the operations carried out by departmental creditor staff under the direction of local management. To assist with this process a user manual was issued for guidance to all departments by the Creditors Section describing in detail the accounts payable procedures. This manual needs to be updated.	Medium	Bearing in mind that Oracle purchasing is being introduced it is recommended that the procedural manual be updated as these changes are implemented.	<b>Creditors Supervisor</b>	<b>31<sup>st</sup> December 2013</b>
2	Authorisation limits have been assigned to all personnel who are responsible for the purchase of goods and services within the Council. A sample of invoices was chosen from the financial year 11/12 and the corresponding payments made were checked to ensure that authorisations were within agreed limits as laid out on the Council's website. It was found on numerous occasions that limits set per invoices been paid did not agree to the authorisation list.	High	A complete review of all authorised signatories should be carried out to bring the authorised signatories database as published on the Council's website up to date.	<b>Creditors Supervisor and Departments</b>	<b>31st July 2013</b>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	The Council has adopted a policy of scanning all invoices into Comino in order to facilitate tracking of invoices which in turn enhances the Council's ability to meet its policy of paying invoices within 30 days of invoice date. At present there is a significant backlog of invoices waiting to be scanned into Comino.	Medium	The Council should consider making adequate resource available to eliminate the backlog of invoices other than local invoices waiting to be scanned into Comino. i.e. Pecos , Tranman and Carefirst invoices	Creditors Supervisor	31 <sup>st</sup> August 2013



## **Internal Audit Report**

Customer Services  
Procurement

Purchase Card Review

February 2013

## **1. INTRODUCTION**

- 1.1 As part of the Annual Audit Plan for 2012/13 Internal Audit undertook a review of the purchase cards in operation. Managing corporate spending efficiently through a structured approach to purchasing offers the potential to significantly improve financial performance with lower prices and a reduction in operating costs. The use of purchasing cards within the Council gives scope for improved analysis of purchases especially with the imminent introduction of the Purchasing Card Consultancy Limited (PCCL) agreement. The strength of this system is that it will allow greater analysis of expenditure against items such as catering purchases.
- 1.2 The total value of creditor payments in the financial year 2011-12 was £169m of which £0.5m related to purchasing card payments, however, the council is looking to expand considerably the use of purchasing card payments in the new financial year beginning with Catering payments. Consequently it is important that basic control procedures are in place for the proposed expansion program.
- 1.3 Internal audit will focus on the use of purchasing cards for procuring goods and services and will review the controls surrounding their use. Internal Audit will also carry out a cost/benefit analysis as regards the PCCL agreement.

## **2. AUDIT SCOPE AND OBJECTIVES**

- 2.1 The key objectives of the audit will be to review the controls already in place surrounding the use of purchasing cards:
  - Select a sample of credit card users and ensure that proper authorisation limits have been allocated;
  - Ensure that the Council has an overall credit limit and that this has been adhered to;
  - Select a sample of credit card payments and ensure that they are being debited to the correct account
  - Ensure that there is a division of duties between use of the cards and reconciliation of invoices logs and statements;
  - Ensure that usage is restricted to appropriate suppliers, merchants or retailers;
  - Obtain sight of the procedural instructions and confirm from discussion and observation that they have been issued to relevant staff;
  - Confirm that there are adequate controls over the security of cards especially over loss of cards:
  - Ensure VAT is being properly claimed: and
  - Review the current PCCL agreement.

**3. RISK ASSESSMENT**

3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system.

**4. CORPORATE GOVERNANCE**

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

**5. MAIN FINDINGS**

5.1 Written procedures on the use of purchase cards have not been received by all card holders.

5.2 A significant number of card holders have access to purchase goods and services not relevant to their own service requirements.

5.3 The cards issued for the schools being used to test the new PCCL card system have had no restrictions based on them.

5.4 Credit cards purchases are automatically debited to a default account code but in some instances card holders are not informing creditors if the actual expenditure is not appropriate to the default code.

5.5 The credit limit for the Purchasing Officers is deemed by Internal Audit to be excessive compared to their average monthly spend.

5.6 Purchase cards no longer in use are not always being returned to the Creditors Supervisor in Campbeltown.

5.7 VAT on expenditure is being reclaimed on an annual basis. This is too long a period and should be done monthly.

5.8 Expenditure outwith purchasing guidelines is being undertaken directly by schools rather than via Purchase Officers. Adherence to guidelines is recommended.

**6. RECOMMENDATIONS**

6.1 Six recommendations were identified as a result of the audit. The recommendations have the following priority ranking, one at high, 3 medium and 2 low. The recommendations are shown in the action plan attached at Appendix 2

and have been compiled with the co-operation and agreement of senior management.

- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.
- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

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

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

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

## 7. AUDIT OPINION

- 7.1 It is the view of Internal Audit that based on the findings of the audit there are sufficient controls in place to ensure that purchase cards are being properly controlled.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## 8. ACKNOWLEDGEMENTS

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Procurement and Commissioning Manager;
  - Creditors Supervisor;



- Creditors Section; and
- AFA's at Oban High.

