

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Customer Services
Executive Director: Douglas Hendry



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12 June 2015

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 19 JUNE 2015** 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 Minutes 13 March 2015 (Pages 1 - 6)
4. **ARGYLL AND BUTE ALCOHOL AND DRUGS PARTNERSHIP PROGRESS REPORT**
Report by Chief Officer Argyll & Bute Health and Social Care Partnership and Argyll and Bute ADP Chair and Executive Director – Community Services (Pages 7 - 36)
5. **UNAUDITED FINANCIAL ACCOUNTS**
Report by Interim Head of Strategic Finance (to follow).
6. **REVIEW OF CODE OF CORPORATE GOVERNANCE**
Report by Executive Director – Customer Services (Pages 37 - 72)
7. **BEST VALUE AUDIT 2015**
Report by Interim Head of Strategic Finance (Pages 73 - 76)
8. **RISK MANAGEMENT AND AUDIT**
Report by Chief Executive (Pages 77 - 84)

- 9. HEALTH AND SOCIAL CARE INTEGRATION - DUE DILIGENCE**
Report by Chief Internal Auditor (Pages 85 - 90)
- 10. FEEDBACK ANALYSIS - AUDIT COMMITTEE EFFECTIVENESS SESSION/AUDIT COMMITTEE DEVELOPMENT PLAN 15 - 16**
Report by Vice-Chair Audit Committee (Pages 91 - 96)
- 11. AUDIT COMMITTEE ANNUAL REPORT 2014/15**
Report by Chair of Audit Committee (Pages 97 - 104)
- 12. INTERNAL AUDIT - ANNUAL REPORT 2014 -15**
Report by Interim Head of Strategic Finance (Pages 105 - 114)
- 13. INTERNAL AUDIT SUMMARY OF ACTIVITIES**
Report by Chief Internal Auditor (Pages 115 - 122)
- 14. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2015 - 2016**
Report by Chief Internal Auditor (Pages 123 - 224)
- 15. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2014 - 2015**
Report by Chief Internal Auditor (Pages 225 - 234)
- 16. EXTERNAL AUDIT REPORTS**
Management Letter by Audit Scotland, External Auditors (Pages 235 - 240)
- 17. NATIONAL FRAUD INITIATIVE IN SCOTLAND**
Report by Audit Scotland, External Auditors (Pages 241 - 286)
- 18. AUDIT COMMITTEE WORKPLAN**
Audit Committee Work Plan 2015 -16 (Pages 287 - 290)

AUDIT COMMITTEE

Martin Caldwell (Chair)
Councillor Michael Breslin
Councillor Iain MacDonald
Sheila Hill

Councillor Gordon Blair
Councillor Maurice Corry
Councillor Richard Trail

Contact: Shona Marshall

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**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY,
LOCHGILPHEAD
on FRIDAY, 13 MARCH 2015**

Present:

Martin Caldwell (Chair)

Councillor Gordon Blair
Councillor Michael Breslin
Councillor Maurice Corry

Councillor Richard Trail
Sheila Hill

Attending:

Steve Barrett, Head of Strategic Finance
Kevin Anderson, Chief Internal Auditor
Peter Cupples, Finance Manager
Fergus Murray, Head of Economic Development and Strategic Transport
Stewart Clark, Contracts Manager
Fergus Walker, Revenue and Benefits Manager
Graeme Forrester, Area Committee Manager
Grace Scanlin, Grant Thornton
Fiona Mitchell-Knight, Audit Scotland
Russell Smith, Audit Scotland
David Jamieson, Audit Scotland

1. APOLOGIES FOR ABSENCE

An apology for absence was intimated on behalf of Councillor Iain Angus MacDonald.

2. DECLARATIONS OF INTEREST

There were no Declarations of Interest

3. MINUTES

The Minutes of the Audit Committee of 5 December 2015 were approved as a correct record.

Land asset disposal had been discussed in detail at that meeting and processes for Area Committee decisions on disposal of land were considered. It was noted that reports considered by the Bute and Cowal Area Committee in recent months had not contained all the expected information.

Decision

The Committee noted the position and agreed to ensure that relevant reports were provided to the Area Committees as agreed.

4. VAT RISK REVIEW

The Committee considered the follow up report which set out the progress in respect of the action plan prepared following the initial KPMG review of VAT carried out in April 2013.

Decision

The Committee noted the contents of the report and that further updates would be provided once all action points were completed.

(Reference: Report by Interim Head of Strategic Finance dated 13 March 2015, submitted)

5. EMPLOYMENT TAX RISK REVIEW

The Council had asked tax consultants KPMG to carry out an Employment Tax Risk Review to identify any areas of potential risk in the Council's employment Tax accounting processes. The Committee considered a report which outlined any issues identified by KPMG and the procedures which had been put in place, or were in the process of being put in place, in order to reduce the level of risk.

Discussion took place on Councillors expenses, and what was deemed a Councillor's workplace for tax and NIC purposes, including travel and subsistence expenses incurred by Councillors travelling to Committee or sub-committee meetings.

