

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

Customer Services  
Executive Director: Douglas Hendry



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7 March 2014

## **NOTICE OF MEETING**

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 14 MARCH 2014** at **11:15 AM**, which you are requested to attend.

Douglas Hendry  
Executive Director - Customer Services

## **BUSINESS**

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST**
- 3. MINUTES**  
Audit Committee 13 December 2014 (Pages 1 - 8)
- 4. MONITORING OF STRATEGIC RISK REGISTER**  
Report by Head of Strategic Finance (to follow)
- 5. PROGRESS WITH SINGLE OUTCOME AGREEMENT/ADDRESSING KEY STRATEGIC RISKS**  
Report by Head of Strategic Finance (to follow)
- 6. POST COMPLETION REVIEWS - CAPITAL PROJECTS**  
Report by Head of Strategic Finance (Pages 9 - 10)
- 7. AUDIT SCOTLAND NATIONAL REPORTS**  
Report by Head of Strategic Finance (Pages 11 - 14)
- 8. FINANCIAL STATEMENTS 2013 - 2014**  
Report by Head of Strategic Finance (Pages 15 - 18)
- 9. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2013 - 2014**  
Report by Internal Audit (Pages 19 - 22)

- 10. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2013 - 2014**  
Report by Internal Audit (Pages 23 - 48)
- 11. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2013 - 2014**  
Report by Internal Audit (Pages 49 - 58)
- 12. NATIONAL FRAUD INITIATIVE (NFI) - NATIONAL EXERCISE 2012/13**  
Report by Internal Audit (to follow)
- 13. UPDATE ON INTERNAL AUDIT DEVELOPMENT PLAN**  
Report by Internal Audit (Pages 59 - 68)
- 14. INTERNAL AUDIT RISK ASSESSMENT AND PLAN**  
Report by Grant Thornton (to follow)
- 15. EXTERNAL AUDIT PLAN**  
Report by Audit Scotland (to follow)
- 16. AUDIT COMMITTEE DEVELOPMENT DAY**  
Report by Head of Strategic Finance (Pages 69 - 72)

## **AUDIT COMMITTEE**

Martin Caldwell (Chair)  
Councillor Maurice Corry  
Councillor Iain MacDonald  
Sheila Hill

Councillor Gordon Blair  
Councillor Fred Hall  
Councillor James Robb

Contact: Fiona McCallum

Tel. No. 01546 604392

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY,  
LOCHGILPHEAD  
on FRIDAY, 13 DECEMBER 2013**

**Present:**

Martin Caldwell (Chair)

Councillor Gordon Blair

Councillor Aileen Morton

**Attending:**

Bruce West, Head of Strategic Finance  
Jane Fowler, Head of Improvement and HR (item 4)  
Patricia O'Neill, Central Governance Manager  
Alan Morrison, Regulatory Services Manager (item 5a)  
Gary Devlin, Grant Thornton  
David Jamieson, Audit Scotland  
Moira Weatherstone, Internal Audit  
Mhairi Weldon, Internal Audit  
David Sullivan, Internal Audit

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were intimated from Councillor Maurice Corry and Sheila Hill.

**2. DECLARATIONS OF INTEREST**

Mr Caldwell declared a non financial interest in the LEADER Funding Internal Audit Report as he was the secretary of a voluntary organisation which had previously benefited from LEADER funding. The report was before the Committee for consideration at item 15 of this Minute. It was agreed to continue consideration of this report to the next Audit Committee in March 2014 as the meeting would be inquorate if Mr Caldwell left the room during discussion of this report.

**3. MINUTES**

The Minutes of the Audit Committee of 20 September 2013 were approved as a correct record.

With reference to matters arising under item 3 - Minutes it was noted that the report by the Head of Strategic Finance would come to the Audit Committee in March 2014.

**4. LOCAL GOVERNMENT BENCHMARKING FRAMEWORK**

The Local Government Benchmarking Framework has replaced the Statutory Performance Indicators as a means of improving Scotland's performance through comparison and learning across Scottish councils. Argyll and Bute Council is participating in the developing framework and consideration was given to a report advising on progress being made with implementing the new Local Government Benchmarking Framework.

**Decision**

Noted the progress made with implementing the new Local Government Benchmarking Framework.

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

**5. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE  
2012 - 2013 & 2013 - 2014**

**(a) PROTECTING CONSUMERS ACTION PLAN - PROGRESS  
REPORT**

On 17 April 2013 Members of the Planning, Protective Services and Licensing Committee endorsed an Action Plan to address the issues raised by the Audit Scotland report "Protecting Consumers". Regular reports have been provided to the Council's Audit Committee against the agreed plan and on 20 November 2013 the Planning, Protective Services and Licensing Committee considered a six month progress report. A report summarising the current position was before the Audit Committee for consideration.

**Decision**

The Committee noted:-

1. the contents of the report and the considerable progress which has been made and arrangements which are in place to manage this project; and
2. that timescales for 5 activities where the timescales were unachievable for various reasons have been extended with agreement of the PPSL Committee.

(Reference: Report by Head of Planning and Regulatory Services dated December 2013, submitted)

**(b) HOUSING IN SCOTLAND**

A report advising of a recently published report by Audit Scotland entitled "Housing in Scotland" along with a management response to this was considered.

**Decision**

1. Noted the contents of the report which will be followed up by Internal Audit; and
2. Noted that Officers are giving consideration to how the Council and the Audit Committee should address issues raised in Audit Scotland reports in the future.

(Reference: Report by Head of Strategic Finance dated 18

November 2013, submitted)

**(c) CHARGING FOR SERVICES: ARE YOU GETTING IT RIGHT?**

A report advising of a recently published report by Audit Scotland entitled "Charging for Services: Are You Getting it Right" was considered.

**Decision**

1. Noted the contents of the report which will be followed up by Internal Audit; and
2. Noted that the Management Response to the questions within the report would be brought to the Audit Committee for consideration.

(Reference: Report by Head of Strategic Finance dated 18 November 2013, submitted)

**6. AUDITED ACCOUNTS 2012 - 2013**

The external auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2013. Consideration was given to the audited accounts incorporating the audit certificate for 2012 – 2013 which had been presented to the Council on 28 November 2013.

**Decision**

Noted the audited accounts and the terms of the audit certificate.

(Reference: Report by Head of Strategic Finance dated 20 November 2013 and Audited Financial Statements for the year ended 31 March 2013, submitted)

**7. EXTERNAL AUDITORS ANNUAL REPORT FOR YEAR ENDED 31 MARCH 2013**

Consideration was given to a report introducing the external auditors Annual Audit report for 2012/13 which had been presented to the Council on 28 November 2013.

**Decision**

1. Noted the external audit Annual Report for 2012/13; and
2. Noted that a neighbouring authority had not had its application to connect to the Public Services Network approved and agreed to request that the Head of Customer and Support Services circulate to the Audit Committee an update on the current position.

(Reference: Report by Head of Strategic Finance dated 20 November 2013 and Annual Report on the 2012/13 Audit by Audit Scotland dated

October 2013, submitted)

## **8. UPDATE ON INTERNAL AUDIT IMPROVEMENT PLAN**

A report was presented at the September Audit Committee introducing the outcome of a review of Internal Audit which was carried out as part of the strategic development and performance improvement partnership with Grant Thornton and CIPFA. A report highlighting progress made against the improvements identified as a result of the Internal Audit Review against the Public Sector Internal Audit Standards was considered.

### **Decision**

1. Noted progress made to date in completion of the improvement plan;
2. Noted that discussions were underway with CIPFA regarding scheduling an Audit Committee Away Day for late February/early March 2014; and
3. Noted that the review of key performance indicators for Internal Audit will involve discussions with current and new Audit Committee Members.

(Reference: Report by Chief Internal Auditor dated 6 December 2013 and report by Audit Scotland dated December 2013, submitted)

## **9. UPDATE ON STRATEGIC RISK REGISTER**

A report updating the Committee on the key strategic risks facing the Council, the associated mitigating actions and changes in these risks was considered.

### **Decision**

1. Noted the contents of the report; and
2. Noted the red risk in respect of the Operating Market and Population and Economic decline and agreed to request that the Economic Development Manager bring a report to the next Audit Committee meeting in March 2014 detailing the mitigation measures being taken to address this risk.

(Reference: Report by Head of Strategic Finance dated 7 November 2013, submitted)

## **10. ACCOUNTS COMMISSION STATUTORY REPORT**

A report advising that the statutory report by the Controller of Audit and Accounts Commission findings have been submitted to the Council and that an action plan will be developed over the next 3 months was considered.

### **Decision**

Noted the terms of the report.