8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

## APPENDIX 2

## ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There were a number of Community Services - Education cardholders who replied to the questionnaire stating that they had not received all the relevant procedural instructions.	Medium	A copy of the procedures surrounding the use of purchase credit cards should be e-mailed by the creditors supervisor to all purchase card users with a message attached requesting them to confirm that they have read and understood the procedures.	Creditors supervisor	Completed
2	Card holders should only have the ability to access goods and services specific to their service requirements. It was found that those card holders who had received cards when the scheme was started had been given access to procure goods and services out with their requirement.	Medium	A review of all restrictions associated with purchase cards should be carried out to ensure that users only have access to goods and services specific to their service requirements.	Creditors supervisor	Completed
5	Internal audit visited the Area Finance Assistant at Oban High school and found that the use and control of purchase cards was generally within the guidelines laid out. All purchases were properly authorised beforehand and paperwork was in order.	High	Procedures should be updated and implemented to ensure that VAT is reclaimed timeously and that copies of VAT invoices are scanned and e-mailed to the Creditors Supervisor who can arrange to have the VAT reclaimed for all purchase card holders.	Purchase card holders and Creditors Supervisor	31 <sup>st</sup> March 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>However, in looking at the VAT treatment of invoices sampled it came to light that the VAT is reconciled and consequently reclaimed only on an annual basis. Ideally all purchase cards invoices where VAT can be reclaimed should be scanned when received and attached to an e-mail and forwarded to the creditors supervisor.</p>				
<p><b>6</b></p>	<p>Expenditure as regards hotel accommodation and flights were booked directly by the school rather than via the purchase officers.</p>	<p>Medium</p>	<p>Schools should be reminded that the Council's policy is to book hotel and flight expenditure other than for school trips via the purchase officers.</p>	<p><b>Procurement and Commissioning Manager</b></p>	<p><b>31<sup>st</sup> March</b></p>

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**Internal Audit Report**

**Chief Executive**

**Business Continuity**

**February 2013**

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Business Continuity. This audit is part of the 2012/13 Audit Follow Up as requested by the Audit Committee.

Internal Audit reviewed 15 of the Community Services Critical Activity Recovery Plans (CARPs) focussing on Adult Care and Children & Families. There were 5 Critical activity Plans in each of the following areas reviewed: Adult Care, Children & Families and Criminal Justice.

## **2 AUDIT SCOPE AND OBJECTIVES**

The Audit will focus on Adult Care and Children & Families Services within Social Work. The objectives of the Audit will be to assess whether Critical Activity Recovery Plans (CARPs) ensure consistency of quality and adhere to the agreed guidance. The scope of the Audit will evaluate whether:

- Plans exists for all critical activities
- Plans are complete in all material respects
- Plans are up to date

## **3 RISK ASSESSMENT**

As part of the audit process the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

SR19 Failure to progress Business Continuity Programme

## **4 CORPORATE GOVERNANCE**

There are Corporate Governance issues to be reported as a result of this audit in relation to:

1.2 Supporting Principle: Ensuring that users receive a high quality of service whether directly, in partnership, or by Commissioning:

1.2.2 'Put in place effective arrangements to identify and deal with failure in service delivery'

## 5 MAIN FINDINGS

- 1.1 Fifteen Critical activity Recovery Plans covering Adult Care and Children & Families activities were reviewed to ensure consistency of quality of information. Inconsistencies exist in the quality of information throughout the 15 Critical Activity Recovery Plans reviewed.
- 1.2 Critical Activity Recovery Plans are incomplete.

## 6 RECOMMENDATIONS

Two recommendations were identified as a result of the audit all are classed as a high priority. The recommendation is shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendation should be implemented in accordance with the agreed action plan. Management have set an achievable implementation date and will be required to provide a reason to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement a recommendation it must evaluate and accept the risk associated with that decision.

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

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

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

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

## **7 AUDIT OPINION**

Based on the findings we can conclude that Business Continuity Plans are in place for all of the critical activities within Adult Care and Children & Families Services which were identified as part of the Impact Assessment. The CARP documents are incomplete and there is minor inconsistency throughout.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. A recommendation 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 Social Work 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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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	Fifteen Critical activity Recovery Plans covering Adult Care and Children & Families activities were reviewed to ensure consistency of quality. Minor inconsistencies exist in the quality of information throughout the 15 Critical Activity Recovery Plans reviewed.	High	All Critical Activity Recovery Plans should be reviewed and updated to ensure consistency and quality of information throughout	Team Leader Service Development	4th March 2013
2	Critical Activity Recovery Plans are incomplete.	High	Documents should be reviewed and updated to ensure completeness	Team Leader Service Development	4th March 2013

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
15 MARCH 2013**

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**EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2012 – 2013.**

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**1. SUMMARY**

Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. Set out below are the results from a review performed by Internal Audit for recommendations due to be implemented by 31 January 2013.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 The process requires departmental Executive Directors assigning a 3<sup>rd</sup> tier officer to act as the sole contact for the follow up of both external and internal recommendations. The contact role involves updating both the Executive Directors and internal audit on progress with agreed department recommendation implementation.