Decision

The Committee;

- (i) noted the contents of the report;
- (ii) noted that further updates would be provided once all action points were completed; and
- (iii) agreed that it be brought to the attention of, and communicated to, Elected Members that the calculation for determining Councillors expenses was under review.

(Reference: Report by Interim Head of Strategic Finance dated 23 February 2015, submitted)

6. FINANCIAL STATEMENTS 2014 - 15

A report advising the Audit Committee on the plans in place for financial year end 31 March 2015 and the preparation of the Council's Financial Statements for 2014 – 15 was considered.

Decision

The Committee noted that plans were in place to prepare the Council's financial statements, consistent with the Accounting Code of Practice and to submit them to Council prior to 30 June 2015 in line with the Scottish Government's requirements.

(Reference: Report by Interim Head of Strategic Finance dated 13 March 2015, submitted)

7. INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Committee considered a report which detailed the Internal Audit activity and progress during Quarter 4 against the following areas;

- 14/15 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- National Fraud Initiative
- Development Plan
- Performance Indicators

The selection process for identifying which schools had a School Fund check was discussed. It was noted that the work of the abolished NFI team would be taken over by CIPFA. Internal Audit was also praised for having an up to date Pyramid scorecard.

Decision

The Committee noted the content of the report.

(Reference: Report by Chief Internal Auditor dated 13 March 2015, submitted)

8. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2014 - 2015

The Committee considered a report which provided executive summaries and details on eight audits that had been undertaken by Internal Audit and the recommendations that had been identified as a result of these audits.

Economic Development Officers provided background detail to the CHORD programme, from its remit to lessons learned, problems encountered and the steps undertaken to resolve these.

The Committee was reassured that at each Area Committee meeting, an Economic Development Officer, project manager or programme manager was present to help ensure that the Committee acted as a project board at local level.

External Auditors expressed their concern at the number of issues identified in the report with the CHORD programme. It was acknowledged that these were mostly historical, but that they would be looking at actions being taken by the Council to resolve these.

Discussion then took place on the issues surrounding Winter Maintenance, the procedures in place for informing the public of any road closures or route problems outside of core "office hours", the use of "RALF", satellite navigation systems on winter maintenance vehicles, the list of contractors to call on to meet statutory obligations and also the planned review to bring down maintenance costs to be more in line with the budget.

Decision

The Committee noted;

- (i) the contents of the report and detail within each individual report in respect of the following audits;
 - CHORD
 - Communications
 - Flood Risk Control
 - Fostering and Adoption
 - HomeCare – Contract Monitoring
 - Records Management Plan/ Information Security
 - Revenue & Benefits – Council Tax discount
 - Winter Maintenance;
- (ii) the concerns of the External Auditors regarding the issues identified within the CHORD programme; and
- (iii) that in 2014/15 External Audit would be monitoring the Oban CHORD project in part.

(Reference: Report by Chief Internal Auditor dated 13 March 2015, submitted)

9. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2014 - 2015

The Committee considered a report which documented the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit due for implementation by 31 January 2015.

Decision

The Committee noted the report.

(Reference: Report by the Chief Internal Auditor dated 13 March 2015, submitted)

10. ANNUAL AUDIT PLAN 2015/16

The Committee considered a report which introduced the Annual Audit Plan for financial year 2015/16.

Decision

The Committee agreed and approved the Annual Audit Plan 2015/16.

(Reference: Report by Chief Internal Auditor dated 13 March 2015, submitted)

11. EXTERNAL AUDIT PLAN 2014 - 15

A report summarising Audit Scotland's assessment of the key challenges and risks facing Argyll and Bute Council and setting out the audit work they propose to undertake covering the period 2014/15 was considered.

During discussion, the External Auditors explained the background to the increase in the agreed Audit fee for the 2014/15 audit of Argyll and Bute Council.

Decision

The Committee noted the contents of the report.

(Reference: Report by Audit Scotland, External Auditors dated March 2015, submitted)

12. AUDIT COMMITTEE DEVELOPMENT: ACTION PLAN

A report which provided a progress update in respect of the Audit Committee Development Action Plan for 2014/15 was considered.

Decision

The Committee noted

- (i) the contents of the report; and
- (ii) that a summary report from the Effectiveness Session would be brought to the next meeting of the Committee.

(Reference: Report by Chief Internal Auditor dated 13 March 2015, submitted)

13. COUNTER FRAUD TEAM - BUSINESS CASE

The Committee considered a report which presented the case for the Council to create a new Counter Fraud Investigation Team (CFIT) in order to prevent and detect fraud in relation to the Council Tax Reduction Scheme (CTRS) and to fulfil the residual responsibilities in relation to SFIS.

During discussion, Members expressed their disappointment at the fact that the Fraud and Error Services (FES) would not be providing the evidence to support any adjudication required by the Council to investigate Council Tax Reduction (CTR) offences and therefore an investigation to obtain this evidence would have to be carried out by the Council. They hoped that there would be improvements in this area by the Department of Works and Pensions (DWP).

Decision

The Committee noted that;

- (i) the residual responsibilities for preventing and detecting fraud following the transfer to SFIS;
- (ii) the table at Item 4.13 should be amended to read “**Costs** of a Corporate Fraud Unit of 2 staff..”;and
- (iii) an updated version of the report would be presented at the next meeting of the Policy and Resources Committee on Thursday 19 March 2015.