(Reference: Report by Chief Executive dated 6 December 2013, submitted)

## **11. INTERNAL AUDIT CHARTER**

A report introducing the Internal Audit Charter prepared in line with the requirements of the Public Sector Internal Audit Standards was considered..

### **Decision**

1. Approved the Internal Audit Charter subject to the following amendments:-
  - (a) All references within the Charter to “Internal Audit Service” to be changed to “Internal Audit” throughout the document;
  - (b) Noted that the second bullet point at paragraph 9 of the Charter will be rephrased;
  - (c) The word “direction” to be changed to “guidance” within the first paragraph at section 13 of the Charter; and
2. Agreed to delegate authority to the Head of Strategic Finance to finalise the Charter in consultation with the Chair and Vice Chair of the Audit Committee.

(Reference: Report by Chief Internal Auditor dated 6 December 2013 and Internal Audit Charter dated November 2013, submitted)

## **12. INTERNAL AUDIT TERMS OF REFERENCE AND REPORT TEMPLATES - DRAFT**

A report introducing updated terms of reference and reporting templates for internal audit work was considered.

### **Decision**

Approved the proposed amendments to the Terms of Reference and Audit Reporting templates for internal audit.

(Reference: Report by Chief Internal Auditor dated 13 December 2013, submitted)

## **13. INTERNAL AUDIT RISK ASSESSMENT PROCESS**

A report setting out the approach to be taken to carrying out the risk assessment that will underpin the development of the internal audit plan for 2014-15 was considered.

**Decision**

Approved the principles of the risk assessment process to be used in development of the 2014-15 internal audit plan.

(Reference: Report by Head of Strategic Finance dated 9 December 2013, submitted)

**14. UPDATED ANNUAL AUDIT PLAN 2013/14**

A report introducing the Annual Audit Plan for 2013/14 was considered.

**Decision**

1. Noted the progress made to date in delivering the 2013/14 Annual Audit Plan; and
2. Approved the proposed amendments to the Annual Audit Plan.

(Reference: Report by Chief Internal Auditor dated 13 December 2013 and Updated Annual Audit Plan 2013 – 14 dated 13 December 2013, submitted)

**15. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE**

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

**Decision**

1. Noted the contents of the reports in respect of the following audits which will be followed up by Internal Audit:-
  - (a) Council Tax – Second Homes and Unoccupied Homes
  - (b) Non-Domestic Rates – Business Improvement Districts
  - (c) Sundry Debtors
2. Agreed to continue consideration of the report on LEADER Funding – Annual Certification to the Audit Committee meeting in March 2014.

(Reference: Report by Chief Internal Auditor dated 19 November 2013, submitted)

**16. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2013 - 2014**

Internal Audit documents progress made by departmental management in implementing the recommendations made by both External and Internal Audit. A report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 31 October 2013 was considered.



**Decision**

Noted and approved the contents of the report.

(Reference: Report by Chief Internal Auditor dated 18 November 2013, submitted)

**17. NATIONAL FRAUD INITIATIVE (NFI) - NATIONAL EXERCISE 2012/13**

A report providing the current position regarding the Accounts Commission – Audit Scotland NFI exercise for 2012/13 was considered.

**Decision**

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

(Reference: Report by Chief Internal Auditor, submitted)

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**POST COMPLETION REVIEWS – CAPITAL PROJECTS**

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**1 SUMMARY**

- 1.1 This report sets out the arrangements for reporting on post completion reviews for capital projects.

**2 RECOMMENDATION**

- 2.1 The Audit Committee note the terms of this report.

**3 DETAIL**

- 3.1 The Audit Committee in June 2013 asked for a report to be brought forward that sets out how the Council could report openly and transparently on the outcome of capital projects without compromising commercial sensitivity. The report was requested for December 2013 but subsequently deferred to March 2014.
- 3.2 Carrying out a review following implementation of a project to establish lessons learned is a key part of the Councils project management methodology. In relation to capital projects these are referred to as post completion reviews. A post completion review is required on all capital projects but this is tailored to scope/scale of the project. The following paragraphs set out an outline of the reporting line for post completion reviews.
- 3.3 Post completion reviews for asset sustainability projects are reported to each DMT and the Asset Management Board. Given the nature of asset sustainability projects these are relatively straight forward covering the following:
- Was the project delivered on time?
  - Was the project delivered within budget?
  - Is the completed project in line with agreed scope?
  - What are the key lessons learned (good practice or areas for improvement) for this project?
- 3.4 In order to support organisation learning and understanding of performance on capital projects the Asset Management Board will prepare a summary report on post completion reviews and lessons learned for asset sustainability projects. An annual summary of this will be submitted to PRS Committee in August each year.
- 3.5 In relation to service development projects then post completion reviews will be submitted to DMTs, Asset Management Board and SMT. The report is not expected to exceed 2-3 pages and will set out

- The project objectives and the extent to which these have been achieved with comments.
- A comparison of planned and actual completion date with comments.
- A comparison of budget and actual expenditure with comments.
- Any outstanding issues or risks with comments.
- Lessons learned
  - What went well
  - Areas for improvement

3.6 The post completion reviews for service development projects will not be submitted to members but a summary of all post completion reviews will be prepared each year setting down the key points arising. This will be reported to PRS Committee in August each year.

3.7 A post completion review for each strategic change project will be prepared. This will be submitted to DMTs, Asset Management Board, SMT and PRS Committee. The report will cover the same matters as the post completion review for service development projects but may be more detailed due to the nature of the projects. The report will also set out a timescale for a second review to assess the impact of the project over the longer term.

3.8 These reviews for strategic change projects will be submitted to PRS Committee in detail for review. PRS will identify any issues it wishes to highlight to the Council, other committees and officers.

#### **4 CONCLUSION**

4.1 It is good practice to carry out post completion reviews of projects, to reflect on lessons learned and identify potential future improvements. This report sets out the approach to preparation of post completion reviews on capital projects. The approach is tailored to meet the different nature of asset sustainability, service development and strategic change projects.

#### **5. IMPLICATIONS**

- 5.1 Legal – None. Report for noting
- 5.2 Finance – None. Report for noting
- 5.3 HR – None. Report for noting
- 5.4 Policy – None. Report for noting
- 5.5 Risk – None. Report for noting
- 5.6 Equalities – None. Report for noting
- 5.7 Customer Services – None. Report for noting

For further information please contact Bruce West, Head of Strategic Finance (01546 404220).

Bruce West, Head of Strategic Finance  
7 March 2014

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**AUDIT SCOTLAND NATIONAL REPORTS**


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**1 SUMMARY**

- 1.1 This report sets out a revised approach for submitting Audit Scotland National reports to the Audit Committee.

**2 RECOMMENDATION**

- 2.1 The Audit Committee agree the revised approach to dealing with Audit Scotland National Reports.

**3 DETAIL**

- 3.1 For a number of years it has been the practice to submit all Audit Scotland National Reports to the Audit Committee. This has ensured these reports are reviewed to identify issues that the Council need to address. The reports when submitted to the Audit Committee have normally been accompanied by a management response to the issues raised.

- 3.2 The national reports can be more generic in terms of identifying national risks and areas of concern rather than being directly related to an individual organisation. It is also the case that the “how Councils work” style of reports are tending to include good practice checklists rather than necessarily identifying weaknesses in organised processes. As a result the relationship between an issue reported in a national report and what the Council needs to do is less clear. These reports whilst important are beginning to take up more time at the Committee and take a greater proportion of the agenda papers. The Audit Committee has asked if a review can be undertaken to identify options for bringing the information to the Audit Committee in a more manageable way that ensures there is oversight of these reports but that ensures the focus of the Audit Committee is seeking assurance on the key risks and controls.

- 3.3 Moving forward it is proposed that the following be considered as a starter for consideration in dealing with these reports.

1. The report is received by Internal Audit from Audit Scotland.
2. Internal Audit and Improvement and OD (Performance Management) agree split of report between audit issues and performance issues and identify a lead manager to review and respond to relevant elements of the report. This to be completed within 2 weeks of + 2 weeks

receipt of report.

3. Internal Audit issue report and request for review, comments, assessment of council position and drafting of an action plan to relevant lead managers. A period of 2 weeks allowed for lead managers to complete this. + 4 weeks
4. Internal Audit and Improvement and OD (Performances Management) review completed responses for adequacy / appropriateness and refer back to lead managers if required. A joint report is then prepared for SMT to highlight key issues from the report, comments by lead managers, the lead managers assessment of the council position and the proposed action plan. The full report would be attached as an appendix. This to be completed with 2 weeks of receipt of completed management comments / assessment. + 6 weeks
5. SMT agree report, assessment and action plan and its release to PRS Committee and Audit Committee or SMT request revision. +7 weeks
6. Internal Audit and Improvement and OD (Performance Management) prepare a quarterly report for Audit Committee and / or PRS Committee that sets out a summary of each national report, the relevant issues for Audit Committee and PRS Committee, the Councils assessment against these and the proposed action plan. In respect of the Audit Committee this would involve an assessment of impact on the audit risk assessment.
7. The updated audit risk assessment would ensure finding from these reports were assessed as part of ongoing audit planning and were included where appropriate in terms of reference for audits either scope and objectives or audit risk assessment.
8. Progress against action plan would be monitored and reported to Audit Committee and PRS Committee as appropriate.