3.2 Appendix 1 is a statistical summary of all agreed recommendations arising from both external and internal audit reports by department. Detailed is the number of recommendations due as at 31 January 2013, the number implemented, the number of agreed future recommendations and their status, i.e. on course, etc.

**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	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None

5.7 Customer Service: None

For further information please contact Ian Nisbet of Internal Audit on (01546 604216)  
5 March 2013

## APPENDIX 1

## SERVICE SUMMARIES

## RECOMMENDATIONS DUE 01 NOVEMBER 2012 - 31 JANUARY 2013

SERVICE	Complete	Delayed but rescheduled	Superseded	Total
ADULT CARE	1			1
CUSTOMER & SUPPORT SERVICES	4			4
ECONOMIC DEVELOPMENT	4			4
EXECUTIVE DIRECTOR COMMUNITY SERVICES	1			1
IMPROVEMENT & HR	4			4
PLANNING & REGULATORY SERVICES	1			1
ROADS & AMENITY SERVICES	9			9
STRATEGIC FINANCE	2			2
<b>TOTALS</b>	<b>26</b>			<b>26</b>

## RECOMMENDATIONS DUE AFTER 31 JANUARY 2013

SERVICE	Complete	On Course	Evidence Required	Delayed but rescheduled	Total
ADULT CARE	7	1			8
CHILDREN & FAMILIES	1				1
COMMUNITY & CULTURE		1			1
CUSTOMER & SUPPORT SERVICES	3	14			17
ECONOMIC DEVELOPMENT		1			1
EDUCATION		1			1
IMPROVEMENT & HR	6	1			7
ROADS & AMENITY SERVICES	3	3			6
STRATEGIC FINANCE		10			10
<b>TOTALS</b>	<b>20</b>	<b>32</b>			<b>52</b>

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**CORPORATE PERFORMANCE AUDITS 2012 - 2013**

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**1. SUMMARY**

Audit Scotland published Best Value (BV2) Toolkit guidance for Councils to enable them to assess their performance against defined criteria. Internal Audit undertook an analysis with departmental services in order to evaluate performance against the BV2 Toolkits. An audit report was generated for the Strategic Management Team (SMT) and was presented to the Audit Committee in June 2012. The Audit Committee requested that they be kept informed of progress regarding implementation of report recommendations.

**2. RECOMMENDATION**

2.1 The Audit Committee is asked to note the contents of this report which will be followed up by Internal Audit.

**3. DETAILS**

3.1 The objective of the work undertaken by internal audit prior to the issue of the June 2012 report was to assess the performance of departmental services using the criteria outlined in the BV2 Toolkits. The results of that audit work were reported to the Audit Committee in June 2012.

3.2 Internal Audit reported to the Audit Committee in December 2012 that the recommendations made in the June 2012 report, were being progressed through Corporate Improvement Board projects and this is continuing.

3.3 Corporate Improvement Board projects commenced in September 2012; these are set out within a corporate improvement programme of work. It is the intention of internal audit in 2013/14 to maintain an oversight of the programme of work and report progress in addressing the audit recommendations of June 2012. Thereafter consideration can be given to any further reviews of corporate performance or a benchmarking of BV2 toolkits on a risk basis as part of development of future audit plans

3.4 Internal audit has provided direct audit days within the 2013/14 draft audit plan, which will allow the review exercise outlined in paragraph 3.3 above to be undertaken.

**4. CONCLUSION**

Internal audit will report to the Audit Committee in September 2013 on the progress made by management regarding the corporate improvement programme of work.

**5. IMPLICATIONS**

6.1	Policy:	None
6.2	Financial:	None
6.3	Personnel:	None
6.4	Legal:	None
6.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216) 7 March 2013.



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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
15 MARCH 2013**

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**AUDIT COMMITTEE - AWAY DAY**

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**1. SUMMARY**

The Audit Committee undertook a self assessment day on 22 February 2013. The day was used to establish how to further develop the Audit Committee purpose, role and remit. In addition, the Audit Committee discussed items in their Development Programme and Terms of Reference. The committee was addressed by Grant Thornton and the Chartered Institute of Public Finance & Accountancy (CIPFA) on key activities for an Audit Committee. A report covering the day's activities is attached in Appendix 1.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 The Away Day was attended by Members of the Audit Committee, Grant Thornton, CIPFA and Council Officers. It was a productive day and the attached draft report covers the key agenda items.

**4. CONCLUSION**

This report is submitted to the Audit Committee for consideration

**5. IMPLICATIONS**

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

For further information please contact Ian Nisbet of Internal Audit on (01546 604216) 26 February 2013.