(Reference: Report by Executive Director – Customer Services and Head of Strategic Finance dated 13 March 2015, submitted)

14. AUDIT COMMITTEE WORKPLAN

The Committee considered the outline work plan to facilitate forward planning of reports to the Audit Committee.

Decision

The Committee noted the Workplan and that;

- (i) a report on the Effectiveness Session would be brought to the next meeting of the Committee; and
- (ii) the External Audit Annual Report would be on the Agenda for the September 2015 meeting of the Committee and not the December 2015 meeting.

(Reference: Report by Executive Director – Customer Services dated March 2015, submitted)

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****COMMUNITY SERVICES****19 JUNE 2015**

Argyll and Bute Alcohol and Drugs Partnership Progress Report

1.0 Executive Summary

Argyll and Bute Council undertook a commissioning process for community based addiction recovery services in 2014 on behalf of the Argyll and Bute Alcohol and Drug Partnership (ADP). In November 2014 the contract was awarded to Addaction Scotland with a start date of 1 January 2015. Awarding this contract has secured a contract, with a service provider recognised for success, that is delivering a consistent level of support across Argyll and Bute and which, as demonstrated by feedback from service users, is working effectively for people who need assistance.

The change to a new national third sector provider inspired views for and against, and created some significant political and media interest. This resulted in the procurement process being subject to an internal review by Argyll and Bute Council and an investigation by Audit Scotland which found that the contract is valid and appropriate.

There were a number of findings and recommendations arising from the Council's internal review and Audit Scotland's review. These findings have been accepted by the ADP Executive and will have been presented to the Community Planning Partnership Management Committee on 17 June 2015. The CPP Management Committee is the committee to which the ADP reports.

It is recommended that the Audit Committee note the contents of this report and its findings, recommendations and actions within.

The Council will review the lead in time for contracts to ensure that there is sufficient time for handovers to be completed and contract requirements to be fulfilled. The Council's procurement manual and evaluation of tender documents will be updated to include a clause which states that where tender bids are close after being evaluated by the tender panel, further discussions will take place to differentiate the bids.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

COMMUNITY SERVICES

19 JUNE 2015

Argyll and Bute Alcohol and Drugs Partnership Progress Report

2.0 Introduction

2.1 This report is intended to inform the members of the Audit Committee of the current and future developments within the Argyll and Bute Alcohol and Drugs Partnership (ADP) following the publication of the review of the commissioning process for community based adult addiction services by Audit Scotland.

2.2 The Argyll and Bute Alcohol and Drug Partnership (ADP) is a partnership of statutory and voluntary organisations working together to achieve a reduction in the harmful effects of alcohol and drugs on both individuals and the wider community. The governance of the ADP sits within the Community Planning Partnership reporting to the CPP Management Committee.

3.0 Recommendations

It is recommended that the Audit Committee note the contents of this report and its findings, recommendations and actions within.

4.0 Detail

4.1 On 4 November 2014 the ADP concluded a lengthy procurement process undertaken by Argyll and Bute Council on behalf of the ADP and awarded the contract for community based adult addiction services to Addaction Scotland. Addaction Scotland were awarded a three year contract from 1 January 2015.

4.2 The change to a new national third sector provider from the previous 5 local third sector providers inspired views for and against, and created some significant political and media interest. This resulted in the procurement process being subject to an internal review by Argyll and Bute Council and an investigation by Audit Scotland.

4.3 Audit Scotland scrutinised minutes, emails and other correspondence from both the ADP and Argyll and Bute Council. Other individuals also submitted information directly to Audit Scotland.

- 4.4 The Audit Scotland investigation findings were issued on 11 May 2015 and is appended to this report for information. The findings within the report have been accepted by the ADP Executive Group and activity is underway to address the recommendations within.
- 4.5 The report lists 3 actions which were taken in response to audit findings, these are:
- I. To demonstrate accountability on this contract by reporting to the CPP MC and the council's Audit committee.
 - II. To consider external legal advice on the contract variation regarding compliance with public procurement legislation – external legal advice concludes that both the contract and variation are legally binding.
 - III. To undertake quarterly performance reporting as per the contractual requirements.

And 4 other recommendations will also be progressed, these are:

- I. The lead time for contracts should be assessed to ensure that there is sufficient time for handovers to be completed and contract requirements to be fulfilled.
- II. The procurement manual and evaluation of tender documents should be updated to include a clause which states that where tender bids are close after being evaluated by the tender panel, further discussions will take place to differentiate the bids. This should be included for clarifying the position for all involved in the tender process.
- III. To demonstrate sound governance, minutes should be taken at all important meetings of the ADP and then agreed at the following meeting.
- IV. Governance arrangements in the ADP should be improved to enhance openness and transparency. Allowing open discussion and debate on strategy, budgetary information etc will help members to contribute effectively to the work of the ADP. Delivering a robust improvement plan should help with communication difficulties.

Appendix 2 details the actions taken in respect of the audit findings.