A report would be submitted to each Policy & Resource Committee setting out the national reports received, a summary of the report and a note setting out how the national reports would be progressed and reported to Audit Committee and PRS Committee. A link would be provided for members to access the report.

3.4 This approach would address the interest of key parties as follows:

Audit Scotland - Report to members to ensure impact.

- Members - To be aware of Audit Scotland funding
- Audit Committee - To be able to identify audit issues and be assured that the Council has assessed these and they are being addressed.
- PRS Committee - To be aware of performance issues, know they have been assessed by the Council and that the Council has considered the action required.

3.5 Audit Committee are asked to consider the principles set out above for a revised approach to dealing with Audit Scotland National Reports.

#### **4 CONCLUSION**

4.1 This report sets out a revised approach for the Audit Committee considering Audit Scotland National reports. The proposed approach will allow a review of these reports to identify issues of concern to the Audit Committee and the proposed action. It will allow these to be considered by the Audit Committee in a more focused manner.

#### **5. IMPLICATIONS**

- 5.1 Legal – None
- 5.2 Finance – None
- 5.3 HR – None
- 5.4 Policy – Sets out approach to Audit Scotland National Report
- 5.5 Risk – Will allow more focus on risks related to Council
- 5.6 Equalities – None
- 5.7 Customer Services – None

For further information please contact Bruce West, Head of Strategic Finance (01546 604220).

Bruce West  
Head of Strategic Finance  
7 March 2014

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**ARGYLL AND BUTE COUNCIL****AUDIT COMMITTEE****STRATEGIC FINANCE****14 MARCH 2014**

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**FINANCIAL STATEMENTS – 2013/14**

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**1.0 SUMMARY**

- 1.1 This report advises the Audit Committee on the plans in place for financial year end 31 March 2014 and the preparation of the Council's Financial Statements for 2013-14.
- 1.2 Processes have been established over the last three 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 2013-14.
- 1.3 A review was undertaken of the year end processes at the completion of the preparation of the Financial Statements for 2012-13 and a number of changes have been made to the yearend timetable and processes.

**2.0 RECOMMENDATION**

- 2.1 To note that plans are in place to ensure the Council's financial statements are prepared in compliance with the Accounting Code of Practice and submitted to the Council prior to 30 June 2014.

**3.0 BACKGROUND**

- 3.1 Guidance issued in 2013 by the Chartered Institute of Public Finance and Accountancy (CIPFA) "Audit Committees – Practical Guidance for Local Authorities" sets out good practice for audit committees. This includes responsibilities for overseeing the financial statements. In due course the Audit Committee will have sight of the unaudited and audited financial statements and the key matters arising from the external auditors review. It is considered appropriate, at this stage, to provide the Audit Committee with a report summarising the plans that have been made for preparation of the 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 2 May.
- Revenue expenditure, creditors, debtors, accruals and prepayments completed by 30 April.
- Council Tax and NDR entries completed by 16 May.
- Review and adjustments to ledger and central department cost allocations Completed by 16 May.
- Preparation of unaudited single entity financial statements including report by Head of Strategic Finance by 6 June.
- Unaudited single entity financial statements considered by a meeting of the Full Council on 26 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 2014

3.4 The review of the year end timetable and processes identified seven areas which had had an impact on compliance with the timetable for investigation:

- Asset valuations
- Loan Charges
- Bad Debt Provision
- Housing Benefit Overpayments
- Control Accounts
- Support Service Allocations
- Council Tax and Non Domestic Rates

3.5 Each of the areas was further investigated and adjustments have been made to either the timetable to reflect the dependencies of tasks or the process to try and ensure that the tasks are completed as per the timetable.

3.6 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 2014 and with supporting documentation of a standard to enable completion of the audit by the required deadline of 30 September 2014.

3.7 Copies of both sets of instructions / timetables are available from the Head of Strategic Finance if required.

#### **4.0 CONCLUSION**

4.1 The review of the year end processes and timetable has resulted in a number of changes to these being implemented which should ensure that the Financial Statements are completed on time and that the working papers meet Audit Scotland's requirements.

#### **5.0 IMPLICATIONS**

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

For further information please contact Peter Cupples 01546-604183 or Bruce West 01546-604220.

Bruce West  
Head of Strategic Finance  
7 March 2014

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**PROGRESS REPORT ON INTERNAL AUDIT PLAN 2013 - 2014**

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**1. SUMMARY**

A progress report has been prepared covering the audit work performed by Internal Audit as at 21 February 2014. 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 2013 - 2014.

**3. BACKGROUND**

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2013 –2014, 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 The Annual Plan was approved by the Audit Committee in February 2013 and included 38 audits. As we reported in December 2013, a number of changes were made to the plan following a reduction in audit resource, and the time spent by the team in developing and implementing an improvement plan. The amended plan amalgamated some audits and allowed for 36 audits within 2013-14, including an additional audit of risk management arrangements.

3.4 As at 21 February we have completed 16 of the audits, and 11 are underway, with a further 3 planned to be completed in the remainder of the audit year. 6 of the audits have been carried forward to the 2014-15 audit plan.

3.5 Appendix 1, shows that a total of 434 direct audit days have been expended as at 14 February 2014. A further 141 days will be used to complete the planned audits for this financial year. The total days of audit input for the year are estimated to be 575 days compared to 725 days agreed in December as part of the revised audit plan. The audits being carried forward to 2014-15 total 102 days. The reduction in audit days reflects the investment in time in achieving compliance with PSIAS and the staff resources available throughout the year.

**4. CONCLUSION**

- 4.1 Progress has been made with the audit plan for 2013 – 2014. Although days are down on original and revised plan this reflects the staff resources available and the time required to establish PSIAS compliance.

**5. IMPLICATIONS**

- |     |                      |  |
|-----|----------------------|--|
| 5.1 | Policy:              | Update on audit plan for 2013 – 2014.          |
| 5.2 | Financial:           | The audit plan is based on budgeted provision. |
| 5.3 | Personnel:           | None   |
| 5.4 | Legal:               | None   |
| 5.5 | Equal Opportunities: | None   |
| 5.6 | Risk                 | None   |
| 5.7 | Customer Services    | None   |

For further information please contact Internal Audit (01546 604294)

Bruce West  
Head of Strategic Finance  
7 March 2014

## Assessment of audit days: 2013-2014 strategic plan

AUDIT WORK SCHEDULE AS AT 21 FEBRUARY 2014		Last audited	Revised Estimated Audit Days 2013-14	Actual Audit Days 2013-14	Days remaining
<b>FINANCIAL CONTROL AUDITS</b>					
<b>Complete</b>					
Stock and Work in Progress	2012/13	15	12		
Cash & Income Banking	2012/13	20	18		
Council Tax	2012/13	15	15		
Non Domestic Rates	2012/13	10	9		
Debtor Accounts	2012/13	15	6		
Government & European Grants	2012/13	25	20		
Car Allowances & Subsistence	2012/13	15	13		
<b>Started</b>					
Procurement and tendering procedures	2012/13	20	2		19
Budgetary Preparation and Control	2012/13	15	1		14
Treasury Management	2012/13	15	7		8
Universal Credit	2012/13	5	1		4
Resource Link/Payroll	2012/13	20	2		18
Creditor Payments	2012/13	15	2		13
<b>Section Total</b>			<b>205</b>	<b>108</b>	<b>76</b>
<b>BUSINESS SYSTEMS AUDITS</b>					
<b>Complete</b>					
Care First	2012/13	20	16		
Customer Service Centre	2012/13	15	7		
<b>Started</b>					
Data Protection	2010	20	20		0
Fleet Management and Roads Costing	2012/13	25	6		19
Leisure Management System	2012/13	20	20		0
Uniform System	2012/13	10	4		6
<b>Section Total</b>			<b>110</b>	<b>73</b>	<b>25</b>