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**AUDIT COMMITTEE**

**AWAY DAY REPORT**

**22 FEBRUARY 2013**

**DRAFT**

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Appendix 1 – Annual Work Plan 2013 – 14

Appendix 2 – Input & Output Measures

## 1. BACKGROUND

At the request of the Audit Committee a self-assessment awareness day was undertaken by the Audit Committee on 22 February 2013. The Chair welcomed the attendees and set out the objectives for the day. The Chair welcomed the recently appointed Vice Chair. Although there are 5 Councillors who are Members of the Audit Committee both the Audit Chair and Vice-Chair are lay persons.

## 2. MEETING AGENDA FOR THE DAY

- § The Influential Audit Committee;
- § The Development Programme;
- § The Audit Committee Terms of Reference; and
- § Performance Indicators.

## 3. GRANT THORNTON/CIPFA – THE INFLUENTIAL AUDIT COMMITTEE

The Director of Assurance at Grant Thornton and the Head of CIPFA for the Regions scoped out key issues that determine the effectiveness of an Audit Committee. This provided the opportunity for initial discussion in which the committee members fully participated.

Participants were asked to consider the three key strategic risks facing the Council. Members cited the following risk areas: demographic pressures; inadequate infrastructure and economic challenges within a context of a substantial reduction in government grant over the next seven years. The Audit Committee agreed to focus on risk management, in the first instance on risks set out in the Strategic Risk Register, their currency and their alignment with the Council's key objectives. The Audit Committee defined its key role as that of commissioning work from internal audit or wider management seeking assurance in regard to risk control measures; and through reviewing effectiveness of risk management systems including shared understanding of risk control.

The second challenge given to members was to identify shorter term areas of Council business that needed attention and where success criteria might be worked up that would indicate progress for the Audit Committee. Key areas identified were: welfare reform changes, integration of health and social care and the effectiveness of the CPP. The third challenge posed was how to ensure the Audit Committee had impactful meetings. After discussion members resolved to build in a post Audit Committee review at each meeting to assess their progress in committee development.

Other topics covered by the presentation included corporate governance, relationship between audit and scrutiny and the regulatory and legislative context to audit committee work. In that context it was suggested that the audit committee would communicate key issues arising from its meetings through a brief issues paper to the Council.

#### **4. PROGRESS REVIEW BY CHAIR of the PERFORMANCE REVIEW AND SCRUTINY (PRS) COMMITTEE**

At the beginning of the afternoon session the Chair of the PRS joined the meeting. He provided a short overview of the PRS first meeting which took place on 21 February 2013. The Chair also disseminated the PRS Terms of Reference (ToR) and where he thought there was cross over with the Audit committee ToR. The PRS Chair took the view that there were common areas of oversight with audit work commissioning assurance on control of risk whereas PRS would be seeking improvement in Council performance and scrutinising the process of policy generation.

The meeting then resolved to amend the Audit Committee ToR to take account of areas clearly within the remit of PRS and to develop an on-going working relationship between both Chairs.

#### **5. THE DEVELOPMENT PROGRAMME**

##### **SELF ASSESSMENT QUESTIONNAIRE RESULTS**

There were 3 elements contained in the Development Programme section of the day's business, Self-Assessment, Work and Training Plan. The first item was a walk through discussion of the CIPFA self-assessment checklist. The main issues that were identified included whether the Audit Committee takes a role in overseeing Risk Management, Strategies, etc. It was agreed that these issues would be addressed through the Audit Committee's review of the Council's Strategic Risks and their alignment with the Corporate and other plans. The second issue requiring further review covered assessment of member skills and experiences and training given for identified gaps. The decision taken was to review this in line with the development needs of the Audit Committee arising from the proposed post meeting reviews.

##### **ANNUAL WORK PLAN**

The members reviewed the current work plan which details the reporting agenda items by quarter. Currently, the Audit Committee receive reports covering External and Internal Audit, Risk Management, Anti-fraud and Corruption, Performance Management, Corporate Governance and Annual Accounts. The members agreed that the current annual work plan was appropriate apart from 2 amendments. Under March the agenda item for Risk Management should be renamed Strategic Risk Register and positioned first and secondly that the Anti-fraud and corruption item should be moved to June when final assurance reports are received by the committee for the financial year 2012 – 2013. An amended draft Work Plan for 2013 – 2014 is set out for approval in Appendix 1.

##### **ANNUAL TRAINING PLAN**

The Training Plan focuses on individual and collective training needs of the committee. The collective decision endorsed by the Audit Chair was to defer any decisions on training until members had a clearer understanding of their role as members of the Audit Committee arising from the planned reviews.

## 6. AUDIT COMMITTEE TERMS OF REFERENCE (ToR)

The current Terms of Reference which follow the guidance outlined by the Chartered Institute of Public Finance and Accountancy (“CIPFA”) was presented for discussion. The members undertook a review of the 4 section headings detailed in their Terms of Reference:

- Audit Activity;
- Regularity Framework;
- Financial Accounts and Governance; and
- Delivery Achievement Monitoring.