- 4.6 The Council, as suggested, has taken external legal advice and the Council's view is that the contract remains valid and appropriate. Audit Scotland also found the allegations made by some regarding conflict of interest within the procurement process to be without foundation.
- 4.7 Feedback received through regular meetings with Addaction has assured the ADP that service users are receiving professional targeted services specifically to address their issues and to assist them on their recovery journey. Addaction have engaged with 72 individuals from January to

April who required support to either stop or reduce their drug or alcohol use and are delivering services in various locations in Argyll and Bute.

- 4.8 Other recent developments within the ADP have included the agreement of a 3 year service level agreement with the Argyll and Bute Addictions Team (ABAT) from 1 April 2015. The ABAT delivers clinical, nursing and social work services to service users with complex addiction issues in Argyll and Bute working in partnership with Health, Social Work and Addaction. The service level agreement ensures that Addaction and ABAT have the same performance management framework in place to monitor and measure their performance against an agreed set of outcomes. Arrangements have been put in place to monitor both these contracts and report on the performance to the ADP Executive Group.
- 4.9 ADP Governance issues highlighted by Audit Scotland were also reported in an investigation by Bill Brackenridge into complaints regarding the allocation of funding to support children and young people with addiction problems. The complaints however were not upheld and the ADP is now, with support from the local Argyll and Bute's Children's Executive Groups, allocating funding to support children and young people who experience addiction problems across Argyll and Bute.
- 4.10 The ADP has also held two development days in January and March 2015 to consider the ADP strategic direction, governance and to strengthen relationships within the ADP. These events were supported by the Scottish Government national support team, other leading organisations in the addictions field and an external mediator. Attendance at both events was good.
- 4.11 The main themes emerging from these two days will now be developed further by the ADP, these are:
- Partnership Administration and Governance
 - Whole population approach
 - Recovery Orientated Systems of Care
 - The Delivery Environment
 - Service User Involvement
 - Communications
 - Data and performance Reporting

An improvement plan is being prepared with support from across the ADP being sought to deliver on the actions identified to support the ADP moving forward.

4.12 The ADP has also agreed that there is a requirement to provide independent leadership and strategic vision across the partnership through the appointment of an independent chair who will take the lead role in ensuring the ADP's core outcomes are effectively discharged. The role will be to ensure the ADP is integrated and has close links with relevant strategic and operational structures at both local and national level, to provide the CPP MC with regular reports on the performance of the ADP strategy and services and to ensure the ADP is represented within the CPP and Health & Social Care partnership structure. The role and remit for this post are currently being prepared and it is hoped that an appointment will be made by this autumn.

5.0 Conclusions

5.1 The ADP has secured a contract, with a service provider recognised for success, that is delivering a consistent level of support across Argyll and Bute and which, as demonstrated by feedback from service users, is working effectively for people who need assistance.

5.2 The focus for the ADP is now on improvements to the ADP governance, structure and building on commitment to partnership working by all members, for the benefit of the people who need our support.

6.0 Implications

6.1 Policy N/A

6.2 Financial N/A

6.3 Legal N/A

6.4 HR N/A

6.5 Equalities The ADP is committed to working in partnership across Argyll and Bute.

6.6 Risk Risks with service delivery will be managed through contract monitoring arrangements.

6.7 Customer Service

Christina West
Chief Officer
Argyll & Bute Health and Social Care Partnership and
Argyll and Bute ADP Chair

and Cleland Sneddon
Executive Director Community Services

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Appendices

Appendix 1 Audit Scotland review of the commissioning process undertaken on behalf of the Argyll and Bute Alcohol and Drug Partnership

Appendix 2 Audit Action Plan

Argyll and Bute Council

Review of the commissioning process undertaken on behalf of the Argyll and Bute Alcohol and Drug Partnership

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary findings

- Argyll and Bute Council undertook a commissioning process for community based addiction recovery services in 2014 on behalf of the Argyll and Bute Alcohol and Drug Partnership (ADP). In November 2014 the contract was awarded to Addaction Scotland with a start date of 1 January 2015. It is acknowledged that this lead time was too short.
- The invitation to tender (ITT) for the contract required provision of a range of services. Two potential bidders have told us that they did not submit bids for the contract because of the onerous nature of the housing support services that they believed were required within the fixed price for the contract.
- The invitation to tender required that a full review of services was to take place and that a more equitable service was required across all areas of the council by year 3. The council state that the review of services was to take place immediately after the contract commencement; however correspondents believed that this was to take place later, by year 3 of the contract. Immediately following commencement of the contract, Addaction Scotland carried out an assessment of the needs of all known service users and concluded that no service users required housing support services at this time. The ADP/council agreed that Addaction Scotland could move towards its model of more equitable services in year 1.
- In our opinion, there was a degree of ambiguity in the ITT regarding the timescale of the service review. The immediate review of services and the non-supply of housing services at this time could be considered material to the contract. We therefore recommended that the council take external legal advice to satisfy itself that the contract is compliant with public procurement legislation.
- The council obtained external legal advice which includes the conclusion, "In our view it was not unreasonable for the Council to assess the potential benefits of that acceleration in terms of best value and the needs of the service users, as against the potential risk of a procurement law breach, which seems to us to be a risk within reasonable parameters". We note the conclusions of the legal adviser and in these circumstances feel it is reasonable for the council to conclude that the contract with Addaction Scotland remains valid.
- The council also highlighted that potential bidders who required clarification on the ITT could have submitted questions through the Public Contracts Scotland portal or contacted Business Gateway for support.
- Addaction Scotland was not registered with the Care Inspectorate to provide regulated services in Argyll and Bute until 25 February 2015. It was, therefore, in breach of the contract requirements from 1 January to 25 February 2015. The ADP/council was aware of this, considered it to be a technical breach and had arrangements in place to cover regulated services during this period.