<b>CORPORATE &amp; DEPARTMENT AUDITS</b>			
<b><u>Complete</u></b>			
Customer Services - School meals	-	23	23
Chief Executive's Unit - Print & Design	2011/12	12	12
Customer Services - Corporate Governance Statement	2012/13	10	9
Corporate - SPIs	-	25	22
Community Services - Allocating ASN Assistants Process	-	10	21
Community Services - Outwith Authority Placements	-	15	11
Customer Services - Business Continuity	2012/13	15	7
<b><u>Started</u></b>			
Community Services - Health & Safety (Leisure)	-	15	15
0			
<b><u>Not Started</u></b>			
Corporate	-	10	0
Development & Infrastructure Services - Section 75 Planning Obligations	-	15	0
Development & Infrastructure Services - Marine Services	2012/13	10	0
<b>Section Total</b>		<b>160</b>	<b>120</b>
<b>35</b>			
<b><u>Special investigations contingency</u></b>			
Education		100	43
Adult Care			6
Interloch Transport			5
<b>Section Total</b>		<b>100</b>	<b>54</b>
<b>0</b>			
<b><u>Other Areas</u></b>			
Inverclyde Charity & Trust Accounts	2012/13	0	7
Corporate - PSIF	-	20	10
Audit of Risk Management	-	10	5
Follow-up External & Internal Audit Management Letter Points	2012/13	80	36
NFI	2012/13	40	21
<b>Section Total</b>		<b>150</b>	<b>79</b>
<b>5</b>			
<b>TOTAL</b>		<b>725</b>	<b>434</b>
<b>141</b>			

<b>Deferred to 2014-15</b>	<b>Days</b>
Chief Executive's Unit - Community Engagement	10
Development and Infrastructure Services - Parking	10
General Ledger Operations	15
IT Strategy	19
Pyramid Performance Management	18
Capital Contracts, Operating Leases and Capital Accounting	30
<b>Total</b>	<b>102</b>



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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
14 MARCH 2014**

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**INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2013 - 2014**

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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 2014, final reports for 3 audits undertaken in the financial year 2013/14 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.

3.3 The LEADER Funding Annual Certification was submitted to the Audit Committee in December but consideration was deferred to the March meeting of the Audit Committee.

3.4 A high level summary of each report is noted below:

3.4.1 LEADER Funding Annual Certification – The review found that there is a structured approach to evaluating applications for funding with sound systems in place to ensure adherence with technical guidance and best practice. The LAG administration costs had not been claimed due to lack of ledger reconciliation and all files and correspondence would be more easily accessible from an electronic document management system.

3.4.2 Catering within Schools – Catering services have procedures and controls in place to comply with external verification process to fulfil the ISO 9001:2008 accreditation requirements. Menus meet nutritional guidelines and budget cost constraints whilst maintaining compliance with the safe food manual. Staff have up-to-date training records detailing courses attended and benchmarking compares favourably with the exception of cost per meal. The quality manual had not been distributed to all school kitchens and no implementation dates had been agreed to apply corrective actions, alternative performance measures should be considered and very few locations have access to a computer system.

- 3.4.3 FLAG Annual Certification – All 5 projects submitted to the FLAG were eligible for funding although no claims have yet been received, systems are in place to ensure that technical guidance is adhered to, however, administrative procedures have yet to be prepared, scoring sheets could not be found and projects were not yet recorded on a database.

#### **4. CONCLUSION**

There are 3 audits being reported to the Audit Committee. In total there are 2 high, 4 medium and 6 low priority recommendations. A substantial Level of assurance is in place for the 3 audits completed.

#### **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 Internal Audit  
19 February 2014

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**APPENDIX 1**  
**Internal Audit Reports**  
**Audit Committee – March 2014**

List of Internal Audit Reports for Audit Committee

<b>Internal Audit Reports 2013 – 2014</b>				
	<b>REPORT TITLE</b>	<b>DRAFT ISSUE DATE</b>	<b>FINAL MANAGEMENT RESPONSE</b>	<b>FINAL ISSUE DATE</b>
1.	LEADER Funding – Annual Certification	7 October 2013	11 November 2013	12 November 2013
2.	Catering	30 May 2013	18 July 2013	13 January 2014 (Note 1)
3.	FLAG – Annual Certification	15 December 2013	17 January 2014	20 December 2013 (Note 2)

**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.**

Note 1      Final issue of the Catering report was delayed due to the absence of the Chief Internal Auditor resulting in additional review processes being required.

Note 2      FLAG – Annual Certification report was issued to Scottish Government prior to deadline of 31 December 2013, some comments were received by management after this date.

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**Internal Audit Report**

Development and Infrastructure

**LEADER Funding - Annual Certification**

October 2013

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

## **1 INTRODUCTION**

- 1.1 This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2013/14 Internal Audit Programme.
- 1.2 LEADER, (Liaisons Entre Actions de Development Economique Rurale) funding is part of the Scottish Rural Development Programme (SRDP) and is delivered by Local Action Groups (LAGs) approved by the Scottish Government.
- 1.3 The Council acts as Lead Partner to the Argyll and Islands LEADER Local Action Group (LAG), in accordance with a Service Level Agreement (SLA) with Scottish Government Rural Payments and Inspection Directorate (SGRPID).
- 1.4 LEADER Funding for 2007 – 2013 consists of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m.
- 1.5 LAG members have responsibility for delivering the Local Development Strategy and making on-going strategic decisions on the running of the LEADER programme within Argyll and the Islands. The LAG also has responsibility for awarding funding to successful applicants.
- 1.6 The Council, as Lead Partner is responsible for employing staff, providing secretariat support and managing budgets.
- 1.7 As Lead Partner the Council must ensure that an annual confirmation certificate covering the year 16 October 2012 to 15 October 2013 is provided.
- 1.8 Internal Audit is required to undertake a review and provide an annual report as part of the supporting evidence in preparation of this certificate. This work is intended to verify that procedures adopted by the Council are adequate to ensure compliance with the SLA and European Community regulations.

## **2 AUDIT SCOPE AND OBJECTIVES**

2.1 The audit approach taken was to undertake sample testing in key activity areas where guidance is prescriptive:

- Project applications - to ensure completeness and compliance with guidance;
- Claim process - to ensure the claim process is robust and compliant with guidance; and
- Review the responsibilities of the LAG to ensure best practice is being observed.

2.2 The auditor reviewed projects funded by LEADER and visited two projects currently in progress in October 2013 to review compliance and observe the practices adopted for project delivery.

## **3 RISK ASSESSMENT**

3.1 As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified, but have been addressed and managed by the Lead Partner through the Secretariat support as detailed in Section 5 of the report.

- SR13 Failure to comply with new legislation, regulations or statutory responsibilities;
- SR16 Failure to have a robust internal control process and system which could lead to substantial fines imposed by the European Union regarding errors in the claims process;
- SR24 Changes to Scottish Government (or European) Policy.

## **4 CORPORATE GOVERNANCE**

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



## 5 MAIN FINDINGS

- 5.1 The Argyll and Islands LEADER LAG continues to deliver a structured approach for developing, appraising and approving applications for LEADER funding.
- 5.2 The auditor found that there are sound systems in place to ensure that as Lead Partner for the Argyll and Islands LEADER LAG, Argyll and Bute Council is adhering to the technical guidance and is compliant with the agreed Service Level Agreement.
- 5.3 The project applications and claims process was found to be robust as regard to completeness and compliance with guidance and also the LAG ensured that best practice is being observed.
- 5.4 The reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out due to a review of all files as instructed by the Scottish Government, the consequence of this is that no claims for reimbursement of Admin costs have been submitted since 1<sup>st</sup> October 2012.
- 5.5 There is a heavy reliance on paper files to record all evidence concerning projects. A document management system would be beneficial to improve overall effectiveness.
- 5.6 Correspondence between project officers and Applicant prior to application should be kept on file as evidence of negotiations between project applicants and project coordinators to ensure that projects submitted reflect best value.

## 6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit. These were rated as 1 High, 1 medium and three low priority. The recommendations are shown in the action plan attached at **Appendix 2** and has been compiled with the co-operation and agreement of the Economic Development Manager, Lead Partner representative on the Argyll and the Islands LEADER LAG.

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

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification 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 of the audit we can conclude that the Argyll and Islands LEADER Local Action Group has a structured approach for developing, appraising and approving applications for LEADER funding.

As Lead Partner for the Argyll and the Islands LEADER Local Action Group, the Council has created and continues to develop sound processes and procedures which ensure that the LAG adheres to the technical guidance and comply with the new Service Level Agreement with the Scottish Government Rural Payments and Inspection Directorate (SGRPID).

The recommendations made in this report should help to strengthen the already sound processes and procedures in place.

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 following for their co-operation and assistance during the Audit and the preparation of the report and action plan.

- Economic Development Manager;
- European Support Officer;
- Grant Administration Assistants; and
- LEADER Project Co-ordinators.