Members concentrated their attention on section 4 of the ToR after receiving a short review of the Performance Review and Scrutiny (PRS) Committee ToR by their Chairman. The decision taken in discussion with the Chair of the PRS was that the Audit Committee ToR should be amended with 2 of the items listed under Delivery Achievement Monitoring being removed. It was requested that the Audit Committee ToR should come forward to the June Audit Committee, to be forwarded thereafter for inclusion in any update of the Council Constitution.

As a result an updated Terms of Reference has been prepared and will be set out in a separate report to the June Audit Committee for approval and thereafter will go forward for Council approval.

## 7. INTERNAL AUDIT – PERFORMANCE INDICATORS

Members of the Audit Committee were provided with a copy of the Internal Audit - Performance Indicators (PIs) reported annually in June to the committee. A discussion took place on the merits of each of the indicators. One additional indicator was requested and this related to the committee receiving a view from External Audit on Internal Audit performance. The indicators have been duly amended and are attached in Appendix 2.

**APPENDIX 1  
AUDIT COMMITTEE - ANNUAL WORK PLAN 2013 – 2014**

<b>MEETING DATES AND AGENDA ITEMS</b>			
<b>March</b>	<b>June</b>	<b>September</b>	<b>December</b>
1. Strategic Risk and Risk Management • Quarterly Update Report • Progress update on development of Risk Management.	1. Strategic Risk and Risk Management • Quarterly Update Report • Progress update on development of Risk Management.	1. Strategic Risk and Risk Management • Quarterly Update Report • Progress update on development of Risk Management.	1. Strategic Risk and Risk Management • Quarterly Update Report • Progress update on development of Risk Management.
2. Internal Audit • Annual Audit Plan Approval • Follow up Actions Status • Progress against Plan • Completed IA Reports	2. Audit Committee • Annual Report	2. Audit Committee • Self Review	2. Audit Committee • Work and Training Plan • Terms of Reference reviewed to confirm on-going appropriateness.
3. External Audit • Annual Audit Plan • Follow up Actions Status • Progress against Plan • Consider EA Reports	3. Internal Audit • Report on year • Follow up Actions Status • Progress against Plan • Completed IA Reports	3. Internal Audit • Private meeting • Follow up Actions Status • Progress against Plan • Completed IA Reports	3. Internal Audit • Ensure Fraud and 'Data Integrity' linked to Performance management system are included in audit plan development. • Follow up Actions Status • Progress against Plan • Completed IA Reports
4. Performance Management • Quarterly Update Report • Ensure Data Integrity' is included in internal audit plan.	4. External Audit • Interim Audit work review. • Progress against Plan • Consider EA Reports	4. External Audit • ISA260 Report • Private meeting • Progress against Plan • Consider EA Reports	4. External Audit • Annual Audit report. • Progress against Plan • Consider EA Reports
5. Accounts • Accounts Completion - Work Plan review	5. Performance Management • Quarterly Update Report	5. Performance Management • Quarterly Update Report	5. Performance Management • Quarterly Update Report • Review Finalised Scorecards to be adopted by performance management system. • Discuss the implications of Best Value 2 within the Council.



<b>MEETING DATES AND AGENDA ITEMS</b>			
<b>March</b>	<b>June</b>	<b>September</b>	<b>December</b>
6. Committee Development Review	6. Anti-Fraud & Corruption <ul style="list-style-type: none"> <li>• Annual Review of fraud results across the Council</li> <li>• Annual report on National Fraud Initiative (NFI).</li> <li>• Review of Anti-Fraud and Corruption arrangements</li> </ul>	6. Accounts <ul style="list-style-type: none"> <li>• Review of audited annual accounts.</li> </ul>	6. Corporate Governance Arrangements <ul style="list-style-type: none"> <li>• Annual Report on Corporate Governance</li> <li>• Consideration of Internal Control Statement.</li> <li>• Consider actions taken to monitor relevant statutory and regulatory issues affecting Council.</li> </ul>
	7. Corporate Governance Arrangements <ul style="list-style-type: none"> <li>• Review Statements of Control</li> </ul>	7. Committee Development Review	<b>7. Committee Development Review</b>
	8. Accounts <ul style="list-style-type: none"> <li>• Review of un-audited accounts</li> <li>• Review progress of IFRS implementation and development of management information.</li> </ul>		
	9. Committee Development Review		

**APPENDIX 2**

**INPUT PERFORMANCE MEASURES 2012 – 2013**

Ref	Performance Indicator	Target	Achieved 2012- 13	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%		
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%		
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%		
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion; contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.		
5.	Management’s feed back on audit planning and fieldwork.	To achieve ‘average’ or better in questionnaire ratings. (i.e.: a mean score of ‘3’ or more for each question		
6.	Percentage of direct audit time	Target 81%		

**OUTPUT PERFORMANCE MEASURES 2012 – 2013**

Ref	Performance indicator	Target	Achieved 2012- 13	Comment
1.	Audit operational plan to be submitted to the Audit Committee by 31 March each year.	31 March of each year (100%)		
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year		
3.	Completion of the Annual Audit Plan subject to variations agreed by Audit Committee.	100%		
4.	Recommendations accepted compared to recommendations made.	Fundamental/High – 100%  Material/Medium – 100%  Minor/Low – 100%		
5.	Internal audit costs are within budget (including in-year budget variations)	Total costs were within budget.		
6.	External audit comment on internal audit performance	External audit places reliance on internal audit.		