- Minutes of the Executive Group report that 56 service users transferred to Addaction Scotland and that there have been 34 new referrals since Addaction Scotland have taken on the service, which indicates that service users are accessing services. Addaction Scotland's services provided in other areas of Scotland are rated as very good by the Care Inspectorate. Arrangements for reporting on the quality of the services provided by Addaction Scotland, to the ADP and council, was formalised at the ADP Executive Group in April 2015.
- No conflicts of interest have been identified in the commissioning process. Interested parties made appropriate declarations timeously and there is no evidence that they had access to commercially sensitive information in advance of the tender.
- Governance arrangements for the ADP need to be improved including procedures for preparation, approval and custody of ADP minutes.
- In response to our findings as part of this review the council has taken some actions which are recorded on page 20. We have also made some other recommendations which are relevant for this contract and more widely for council procurement exercises. It has been agreed that this report will be considered by the ADP Executive Group, the CPP (Community Planning Partnership) Management Committee and the council's Audit Committee. A formal response to this report should be recorded.

Scope of the audit

1. Argyll and Bute Council undertook a commissioning process for community based addiction recovery services in 2014 on behalf of the Argyll and Bute Alcohol and Drug Partnership (ADP). Four organisations submitted bids for the services. On 4 November 2014 the contract was awarded to Addaction Scotland with a start date of 1 January 2015. Prior to this, a range of services had been provided by five smaller local third sector service providers. Due to the profile of this commissioning process in the local community and receipt of correspondence from members of the public and local MSPs, the Controller of Audit determined in January 2015 that the local Argyll and Bute Council audit team should carry out a specific piece of work relating to this process.
2. Following concerns expressed in relation to the procurement of the contract, Argyll and Bute Council's Chief Executive commissioned an internal review of the commissioning process. After considering the results of the investigation, the council's view is that the contract remains valid and appropriate.
3. The report on the internal review (paras 61-63) and a timeline of the commissioning process was provided to our review team. This information was reviewed prior to conducting meetings with senior council staff including those involved in the procurement process, the former and current Chairs of the ADP and the council's Legal Manager. Discussions/correspondence was entered into with the Care Inspectorate and third sector organisations. Correspondence and reports relating to the ADP, including a complaints investigation by the Chair of the Scottish Legal Complaints Commission (SLCC), Bill Brackenridge, (para 57) were also reviewed.
4. No correspondence has been received by Audit Scotland from ADP service users or the organisations who submitted unsuccessful bids for the contract.
5. This was a targeted piece of audit work. We considered the evidence we received from all parties. Audit Scotland cannot overturn any decisions already made by the ADP/council. We make recommendations for improvement and then monitor progress in implementing these. We have prepared this report for the council who commissioned the contract but we recommend that the ADP Executive Committee also consider its findings.

Action 1

6. We have also considered a range of other issues which have been raised by correspondents including staff funding for ABAT (Argyll and Bute Addictions team) and budget monitoring processes. Evidence was reviewed regarding these issues and we have nothing to report in relation to these matters in the detail of this report.
7. The Care Inspectorate is the statutory regulator of care services in Scotland. The scope of this work does not include an assessment of the quality of services being provided on behalf of the ADP.

8. This report is made solely to the parties to whom it is addressed and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.
9. This report will be shared with the correspondents who contacted Audit Scotland about the commissioning process for this contract.

Background

10. Alcohol and Drug Partnerships were introduced by the Scottish Government in April 2009. Argyll and Bute ADP brings together Argyll and Bute Council, Highland Health Board, Police Scotland, Scottish Fire and Rescue Service, the Community Justice Authority (CJA) and various third sector organisations to improve outcomes for its service users. The lead agency is Highland Health Board which is responsible for managing ADP finances. The ADP reports to the Argyll and Bute CPP (Community Planning Partnership) Management Committee.
11. Argyll and Bute ADP has a total budget of £1.25 million. The community based recovery services, the subject of the commissioning process, aim to provide support, promote recovery and increase health and wellbeing by helping service users reduce problematic alcohol/drug use and maintain tenancies. Statutory services are provided by the Argyll and Bute Addiction Team (ABAT) which includes assessment, recovery planning and detoxification.
12. In March 2013 the ADP Executive Group (previously Lead Officers Group) determined that a commissioning process would begin in 2014. In July 2013, an ADP commissioning group was set up to consider the service specification and procurement process necessary for tendering for community based recovery services. The commissioning group formed two sub-groups to separately consider service specification and the procurement process.
13. ADP has no separate legal personality and cannot enter into contracts. Consequently, Argyll and Bute Council undertook the commissioning process on behalf of the ADP. The contract for these services is between the council and Addaction Scotland. The contract is for a fixed price of £475,139 per annum, for three years, with the ADP contributing £88,200 of the contract value per year and the council and Highland Health Board contributing the balance. Tenders were evaluated on the quality of services proposed to be delivered within the specified price.