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 or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's and SGRPID 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 and SGRPID 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

## APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The secretariat function delivered by the Lead Partner records in hardcopy all applications, claims and correspondence regarding each project. Each project involves a substantial amount of paper which can be onerous as regards control measures and as a result could lead to errors occurring. The consequence of errors being found in any claim irrespective of the financial amount can lead to substantial fines from the European Union	Medium	The purchase of Document Management system software should be considered and discussed with the Scottish Government/Audit Scotland. This is timely as measures are being put in place currently to develop appropriate systems and software for the delivery of the LEADER programme, 2014-2020.	Economic Development Manager	16 December 2013 31 October 2014  <b><u>Reason for Delay</u></b> Discussions will need to take place regarding a Document Management System with the Scottish Government, as there is a proposal to have one national system put in place for the next LEADER programme, 2014-2020.
5	No reconciliation as yet has been carried out between the Council's Ledger and the claim for the LAG Administration costs. This is due to the Lead Partner being instructed by the Scottish Government to review all files in the current financial period with regard to new EU guidelines. Consequently no claim for LAG Administration costs has been made.	High	The reconciliation between the Oracle ledger and the claim for the LAG administration costs should be completed as soon as possible.	Economic Development Manager	31 October 2013  <b>Now Complete</b>



## **Internal Audit Report**

Customer Services  
Catering Review

May 2013

## **1. INTRODUCTION**

- 1.1 As part of the Annual Audit Plan for 2013/14 Internal Audit undertook a review of the Catering Service within both Primary and Secondary schools.
- 1.2 The Catering Service for 2012/13 provided 1,025,910 meals which attracted direct staff costs of £2,516,634 with supplies and services costing £1,150,744. This compares favourably when compared to the 2012/13 budget allocation.
- 1.3 The audit covered all major areas of the service delivery including quality systems, performance comparison with other authorities, nutritional guidelines, training plans, safe food systems, menu development, customer satisfaction feedback and financial systems reporting in the kitchens.
- 1.4 Procedures and Controls were also reviewed.

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

- 2.1 An Audit Agreement Document (AAD) was prepared and forwarded to the Head of Service and the Operations Manager for their agreement following the pre audit discussion meeting. The AAD set out the main objectives of the audit approach and scope with the following areas to be looked at:
  - Quality Systems;
  - Performance comparison with other authorities;
  - Nutritional guidelines;
  - Training records;
  - Safe food systems;
  - Menu development;
  - Customer satisfaction feedback; and
  - Financial systems reporting in the school kitchens.

## **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:
- 3.2 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 Catering Service is fully compliant with the requirements of the external verification process and has demonstrated on going improvements to their internal quality management processes.
- 5.2 Catering Service has procedures and controls in place to fulfil the ISO 9001:2008 requirements and maintain their accreditation.
- 5.3 Copies of the Quality Manual had not been distributed to all school kitchens.
- 5.4 Internal Audit found that corrective actions resulting from both external and internal catering audits are recorded but without implementation dates.
- 5.5 Benchmark performance against other Councils compares favourably other than in relation to the price of school meals where rural factors dominate.
- 5.6 Catering Services set menus that meet the nutritional guidelines.
- 5.7 Individual staff training records were found to be up to date with staff having attended the required training programmes.
- 5.8 Processes tested at the school kitchens were found to comply with the Safe Food manual.
- 5.9 Menus not only meet the nutritional requirements as laid out in legislation but also the cost constraints of the Catering budget.
- 5.10 School kitchens complete a monthly report on the cost of the school meals as a percentage of the revenue; a more meaningful measure would be to divide the cost of the school meals for that month by the number of meals provided and compare this to the budget for the school.
- 5.11 Internal Audit found that staff have access to computer systems at only 9 out of 81 schools (11%). This covers 49.2% of the entire school rolls (99.6% of secondary schools and 10.6% of primary schools).

## **6. RECOMMENDATIONS**

- 6.1 Three recommendations were identified as a result of the audit. These have the following priority ranking, one Medium and two 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 our audit, procedures and controls as specified in the Quality Manual are adhered to by the Catering Service and that ISO 9001:2008 requirements for both Nutritional and food safety are being met. The Catering Service has received good reviews from external agencies and despite the rural challenges as outlined in section 5.7 above, is achieving high performance when benchmarked against other Councils.
- 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:
- Head of Facility Services;
  - Operational Manager;
  - Regional Managers;
  - Catering Managers; and
  - Food and Nutritional Officer.



- 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>
<b>1</b>	Internal audit noted that the Catering Services initiative regarding deployment of IT/Software to school kitchens. The audit identified potential benefits from deploying IT/Software to kitchens in improving performance , menu development , integration of quality systems , financial savings and parental on line payment facilities.	Medium	A project initiation document (PID) should be prepared which formalises the initiative commenced by Catering Services outlining objectives.	<b>Operations Manager/ICT Liaison Officer</b>	<b>Complete 13 August 2013</b>
<b>2</b>	A copy of the quality manual has only been forwarded to a number of key personnel and to those kitchens where the Catering Manager carries out internal peer reviews.	Low	A copy of the Quality Manual should be sent to all Kitchens	<b>Operations Manager</b>	<b>Complete 28 September 2013</b>
<b>3</b>	Corrective actions are highlighted by audit reports and these are summarised per the Common issues report. However there is no report that shows dates that corrective action has been implemented.	Low	That the common issues report is updated to show a column stating the date that the corrective action has been implemented	<b>Operations Manager</b>	<b>Complete 30 June 2013</b>



**Internal Audit Report**

Development and Infrastructure

**FLAG - Annual Certification**

December 2013

## **1 INTRODUCTION**

- 1.1 This report has been prepared as the result of an Internal Audit review of Fisheries Local Action Group (FLAG) funding as part of the 2013/14 Internal Audit Programme and covers the grant period 1<sup>st</sup> July 2012 to 30<sup>th</sup> June 2013.
- 1.2 Argyll & Bute and South Ayrshire Fisheries Local Action Group (FLAG) is a partnership established to oversee the delivery of the European Fisheries Fund (Axis 4).
- 1.3 The FLAG, which includes representatives from the public, community and private sectors, will allocate a sum of £400K to projects that seek to promote the sustainable development of communities that have been affected by the decline of the fishing industry.
- 1.4 Public, private and third sector organisations operating in fishing communities throughout Argyll & Bute and South Ayrshire are eligible to apply for funding.
- 1.5 FLAG members will oversee the delivery of the European Fisheries Fund (EFF) and will have responsibility for considering funding applications. Applications will be assessed against EFF eligibility criteria, the project's contribution towards the Local Fisheries Development Strategy and the level of community benefit that will be delivered.
- 1.6 Argyll & Bute and South Ayrshire Fisheries Local Action Group will support measures to promote economic diversification and an improved quality of life in areas affected by a decline in fishing activities with a particular focus on the following Axis 4 priorities:
- Revitalising Communities;
  - Coastal Community Capacity;
  - New Markets and Products; and
  - Progressive Coastal Economy.
- 1.7 The FLAG will consider funding for projects that will help to deliver the objectives of the Local Fisheries Development Strategy:
- To support and encourage renewable energy activities that benefit fisheries communities in terms of on-shore and off-shore employment and training opportunities.
  - To improve the accessibility of fisheries communities through the redevelopment of harbours, piers and slipways.

- To support the growth of a local and domestic markets exploiting the strong linkages with and adding value to seafood produce and food tourism and the seafaring cultural heritage of the area.
- To support the diversification of the fishing industry through increased collaboration coupled with value added opportunities for employment and training.
- To raise the visiting public's understanding of the region's fishing and aquaculture activities.
- To promote joint action to develop the recreational use of harbours across the FLAG area.

1.8 Internal Audit is required to undertake a review and provide an annual report as part of the supporting evidence in preparation of this Annual Confirmation certificate as outlined in section 11 of the SLA.

## **2 AUDIT SCOPE AND OBJECTIVES**

2.1 The audit approach taken was to undertake sample testing in key activity areas where guidance is prescriptive:

- Project applications - to ensure completeness and compliance with guidance as outlined in the SLA between Argyll and Bute Council and Marine Scotland;
- Claim process - to ensure the claim process is robust and compliant with guidance; and
- Review the responsibilities of the FLAG to ensure best practice is being observed.

2.2 At the time of the audit only five projects had been passed for approval and of these five none had submitted claims for reimbursement.

## **3 RISK ASSESSMENT**

3.1 As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified:

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

- SR16 Failure to have a robust internal control process and system in order to meet the requirements of the SLA between Argyll and Bute Council and Marine Scotland; and
- SR24 Changes to Scottish Government (or European) Policy.