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**ARGYLL AND BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
15 March 2013**

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**FINANCIAL STATEMENTS – 2012/13**

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**1 INTRODUCTION**

- 1.1 This report advises the Audit Committee on the plans in place for financial year end 31 March 2013 and the preparation of the Council's Financial Statements for 2012-13.
- 1.2 Processes have been established over the last two years to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) on an on-going basis. There are no major changes in accounting practice for 2012-13.

**2 RECOMMENDATIONS**

- 2.1 To note that plans are in place to prepare the Council's financial statements, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2013 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 financial statements.
- 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 3 May.
  - Revenue expenditure, creditors, debtors, accruals and prepayments completed by 30 April.
  - Council Tax and NDR entries completed by 17 May.
  - Review and adjustments to ledger and central department cost

allocations completed by 17 May.

- Preparation of unaudited single entity financial statements including report by Head of Strategic Finance by 7 June.
- Unaudited single entity financial statements considered by a meeting of the Full Council on 27 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 2013.

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 2013 and with supporting documentation of a standard to enable completion of the audit by the required deadline of 30 September 2013.

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  
8 March 2013

# Argyll and Bute Council

## Annual Audit Plan 2012/13



Prepared for Members of Argyll and Bute Council  
March 2013

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



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# Summary Plan

## Summary of planned audit activity

Based on our analysis of the risks facing Argyll and Bute Council (the council), our planned work in 2012/13 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of Argyll and Bute Council as at 31 March 2013 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2012 Code of practice on local authority accounting in the United Kingdom (the Code)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2013/14 to 2015/16
- provision of the annual report on the audit addressed to the members of the council and the Controller of Audit
- a review and assessment of the council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; statutory performance indicators; national study follow-up work; and ICT computer service reviews
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative (NFI) arrangements throughout 2012/13.

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the council, and sets out the audit work that we propose to undertake in 2012/13.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will issue, on behalf of the Local Area Network (LAN), an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing the council and set out the planned scrutiny activity in the council for the period April 2013 to March 2016.

## Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.

## Our approach

5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally.
6. We have considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2012/13 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2012/13.
7. 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 early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. Overall, we concluded that the internal audit service operates in accordance with the 2006 CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
8. For our financial statements audit work we plan to review the findings and place formal reliance on the work of internal audit in the following areas:
  - Non Domestic Rates
  - Council tax
  - Payroll
  - Trade Payables and Purchasing
  - Trade Receivables

- Financial ledger
  - Treasury management
  - Capital accounting
9. For our governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- Performance Management Arrangements
  - SPI verification work.
10. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Responsibility for the preparation of accounts

11. It is the responsibility of the council and the Head of Strategic Finance, as proper officer, to prepare the financial statements in accordance with the Code. This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of the council as at 31 March 2013 and its expenditure and income for the year then ended
  - reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process
  - preparing an explanatory foreword.

## Format of accounts

12. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government and is required to prepare its accounts using common accounting principles and standard formats for summarisation.

## Audit issues and risks

### Summary assurance plan

13. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. Our Assurance and Improvement Plan Update 2013-16 also

provides an analysis of wider risks and issues which relate to aspects of the council's performance against agreed outcomes and targets.

14. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified a range of risks for your organisation which require further consideration as part of our 2012/13 audit. In most cases, actions to manage these risks are either planned or underway within the council. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are also set out in Appendix A. In the period prior to the submission of the unaudited financial statements we will liaise with senior officers on any new or emerging risks.

## Performance audit

15. Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and the Accounts Commission. Recent studies of relevance have included:
  - Health inequalities in Scotland (December 2012)
  - Reducing re-offending in Scotland (December 2012)
  - How Councils Work - Managing Performance: Are you getting it right?
  - How Councils Work - Using Cost Information to Improve Performance: Are you getting it right?
  - Protecting consumers (January 2013)
16. Future reports will include, Major capital investment in councils (March 2013) and An overview of local government in Scotland (March 2013).
17. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2012/13, this will involve the completion of impact templates to describe how the council has considered relevant national reports and a targeted follow-up review of *Scotland's Public Finances: Addressing the challenges* (published in August 2011).
18. The council should consider all relevant issues identified in national studies and take appropriate action as required.

## Materiality

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control).