Audit findings

Compliance with legislation

14. Concerns have been expressed in relation to Addaction Scotland's compliance with legislation in respect of registration with the Care Inspectorate and the commissioning process. Each of these areas was covered by the council's internal review. Concerns have also been expressed in relation to post-contractual negotiations and the TUPE (Transfer of Undertakings (Protection of Employment) Regulations) implications for the predecessor third sector organisations and their staff. We consider these issues below.

Care Inspectorate registration

15. The invitation to tender states at part 2, section 57.1 that; "It is a condition of this contract that the Contractor must be registered with the Care Inspectorate to provide the appropriate care services within the Argyll and Bute locality. The Contractor must continue to be registered with the Care Inspectorate throughout the duration of the contract." The council's internal review recorded that Addaction Scotland was not providing housing support services in the area without Care Inspectorate approval; however we did not believe that the overall position with the registration was clear in the internal report. We requested further information from the council to clarify the position.
16. Addaction Scotland, although registered with the Care Inspectorate in other areas of Scotland, was not registered to provide housing support services in Argyll and Bute before 25 February 2015. Addaction Scotland has assured the council that during this period it did not engage in providing housing support services and that all services provided to service users were unregulated services and therefore did not require Care Inspectorate registration.
17. Addaction Scotland applied for a variation of its Dumfries and Galloway registration with the Care Inspectorate in early January 2015 and this was approved on 25 February 2015 and recorded on the Care Inspectorate website. Addaction Scotland now plans to apply for a full Argyll and Bute registration. Addaction Scotland was in breach of the contract for almost two months as the contract states that the registration with the Care Inspectorate should be in place for the duration of the contract.
18. The ADP/council considered this to be a technical breach and explained that it was aware of this position regarding the registration and that alternative arrangements were in place to provide registered services during this period. The ADP and council were prepared to accept and work round this position.

Recommendation 1

Scope of Contract / Housing Support Services

19. The invitation to tender document (ITT) part 3, section 8.5 states "current level of housing support services will remain consistent immediately following the award of the contract to

provide continuity of service. Thereafter, providers will be required to carry out a full review of services".

20. Shortly after commencement of the contract, Addaction Scotland used a programme of assessment to determine the appropriate services required for all known service users. Addaction Scotland did not identify any individuals who needed housing support services at this time. Addaction Scotland's review is aimed at ensuring that ADP funds are appropriated to the correct services to help with service user recovery. We have been advised that care plans for service users continue to be monitored by Addaction Scotland to ensure they remain relevant.
21. Part 3, section 8.6 of the ITT also required that by year three of the contract, changes would be made to service provision to improve outcomes and equality of service across the council. Addaction Scotland stated in its tender submission that it wanted to work with the commissioner at an early stage to make changes to address inequalities.
22. Minutes of post contractual negotiations record that it was agreed between Addaction Scotland and the ADP that rather than by year 3, this could be carried out immediately. Our review has established that other bidders in their tender documentation also considered that the review of service provision immediately after award of the contract would be beneficial.
23. On 18 February 2015, the Procurement and Commissioning Manager at Argyll and Bute Council confirmed to us that, in the council's opinion, Addaction Scotland's plans to review services straight away rather than by year 3 did not constitute a formal variation to the contract. Subsequently in the minutes of the ADP Executive Group meeting of 19 February 2015 it was stated that "A variation will be prepared to make explicit that the review of the model of care required to be completed by year 3 will be undertaken from the outset by Addaction." The ADP/council reconsidered this issue and is formalising a contract variation with Addaction Scotland.
24. Correspondents raised an issue with regard to part 3, section 8.9 of the ITT which states that "The projected minimum service levels for each of the lots are outlined in the table...In Years 1 and 2 services will continue on a like for like basis". The ITT table at section 8.12 detailed a minimum 805 hours of housing support per month for Year 1 and 2 and a minimum of 350 new referrals per annum. The correspondents believed that as "years 1 and 2 services continue on a like for like basis..." that the review of all services (para 19) could not take place until year 3.
25. Two third sector organisations have confirmed to us that they believed that the projected minimum levels of housing support detailed in the ITT would have to be in place for the first 2 years of the contract and that this would be too difficult to deliver within the price of the contract. They did not therefore submit tender applications.
26. The ADP/council state that the ITT section 8.5 (para 19) is clear that the review of all services would begin immediately after the contract was awarded and was a contractual requirement. They added that this is a separate review from that detailed in section 8.6 (para 21) which was

to provide more equitable services across the council area by year 3 and that the contract variation agreed with Addaction Scotland relates only to accelerating the provision of equitable services from year 3 to year 1. The council also highlighted that potential bidders could have sought guidance about any issues relating to the ITT by submitting questions through the Public Contracts Scotland portal or contacted Business Gateway for support.