## 4 CORPORATE GOVERNANCE

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

## 5 MAIN FINDINGS

- 5.1 Five projects had been submitted to the FLAG at the time of audit and all had been passed as eligible under the EFF Axis 4 eligible measures.
- 5.2 The auditor found that there are systems in place as regards application and acceptance of projects to ensure that Argyll and Bute is adhering to the technical guidance.
- 5.3 No claims have been submitted and therefore verification of the claims process will be carried out in subsequent audit. Processes around verification of claims have yet to be documented.
- 5.4 General Administrative procedures have also yet to be scoped but Internal Audit would assume that tried and tested procedures that already exist around LEADER will also be applied to FLAG.
- 5.5 No record of scoring sheets for the projects could be found on file.
- 5.6 Adoption of a database to record all projects should be considered along the same lines as currently used for LEADER projects.

## 6 RECOMMENDATIONS

Four recommendations were identified as a result of the audit. These were rated as one high, two medium and one low priority. The recommendations are shown in the action plan attached at **Appendix 2** and has been compiled with the co-operation and agreement of the Economic Development Manager.

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 has 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 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 of the audit we can conclude that the Argyll and Islands is meeting the guidelines as outlined in the SLA agreement document between Argyll and Bute Council and Marine Scotland.

The recommendations made in this report should help to strengthen the already sound processes and procedures in place.

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 following for their co-operation and assistance during the Audit and the preparation of the report and action plan.

- Economic Development Manager;
- European Support Officer;
- Grant Administration Assistants;

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 or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's and Marine Scotland 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 and Marine Scotland 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.



## APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Procedures and controls as regard FLAG claims have yet to documented, but Internal Audit is cognisant of the fact that no claims have yet been submitted.	High	Procedures are agreed and documented to address claims made for FLAG payments.	Economic Development Manager	End of February 2014.
2	Details of all approved projects are recorded manually. Consideration should be given to recording the details of these projects on a database to mirror best practice as currently adopted for LEADER projects.	Medium	That all FLAG projects should be recorded on a database to mirror the database currently in use for LEADER projects where applicable.	Economic Development Manager	End of February 2014.
3	No record of the scoring sheets for any of five projects could be found on file.	Medium	That scoring sheets should be filed in the project file when complete.	Economic Development Manager	End of February 2014.

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
14 MARCH 2014**

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**EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2013 – 2014.**

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**1. SUMMARY**

- 1.1 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 2014.

**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 audit recommendation implementation.
- 3.2 Appendix 1 is a statistical summary of all agreed recommendations arising from National, External and Internal Audit reports by department. Detailed is the number of recommendations due as at 31 January 2014, the number implemented, the number of agreed future recommendations and their status, e.g. on course etc.
- 3.3 Appendix 2 provides a summary as at 31 January 2014, of all outstanding recommendations from National, External and Internal Audit reports by department and service. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous implementation dates reported to the Audit Committee management comment and Pyramid status.
- 3.4 Appendix 3 provides a summary of all recommendations from National, External and Internal Audit reports by department and service that are due after 31 January 2014 and not on track to achieve the agreed implementation dates. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous implementation dates reported to the Audit Committee, management comment and Pyramid status.

**4. CONCLUSIONS**

Of the 38 recommendations due for completion by 31 January 2014, 18 have been completed. Internal Audit is satisfied that progress is being made in addressing all 20 remaining recommendations and with the revised completion dates provided.

Good progress is being made on the 24 recommendations due after 31 January 2014 with 4 completed early and timely identification of 2 requiring to be rescheduled.

**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 Internal Audit on (01546 604294)  
17 February 2014

## APPENDIX 1

## SERVICE SUMMARIES

## RECOMMENDATIONS DUE 01 NOVEMBER 2013 – 31 JANUARY 2014

SERVICE	Complete	Delayed but rescheduled	Total
CUSTOMER & SUPPORT SERVICES	7	3	10
ECONOMIC DEVELOPMENT	1	3	4
FACILITY SERVICES	4	2	6
IMPROVEMENT & HR	2	3	5
PLANNING & REGULATORY SERVICES	3	1	4
STRATEGIC FINANCE	1	8	9
<b>TOTALS</b>	<b>18</b>	<b>20</b>	<b>38</b>

## RECOMMENDATIONS DUE AFTER 31 JANUARY 2014

SERVICE	Complete	On Course	Delayed but rescheduled	Total
CHILDREN & FAMILIES		3		3
CUSTOMER & SUPPORT SERVICES	3	2	1	6
ECONOMIC DEVELOPMENT		1		1
FACILITY SERVICES		1		1
IMPROVEMENT & HR	1	3		4
PLANNING & REGULATORY SERVICES		1	1	2
ROADS & AMENITY SERVICES		1		1
STRATEGIC FINANCE		6		6
<b>TOTALS</b>	<b>4</b>	<b>18</b>	<b>2</b>	<b>24</b>

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# Recommendations Due for Completion 01 November 2013 – 31 January 2014

ACTION WEAKNESSES/GOOD PRACTICE: AGREED ACTION: DATES : COMMENT/EXPLANATION: PYRAMID:  
 PLAN NO: GRADE: RESPONSIBLE OFFICER:

## DEPARTMENT CHIEF EXECUTIVE'S UNIT

### SERVICE IMPROVEMENT & HR

#### REPORT NAME NATIONAL REPORT ON MANAGING PERFORMANCE: ARE YOU GETTING IT RIGHT?

13	An effective Council will ensure that councillors understand their role in all aspects of performance management and improvement. Performance Review and Scrutiny Committee established. Departmental and Council scorecards reported quarterly and available on website for public. Members provided with training on key aspects of performance management. <b>MEDIUM</b>	Members' PDPs. Review of development of Performance Review and Scrutiny Committee.	31 December 2012 31 December 2013 <b>31 March 2014</b>	Review of PRS Committee to take place Jan-Feb 2014 following change of PRS membership and to include preparation for development day.	<b>Delayed but rescheduled</b> Head of Improvement & HR
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## SERVICE STRATEGIC FINANCE

### REPORT NAME REVIEW OF GENERAL LEDGER

4	The duties and responsibilities of the General Ledger System Administrator are not clearly documented. <b>MEDIUM</b>	The role of GL System Administrator should be clarified and documented.	30 September 2013 31 December 2013 <b>28 February 2014</b>	This will be carried out as part of the preparation of the move to the updated version of Oracle. Will be updated following completion of Oracle R12 upgrade.	<b>Delayed but rescheduled</b> Finance Manager, Corporate Support
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## REPORT NAME REVIEW OF TREASURY MANAGEMENT

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. <b>MEDIUM</b>	The Financial Regulations should be updated to reflect changes to Council committee roles and responsibilities implemented during 2012.	31 May 2013 31 December 2013 <b>31 March 2014</b>	Treasury Management section of Financial Regulations updated and ready to go to Council. Annual timescale for changes to Constitution in line with review of PMA.	<b>Delayed but rescheduled</b> Head of Strategic Finance
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**ACTION PLAN NO:**    **WEAKNESSES/GOOD PRACTICE: GRADE:**    **AGREED ACTION:**    **DATES :**    **COMMENT/EXPLANATION:**    **PYRAMID: RESPONSIBLE OFFICER:**

**DEPARTMENT CUSTOMER SERVICES**

**SERVICE CUSTOMER & SUPPORT SERVICES**

**REPORT NAME AUDIT SCOTLAND REVIEW OF ICT SERVICE 2011/12**

3	<p>Implementing a standard for service management is an important step in delivering process improvement going forward.</p> <p>Risk: without the adoption of standards it is possible that an effective service will not be provided.</p> <p><b>MEDIUM</b></p>	<p>Initial ITIL foundation training has been completed and a full ITIL Implementation will occur throughout 2013</p>	<p>31 December 2013 <b>31 March 2014</b></p>	<p>PSN remediation work has impacted on timescales. Project completion delayed by 3 months to 31 March 2014</p>	<p><b>Delayed but rescheduled</b> IT Production Manager</p>
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**SERVICE FACILITY SERVICES**