## Reporting arrangements

21. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is important that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned committee dates and audit resources.
22. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Head of Strategic Finance, relevant senior managers, internal audit and Audit Scotland's best value & scrutiny improvement group.
23. We will provide an independent auditor's report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks.
24. All annual reports produced by Audit Scotland are published on our website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
25. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1:

### Exhibit 1: 2012/13 Planned Outputs

Planned outputs	Target delivery date
<b>Governance</b>	
Assurance and Improvement Plan update (jointly prepared with other local government scrutiny bodies)	30 April 2013
Review of Adequacy of Internal Audit	28 February 2013
Internal controls management letter	31 July 2013
<b>Performance</b>	
Scotland's Public Finances: Addressing the challenges - follow up report	31 August 2013
<b>Financial Statements</b>	
Report to Audit Committee in terms of ISA 260 (communication of audit matters to those charged with governance)	30 September 2013
Independent auditor's report on the financial statements	30 September 2013

Planned outputs	Target delivery date
Audit opinion on Whole of Government Accounts	5 October 2013
Annual report to members and the Controller of Audit	31 October 2013
<b>Grants</b>	
Audit opinions on Education Maintenance Allowance, Non Domestic Rates Income return, and Housing Benefit & Council Tax Benefit subsidy.	As required

## Quality control

26. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case Fiona Mitchell-Knight is responsible for ensuring that our work is carried out on time and to a high quality standard.
27. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

## Fees and resources

28. In the context of the challenges faced by local authorities, the impact of national spending decisions, and changes made in Audit Scotland's own overall budget we have re-examined our audit fee in 2012/13.

### Exhibit 2: Audit Fee

Description	Audit Fee 2011/12	Audit Fee 2012/13	% Change
Total audit fee	£266,160	<b>£253,180</b>	<b>4.9% reduction</b>

29. Our agreed fee for the 2012/13 audit of the council is **£253,180**. Our fee covers:
- all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at audit committee meetings and other committees
  - access to advice and information on relevant audit issues
  - travel and subsistence costs.
30. In determining the agreed fee we have taken account of the risk exposure of the council, the management assurances in place and the level of reliance we plan to take from the work of

internal audit. We have assumed receipt of the draft accounts and working papers by 28 June 2013.

31. In 2011/12 Audit Scotland were successful in delivering all of our work for less than the budgeted costs, largely as a result of our cost reduction plans continuing to be achieved faster than planned. As a result, you will receive a one off rebate equivalent to around 6% of the 2011/12 indicative fees. This is in addition to the ongoing reduction noted above.
32. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.
33. Fiona Mitchell-Knight, Assistant Director, Audit Services, is your appointed auditor. The local audit team is led by David Jamieson who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

## Independence and Objectivity

34. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team. We comply with ethical standards issued by the Financial Reporting Council and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix D.



# Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of the council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of Assurance	Planned audit action
<b>Financial management and sustainability</b>		
<p>The council continues to face pressure on its budget. This comes at a time of increasing pressures on demand-led services as well as a number of planned national reforms which are likely to have an impact on the council's future financial planning.</p> <p><i>There is a risk that the council will be unable to achieve the necessary savings without compromising service delivery.</i></p>	<ul style="list-style-type: none"> <li>• The council has a good track of financial management.</li> <li>• The Council agreed a detailed budget for 2013-14 on 14 February 2013 and this included consideration of the summary budget position for 2014-15 and 2015-16 and a set of high level forecasts for the following 4 year. This builds upon the 3 year budget agreed in February 2012.</li> <li>• 3 year programme of service reviews with robust methodology for identifying, implementing and monitoring savings.</li> <li>• The Council has developed a Corporate Improvement Programme designed to review and improve the utilisation, efficiency and effectiveness of corporate resources which will</li> </ul>	<ul style="list-style-type: none"> <li>• Budget setting and monitoring arrangements reviewed as part of the annual risk assessment.</li> <li>• Comment on the council's financial position included in the annual Report to Members.</li> <li>• We will carry out a focused follow up of <i>Scotland's public finances: addressing the challenges</i> (published August 2011).</li> </ul>