27. In our opinion the timescales with regard to the review of services in the ITT could reasonably be interpreted in either way which means that there is a degree of ambiguity over the wording in the ITT. The ITT detailed projected minimum levels of housing services going forward and we believe that the inclusion of this may have stopped some organisations from bidding for the contract.
28. We considered that that this immediate review of services and the non-supply of housing services could be material to this contract and may breach public procurement legislation. Ultimately this would be for the courts to decide. In these circumstances, we recommended that the council should take external legal advice, in addition to that already obtained internally, to satisfy itself that the contract is compliant with public procurement legislation.

Action 2

29. The council has now obtained external legal advice which supports the council's view that the contract agreed with Addaction Scotland is valid. The advice stated that "it was the implementation of the review, and not the agreement of the variation, which has brought about the reduction in the Housing Support requirements" and that "the outcome of the review (whenever it took place) could not have been predicted... the status quo could have continued". The advisers agree that it is ultimately for the courts to determine whether a change to a contract is a material one for the purposes of public procurement legislation. They also note that there is no current legal challenge to the decision to amend the contract and that if there were, any breach of procurement law gives remedies to aggrieved bidders but does not affect the validity of the contract or the amendment.
30. The conclusion of the advisers is that; "With the outcome of the procurement being a single supplier winning all lots the Council had an opportunity which would have not been open to it had different suppliers been appointed to different lots. That opportunity was to accelerate the review. In our view it was not unreasonable for the Council to assess the potential benefits of that acceleration in terms of best value and the needs of the service users, as against the potential risk of a procurement law breach, which seems to us to be a risk within reasonable parameters. To put this another way, had the Council not accelerated the review on the basis of procurement law, it could have been criticised for having adopted too cautious a position on procurement law risk to the detriment of best value and the needs of the service users."
31. We note the conclusions of the legal adviser and in these circumstances feel it is reasonable for the council to conclude that the contract with Addaction Scotland remains valid.

Tender Evaluation

32. The council has experienced procurement officers and a detailed procurement policy. We were provided with evidence that, council officers provided the commissioning group (procurement sub-group) with examples of good practice, council guides for procurement / evaluating tenders to help ensure that the invitation to tender was clearly written and compliant with legislation. The tender evaluation process was discharged in accordance with the council's 'evaluating tenders' document.
33. A panel representing the ADP was formed to review tenders. In accordance with guidelines the panel was provided with instructions including the guide to evaluating tenders. The eight panel members scored the bids individually before convening to discuss an overall panel score. We note that:
- one scoring panel member assumed that there was going to be an interview phase with the two highest bidders
 - one scoring panel member submitted a copy of their individual scorecard over four months after the evaluation process was completed.
34. We are advised that the purchasing officer supporting the panel and commissioning process informed all panel members that following the computation of the final scores the two top tenderers were close. The purchasing officer also advised the evaluation panel that they should meet again to discuss these two tenders with a focus on reviewing the highest scoring questions to differentiate between the bidders. We raised this matter with the council's Procurement and Commissioning Manager who advised that this can be a common occurrence. Whilst it is our view that this practice of further discussion is appropriate, no explicit reference is made to this process in either the procurement manual or evaluation of tender documents. We have therefore recommended that the documents should be updated to include this process.

Recommendation 2

Handover of service user information

35. The previous third sector providers were asked to pass over service user information to be used by Addaction Scotland. They planned to explain to the users about the changes to the service provider. Some of the previous providers raised concerns that providing this type of personal information may contravene the Data Protection Act, 1998.
36. The Chair of the ADP obtained legal advice that concluded that sharing basic information (service user details) would not contravene the Act. The council also confirmed that it sought guidance regarding this from the Information Commissioner's Office. Furthermore, it was a contractual obligation of previous service providers to provide this information to the council. By 31 January 2015, the previous third sector providers had either passed on details to Addaction Scotland or notified their service users about the change of community based service provider.

37. No complaints have been made to the Information Commissioner's Office regarding these requests therefore no formal determination has been made as to whether there was a breach of the Act. However the council acknowledges in its review that a longer lead time for the contract would have provided a greater opportunity to resolve service users' issues related to data protection.

Recommendation 1

The Transfer of Undertakings (Protection of Employment) Regulations (TUPE)

38. TUPE Regulations have been referred to in correspondence received by us. The TUPE requirements are a matter for Addaction Scotland and the predecessor service providers rather than the ADP/council. This matter is outwith the scope of Audit Scotland's remit and consequently the scope of this review.

Conflicts of interest

39. Concerns have been raised with regard to conflicts of interest in the commissioning process where it was reported that a named member of the ADP Delivery Group, whose organisation was interested in the tender, prepared the service specification for the commissioning process (pages 39-56 of the invitation to tender).
40. Concerns have also been raised regarding a predecessor third sector provider managed by the named member above merging with Addaction Scotland later in 2015. We consider these issues further below.