**REPORT NAME NATIONAL REPORT ON MAJOR CAPITAL INVESTMENT IN COUNCILS**

5	<p>Councils should improve the quality of capital project and programme information that is routinely provided to elected members.</p> <p>Information should cover:</p> <ul style="list-style-type: none"> <li>– annual financial performance against the capital budget</li> <li>– project and programme level performance against cost, time and scope targets</li> <li>– risk reporting (including identification, likelihood, financial impact and actions taken)</li> <li>– an assessment of intended and realised benefits.</li> </ul> <p><b>MEDIUM</b></p>	<p>The content of the capital monitoring information provided to members covers information on financial, project and programme performance. An assessment of the risks is carried out and the implications are included in the information provided above but not separately reported.</p> <p>No information is provided on the realisation of benefits.</p> <p>Amendments will be made to the reporting to members to include specific information on risks and benefits realisation.</p>	<p>31 January 2014 <b>31 March 2014</b></p>	<p>Work has been carried out to address these matters and the response will now be fully implemented within the revised reporting on capital monitoring in 2014/15</p> <p>This will be implemented from the beginning of the 2014/2015 capital monitoring regime.</p>	<p><b>Delayed but rescheduled</b> Head of Facility Services</p>
8	<p>Councils should improve how they manage risk and report on programme-level risk to members. Reports should provide details on the likelihood of risks occurring, potential impact and what proposals are in place to lessen the impact of risk.</p> <p><b>MEDIUM</b></p>	<p>This will be incorporated into the reporting to members in terms of capital monitoring and the papers on the capital programme preparation.</p>	<p>31 January 2014 <b>31 March 2014</b></p>	<p>Work has been carried out to address these matters and the response will now be fully implemented within the revised reporting on capital monitoring in 2014/15</p> <p>This will be implemented from the beginning of the 2014/2015 capital monitoring regime.</p>	<p><b>Delayed but rescheduled</b> Head of Facility Services</p>



<b>ACTION PLAN NO:</b>	<b>WEAKNESSES/GOOD PRACTICE: GRADE:</b>	<b>AGREED ACTION:</b>	<b>DATES :</b>	<b>COMMENT/EXPLANATION:</b>	<b>PYRAMID: RESPONSIBLE OFFICER:</b>
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**DEPARTMENT SERVICE REPORT NAME**      **DEVELOPMENT & INFRASTRUCTURE SERVICES**  
**ECONOMIC DEVELOPMENT**  
**REVIEW OF LEADER FUNDING - ANNUAL CERTIFICATION**

1	<p>The secretariat function delivered by the Lead Partner records in hardcopy all applications, claims and correspondence regarding each project. Each project involves a substantial amount of paper which can be onerous as regards control measures and as a result could lead to errors occurring. The consequence of errors being found in any claim irrespective of the financial amount can lead to substantial fines from the European Union</p> <p><b>MEDIUM</b></p>	<p>The purchase of Document Management system software should be considered and discussed with the Scottish Government/Audit Scotland. This is timely as measures are being put in place currently to develop appropriate systems and software for the delivery of the LEADER programme, 2014-2020.</p>	<p>16 December 2013  <b>31 October 2014</b></p>	<p>Incorrect date provided initially. Economic Development are bound by the proposed Scottish Government Timetable to introduce the Document Management Systems.</p>	<p><b>Delayed but rescheduled</b>  Economic Development  Manager</p>
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<b>ACTION PLAN NO:</b>	<b>WEAKNESSES/GOOD PRACTICE: GRADE:</b>	<b>AGREED ACTION:</b>	<b>DATES :</b>	<b>COMMENT/EXPLANATION:</b>	<b>PYRAMID: RESPONSIBLE OFFICER:</b>
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<b>SERVICE REPORT NAME</b>	<b>PLANNING &amp; REGULATORY SERVICES NATIONAL REPORT ON PROTECTING CONSUMERS</b>
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4	<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 reflects the risks, national and local priorities and the needs of local communities</p> <p><b>MEDIUM</b></p>	<p>Consumer protection service redesigned and public now have access to Civil advice issued by national agencies.</p> <p>Improvements to our website and the Customer Service Centre allow redirection to appropriate advice services.</p> <p>National and local priorities are included in the trading standards Service plan</p> <p>Actions: 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 of the consumer and are effective.</p>	<p>31 December 2013 <b>31 March 2014</b></p>	<p>The pilot in conjunction with our trading standards team, ABCAB and Bute Advice Centre to provide Stage 2 civil advice was extended to the 31<sup>st</sup> December 2013 and has been evaluated. The demand was minimal and we have agreed with ABCAB to continue with the new arrangements for 14-15. This Stage 2 civil advice to consumers in ABC</p>	<p>When seeking clarity of dates it was established that this is now <b>Completed</b> appropriately</p>
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# Recommendations Due After 31 January 2014

ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE
<b>DEPARTMENT DEVELOPMENT &amp; INFRASTRUCTURE SERVICES</b> <b>SERVICE PLANNING &amp; REGULATORY SERVICES</b> <b>REPORT NAME NATIONAL REPORT ON PROTECTING CONSUMERS</b>					
1	<p>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</p> <p><b>MEDIUM</b></p>	<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>Actions:</p> <ol style="list-style-type: none"> <li>1. Review staffing levels and workforce planning within environmental health and prepare report for further consideration (31/10/13)</li> <li>2. Identify clear priorities for service based on outcome of point 1 above into 14/15 service plan (31/3/14)</li> </ol>	<p>31 March 2014  <b>30 September 2014</b></p>	<p>Action 1 Delayed and Rescheduled. We are working on this as part of pending service prioritisation. There is changes to the Code of Practice so we are delaying this pending the revised Code as this will influence resource requirements.</p> <p>Action 2 On Course Work on 14/15 service plan is being undertaken with intention to take to PPSL Committee in April 2014.</p>	<p><b>Delayed but rescheduled</b>  Regulatory Services Manager</p>

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
14 MARCH 2014**

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## **UPDATE ON INTERNAL AUDIT IMPROVEMENT PLAN**

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### **1. SUMMARY**

This report highlights further progress made against the improvements identified as a result of the Internal Audit Review against the Public Sector Internal Audit Standards.

### **2. RECOMMENDATIONS**

2.1 The Audit Committee note progress made to date in completion of the improvement plan.

### **3. DETAILS**

3.1 A report was presented at the September Audit Committee introducing the outcome of a review of Internal Audit which was carried out as part of the strategic development and performance improvement partnership with Grant Thornton and CIPFA.

3.2 Nine actions for improvement were identified within that report along with details of how they will be progressed. Of the nine improvement actions:

- 7 have been completed;
- 2 are in progress, delivery of training and development of performance measures; and
- In addition a further action has been identified in relation to updating the current audit manual.

### **4. CONCLUSION**

4.1 Good progress has been made to date in completion of the improvement plan. The improvement plan will continue to be progressed by internal audit.

### **5. IMPLICATIONS**

- 5.1 Policy: Action plan sets out a number of areas of improvement in how Internal Audit operate.
- 5.2 Financial: None
- 5.3 Legal: Not a legal requirement but sets out actions to improve compliance with professional standards.

5.4	HR:	Requirement for staff training
5.5	Equalities:	None
5.6	Risk:	Will improve risk focus on Internal Audit.
5.7	Customer Service:	Sets out improvements that should lead to better customer service for internal customers.

For further information please contact Internal Audit on (01546 604759)

14 March 2014

## Detailed Findings

Attribute Standards			
Number	Finding and Implication	Proposed action	Update at 21 February
<b>1000 Purpose, Authority and Responsibility</b>			
1.	<p>The Internal Audit Team has an audit manual in place which is reviewed on an annual basis and meets the requirements of the 2006 Code.</p> <p>Under the PSIAS, internal audit must develop an Audit Charter which will make explicit links to the Council's objectives and priorities.</p>	<p>An Audit Charter will be developed which confirms how the work of internal audit contributes to the achievement of the Council's objectives and priorities by:</p> <ul style="list-style-type: none"> <li>■ considering the nature of assurance provided to the Audit Committee and service departments by the work of internal audit</li> <li>■ clarifying reporting responsibilities; and</li> <li>■ ensuring that audit activity is focused on the key risks facing the Council.</li> </ul> <p>Drafted by December 2013</p>	Complete.
<b>1200 Proficiency and due professional care</b>			
2.	<p>The Internal Audit Team participate in the Council's PDR/ PRD programme and have attended relevant training provided. Individual auditors ensure that their CPD requirements are fulfilled, but there is no systematic approach to developing and maintaining internal audit skills.</p>	<p>We will review training requirements both across the team and individually. We propose a period of intensive refresher training and development on:</p> <ul style="list-style-type: none"> <li>■ internal audit core skills</li> <li>■ identifying and managing risk</li> <li>■ audit tools and techniques, including the use of IDEA</li> <li>■ Best value and performance audit (including value for money audit techniques).</li> </ul> <p>Training programme complete by December 2013</p>	<p>In progress</p> <p>Training delivered on internal audit core skills and IDEA training. Risk management training has now been scheduled for April 2014.</p> <p>During 2014-15, we will continue to formalise our plans for internal audit training, including continuing professional development (CPD) requirements.</p>