Risk	Source of Assurance	Planned audit action
	support identification and delivery of future savings.	
<b>Equal pay claims</b>		
<p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><i>There is a risk that the ultimate cost to the council is greater than anticipated.</i></p>	<ul style="list-style-type: none"> <li>The council set aside a provision of £0.191m in 11/12 to deal with equal pay claims. This sum was based on the best evidence available at the time.</li> <li>The position will be subject to review in 2012/13 and the adequacy of the provision assessed accordingly.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor developments throughout the year and review the equal pay provision as part of the 2012/13 financial statements audit.</li> </ul>
<b>Roads maintenance</b>		
<p>The roads capital budget has increased however, the roads maintenance backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011.</p> <p><i>There is a risk that a proportion of the road network in the council area will continue to deteriorate in future years</i></p>	<ul style="list-style-type: none"> <li>The council has developed a 3 year roads Reconstruction Recovery Programme and a longer term strategy and plan for improvement</li> <li>Additional capital funding has been allocated by the council to road maintenance to address this challenge.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor implementation of strategy through review of committee papers and discussion with officers.</li> </ul>
<b>Welfare reform</b>		
<p>The changes resulting from the implementation of the Welfare Reform Act 2012 are likely to be significant both in terms of the impact on the council and on benefit claimants.</p> <p><i>There is a risk that the council fails to meet the challenges of supporting the delivery of the reform.</i></p>	<ul style="list-style-type: none"> <li>A working group has been set up in relation to welfare reform. It has cross service membership and given the impact this may have across the community a number of key partners have also been co-opted onto the group.</li> </ul>	<ul style="list-style-type: none"> <li>Audit Scotland will carry out a data collection exercise across Scottish councils to identify the action being taken to prepare for welfare reforms. The findings will be used to inform the Accounts Commission and provide feedback to</li> </ul>

Risk	Source of Assurance	Planned audit action
	<ul style="list-style-type: none"> <li>The Council will continue to monitor developments and will bring forward plans based on developments.</li> </ul>	<ul style="list-style-type: none"> <li>councils.</li> <li>Monitor preparedness through review of committee papers and discussion with officers.</li> </ul>
<b>Benchmarking</b>		
<p>There is scope to develop a more coordinated approach to benchmarking and to demonstrate that it is being used to improve performance. This will enhance the information currently available to establish the efficiency and cost effectiveness of services and to identify scope for further performance improvements.</p> <p><i>There is a risk that the council may not be able to demonstrate whether or not its services are providing value for money.</i></p>	<ul style="list-style-type: none"> <li>This is being taken forward as part of the corporate improvement plan. It is covered by the project related to productivity and service improvement.</li> <li>This project will be monitored to ensure it develops further the Council's approach to benchmarking.</li> </ul>	<ul style="list-style-type: none"> <li>Meet regularly with the Head of Improvement and Strategic HR to monitor progress against specified actions.</li> </ul>
<b>Trade Receivables</b>		
<p>Our experience of the level of Bad Debt Provision (BDP) in other councils suggests the percentage provisions for bad debt are lower than in other councils.</p> <p><i>There is a risk that the BDP is understated.</i></p>	<ul style="list-style-type: none"> <li>The BDP in 2011/12 was based on the judgement of the probability of each debt being collected.</li> <li>The basis for calculating the provision will be reviewed during 2012/13 and annually thereafter.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor level of BDP and actual debts written off during the year as part of the 2012/13 review of the system of internal control.</li> </ul>

# Appendix B - Financial statements audit timetable

Key stage	Date (by)
Testing and review of internal control systems and transactions	January-June 2013
Provision of closedown procedures to audit	31 March 2013
Meetings with officers to clarify expectations of detailed working papers and financial system reports	By 31 March 2013 and ongoing thereafter.
Planned committee approval of unaudited financial statements	30 June 2013
Latest submission of unaudited financial statements with working papers package	28 June 2013
Progress meetings with lead officers in emerging issues	As required
Latest date for final clearance meeting with Head of Strategic Finance	6 September 2013
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	13 September 2013
Audit Committee date	20 September 2013
Independent Auditor's Report signed	30 September 2013
Latest date for submission of unaudited Whole of Government Accounts (WGA) return for external audit	12 August 2013
Latest date for signing WGA return	5 October 2013
Certified accounts and annual report presented to the council	By 31 December 2013

# Appendix C - Audit team

A summarised curriculum vita for each core team member is set out below:

***Fiona Mitchell-Knight BA (Hons) FCA***

***Assistant Director of Audit Services (certifying auditor)***

Fiona took up post as Assistant Director of Audit in August 2007, following 6 years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 19 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sector.

***David Jamieson CPFA***

***Senior Audit Manager***

David has over twenty years experience of both internal and external audit from a wide range of public sector clients including the NHS, local and central government.

***Russell Smith BAcc CA***

***Senior Auditor***

Russell has twelve years experience of public sector audit with Audit Scotland, covering local and central government. Russell previously worked in external audit in the private sector and in the international audit department of a multi national company.

***Lindsay Tosh***

***Auditor***

Lindsay has 39 years public sector accountancy experience, with 26 years at senior management level within the NHS. He has 10 years experience of public sector audit with Audit Scotland, covering local government, health and further education bodies.

***Neil Robb***

***ICT Senior Auditor***

Neil has 18 years experience of public sector audit with Audit Scotland, covering local government, health and the central government sectors. Prior to this, Neil spent 19 years in various IT management, security and operational roles in financial services.

# Appendix D - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Financial Reporting Council (FRC). The main requirements of the Code of Audit Practice, standing guidance for auditors, and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team, and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the FRC's Ethical Standards for auditors.
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor.
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines "those charged with governance" as "the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the appropriate addressees of communications from the auditor to those charged with governance are the s95 officer and the Finance and Audit Scrutiny Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.

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