Number	Finding and Implication	Proposed action	Update at 21 February
	There is no up to date induction programme for members of staff who join the team.		
<b>1300</b>	<b>Quality Assurance and Improvement Plan</b>		
3.	<p>The QAIP is a new requirement under PSIAS. The Internal Audit Team has a team plan in place, and reports on performance using the Council's Pyramid performance management system.</p> <p>There is, however, scope to improve the performance monitoring framework.</p>	<p>We will review the key performance indicators and targets in place and consult with the Audit Committee and Senior Management Team to establish indicators that are more focused on the outcomes and impact of internal audit work.</p> <p>Proposed indicators submitted to December Audit Committee.</p>	<p>In progress</p> <p>We have submitted proposed performance indicators for Audit Committee consideration, but we also continue to work on our approach to reporting internal audit progress throughout the audit year.</p> <p>We also have proposals to amend the current method of obtaining customer feedback.</p>



<b>Performance Standards</b>			
<b>2000</b>	<b>Managing the Internal Audit Activity</b>		
4.	<p>The Internal Audit Team has a methodology in place for risk assessment and identifying audit work to be performed each year.</p> <p>The risk assessment is based on financial materiality, risk, controls effectiveness and performance management. We have, however, identified that there is scope for improvement, including the relative weighting of factors.</p>	<p>We will revisit the risk assessment and audit planning process. This process will include:</p> <ul style="list-style-type: none"> <li>■ a risk management workshop to ensure the team fully understand the core principles, and the risks facing Argyll &amp; Bute Council</li> <li>■ consideration of alternative approaches at other councils</li> <li>■ an assurance mapping exercise to ensure that each internal audit adds value to the Audit Committee</li> </ul> <p>Revised risk assessment process as outlined above in place and reported to Audit Committee in December.</p>	<p>Complete.</p> <p>We have presented our approach and risk assessment to this Committee. The 2014-15 Internal Audit Plan has been supported by the development of an audit universe for the Council, and risk assessment methodology based on materiality and impact on the Council's strategic objectives.</p>
<b>2100</b>	<b>Nature of Work</b>		
5.	<p>Where Internal Audit can make use of CIPFA matrices, a full systematic and disciplined approach is taken and can be evidenced.</p>	<p>We will use refresher training to ensure that risks and mitigating controls are identified on each audit. An updated audit approach will be adopted to ensure that each audit considers key risks and controls, and is supported by a strong and systematic evidence base.</p> <p>Actioned by December 2013</p>	<p>Complete.</p>

	Where this is not possible, we found that there is not always a link to key aspects of risk and internal control.		
<b>2200</b>	<b>Engagement Planning</b>		
6.	<p>Audit Agreement Documents are prepared for each engagement, but in some instances the reasons for the audit, the objectives and the key risks and controls were not identified.</p> <p>We are clear that the same level of rigour needs to be applied to every audit undertaken by the team.</p>	<p>As part of the consideration of risk assessment and audit planning processes, we will identify a prioritised revised audit plan for the remainder of 2013-14. The revision will be based on the current plan but will present our rationale for coverage, and the risks and objectives associated with each review.</p> <p>Engagement planning will make direct reference to the risks associated with each audit area and our revised audit approach will ensure that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach in place from December 2013</p>	Complete.
<b>2300</b>	<b>Performing the engagement</b>		
7.	<p>Auditors currently use discussions with management to prepare the Audit Approach Document and to identify key information necessary for the audit. There is a limited approach to documenting:</p>	<p>We will review the approach to planning and documenting internal audit work used by other teams, including Grant Thornton and other Councils.</p> <p>As above, we will develop a revised audit approach which ensures that each risk is addressed in a systematic and evidence based manner.</p>	<p>Complete.</p> <p>We have, however, identified a new action plan point to update and revise the audit manual.</p>

	<ul style="list-style-type: none"> <li>■ a testing strategy</li> <li>■ work required to fulfil the engagement objectives</li> <li>■ work performed and findings</li> </ul>	New approach developed and in place from December 2013	
<b>2400</b>	<b>Communicating results</b>		
8.	<p>Audit reports are prepared for every engagement within timescales agreed with services. The reports are distributed to key stakeholders including service management, senior management, external audit and the audit committee.</p> <p>We found that there is scope to improve the focus of reporting to ensure that:</p> <ul style="list-style-type: none"> <li>■ each risk is identified and addressed</li> <li>■ findings include a clear and evidence based audit opinion</li> <li>■ audit reports are clear, focused on risk and control and provide the audit committee with the assurance they need</li> </ul>	<p>We will use our work on risk assessment and engagement planning to propose a revised audit report format.</p> <p>Consideration will be given to the development of a rating system to allow for objective monitoring and comparison of audit reports across the Council, and comparison to previous audits.</p> <p>We will consult with services and the audit committee to ensure that changes to the format meet the needs of our users.</p> <p>Revised format of reports submitted to Audit Committee in December for approval.</p>	Complete

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2600	Communicating acceptance of risk		
9.	As for 2400, we found that it is not always clear within reports that internal audit has made a judgement on the level of risk within each review, and therefore whether that level of risk is acceptable to the organisation.	As above, we will ensure that the audit opinion and assessment of managed and unmanaged risk is incorporated within a revised audit report format.  Revised format of reports submitted to Audit Committee in December for approval.	Complete



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**AUDIT COMMITTEE DEVELOPMENT DAY**

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**1 SUMMARY**

- 1.1 This report sets out proposals on the content for the Audit Committee Development Day and also seeks views from members on when to have the development day.

**2 RECOMMENDATION**

- 2.1 The Audit Committee considers the proposed agenda for the Audit Committee Development Day and approves or amends the agenda accordingly.
- 2.2 The Audit Committee confirms its preferred dates for the Development Day.

**3 DETAIL**

- 3.1 The Audit Committee has held a development day every year or two years. As a result of changes to membership of the Audit Committee it was felt it would be useful to hold a development day at some point during April 2014 and certainly prior to the June meeting of the Audit Committee. The purpose of the Audit Committee Development Day is to support members in their role as a member of the Audit Committee, to give them background on the role and function of an Audit Committee, to help them develop skills that allow the Audit Committee to fulfil its role, to identify key issues for the Audit Committee to consider and to plan out the work of the Audit Committee over the course of a year.
- 3.2 It is proposed to deliver the Audit Committee Development Day in conjunction with CIPFA and Grant Thornton who support the work of the in house Internal Audit team. A draft agenda for the day is attached.
- 3.3 The Audit Committee should provide suitable dates for late April into early May, so that CIPFA and Grant Thornton can confirm when they are available to support the Audit Committee Development Day.

**4 CONCLUSION**

- 4.1 This report sets out the proposals for the Audit Committee Development Day. An outline of the agenda for the Audit Committee Development Day is attached for consideration.

**5 IMPLICATIONS**

- 5.1 Legal – None.

- 5.2 Finance – None.
- 5.3 HR – None.
- 5.4 Policy – None.
- 5.5 Risk – None.
- 5.6 Equalities – None.
- 5.7 Customer Services – None.

For further information please contact Bruce West, Head of Strategic Finance (01546 404220).

Bruce West,  
Head of Strategic Finance  
3 March 2014



**DRAFT AGENDA**

**AUDIT COMMITTEE DEVELOPMENT DAY**

**10.00 DAY AND DATE**

**VENUE TO BE CONFIRMED**

**9.45 Tea/Coffee available**

**10.00 Welcome and introductions**

**10.15 Public Audit Framework In Scotland (30 mins)**

- Difference between external and internal audit
- Difference between external audit and inspection agencies
- Difference between audit, governance, performance review and scrutiny

**10.45 The Role Of An Audit Committee (30 mins)**

- CIPFA Guidance
- Examples of good practice

**11.15 Tea/Coffee**

**11.30 Risk, Controls, Assurance (45 mins)**

- What are the risks?
- How do you know they are being assessed?
- What are the controls measures?
- How do you know they are effective?
- What level of assurance is there?
- Is it an appropriate level of assurance?
- What needs to improve to get better assurance?

**12.15 Getting Assurance (45 mins)**

- Deciding what to audit (Risk Assessment)
- Planning how to get assurance (Audit Terms of Reference)
- Carrying out the audit (Controls and Testing)
- Providing assurance (Audit Report and Action Plans)
- Testing if it works (Audit Follow up)
- Has it made a difference (Annual Governance Statement, Annual Reports - Audit Committee and Internal Audit Annual Report)

**13.00 Lunch (45 mins)**

**13.45 The 2014-15 Internal Audit Plan (45 mins)**

- Approach to risk assessment
- Other sources of assurance (including working with External Audit)
- Balance of reviews

**14.30 Working Together As An Audit Committee (45 mins)**

- How do you operate?
- Collective responsibility to reach a view on effectiveness of assurance
- Your skills and your development needs

**15.15 Tea/Coffee**

**15.30 A Year In the Life Of An Audit Committee (30 mins)**

- What do you expect to see at each meeting?
  - June
  - September
  - December
  - March