Preparation of Service Specification

41. From an examination of documentation, we established that a draft service specification reported to be 'completed by' the ADP Delivery Group officer referred to above was presented to the Implementation (now Delivery) group on 27 November 2013. A different member of the service specification group has confirmed that the work as at 27 November was draft version six and a collaboration of all of those in the service specification group. Evidence was provided which shows that this version was then discussed in emails by service specification group members, which also included other third sector service providers. The draft had progressed to version eight by 21 February 2014, the date when the prior information notice relating to the tender was published on Public Contracts Scotland website. We have concluded that the specification work to this date was not solely prepared by any individual officer.
42. On 21 February 2014, following the issue of the notice to tender, the named individual emailed all members of the commissioning group stating that their organisation was expressing an interest in the tender and therefore could not be exposed to any sensitive or confidential information and going forward did not attend meeting items where this information was being discussed. There is no evidence of this individual being involved in the process after this date. It should be noted that other members of the service specification group also expressed an interest in the tender.

43. The procurement sub-group, which contained no parties interested in the tender, then reviewed the service specification on at least six additional occasions after 21 February 2014. In March 2014, the procurement group compiled all the commercially sensitive sections in the tender related to 'specific services required' including all budgetary information, the fixed price for the contract and the minimum service requirements. We have found no evidence that any interested party had commercially sensitive information in advance of the ITT publication.
44. The invitation to tender was then reviewed and updated following feedback from the Scottish Government ADP National Support team before finally being approved by the ADP Executive Group in June 2014 in a confidential session. The minutes confirm that none of the interested parties attended this session. However, this confidential session of the ADP Executive Group, where commercially sensitive discussions took place, was not acknowledged in the published minutes for June 2014.

Recommendation 3

Merger of service providers

45. From our review of the tenders submitted by Addaction Scotland and other bidders for the contract, it was evident that collectively, the bidding organisations were in communication with all the then incumbent third sector organisations to share ideas and/or consider mergers or partnership working in the area. It was also evident from the tenders that in early 2014 at least two incumbent third sector organisations approached larger national organisations to discuss potential joint working. Opportunities for these types of discussions were available to all incumbent organisations. On the basis that none of the incumbent providers were involved with commercially sensitive areas of the invitation to tender we have concluded that no bidder would have had early access to sensitive tender information.
46. The manager of the organisation which is merging with Addaction Scotland declared an interest in the tender process on 21 February 2014 and was no longer involved in the tender process. We therefore consider it acceptable for them to have worked with a bidder following this date. No conflicts of interest have been identified in the commissioning process.

Service Impact

47. In addition to the issues raised regarding housing support service provision, concerns have been raised that there was an insufficient lead period for the contract for effective handover of the services. The internal review has acknowledged that this was the case. Other areas of concern raised with us but not covered by the council's review relate to capacity to deliver the service within the fixed price and whether the invitation to tender may have favoured larger organisations. These issues are considered further below.

Contract Lead Time

48. The internal review of the commissioning process recorded that the lead time between the contract award and start of the contract was unnecessarily short and a longer lead time would have permitted better communication with service users. A longer period would also have

allowed any data transfer queries to have been resolved and allowed the Care Inspectorate registration to have been resolved prior to the start of the contract.

49. We have confirmed that the ADP had a communication plan in place to communicate with service users. Letters were sent to service users via third sector organisations in November and December 2014 notifying them of the change of service provider. However, the notice of Addaction Scotland winning the contract was only posted on the ADP website on 17 December 2014 and flyers/posters for service points detailing Addaction Scotland as the service provider were emailed out on 18 December 2014.
50. The short lead time was detailed in the tender documentation agreed by the ADP Executive Group in June 2014. In mid December 2014, the ADP Executive Group recognised that there may have been risks to service users in the transition period and requested that existing service providers extended service provision by one month to 31 January 2015 at a cost of £28,000 to smooth the handover period. There appears to be no particular reason as to why this time period was so short, given that service users would need assurances over the new service provider and style of delivery. The ADP should consider lengthening transition periods for future contracts.

Recommendation 1

Capacity to deliver

51. Addaction Scotland currently has two bases in Argyll and Bute: Dunoon and Bowmore, Islay. Its tender submission records that it plans to have two more static locations in Argyll and Bute and are seeking premises. ADP Executive Group minutes from February 2015 state that in addition to the 56 service users which transferred to Addaction Scotland, 34 new referrals have started using Addaction Scotland's services in the first two months of 2015. This indicates users are accessing services.
52. The contract award was on the basis of a fixed price for each of the three years of the contract and is outcome based. Senior officers have confirmed that they are confident that Addaction Scotland can provide the redesigned service within the revised budget and have taken assurance that the level of funding is sufficient from the fact that four organisations tendered for the fixed price contracts.
53. Addaction Scotland's work has been reviewed by the Care Inspectorate in other areas across Scotland. In Dumfries and Galloway (where the same manager will oversee work in Argyll and Bute), which has similarities with Argyll and Bute in terms of dispersed communities, Addaction Scotland's service in 2014 was rated as very good '5' in all four reporting areas (6 being highest ranking) by the Care Inspectorate.
54. The Chair of the ADP has confirmed that a local balanced scorecard will be used for ADP reporting/monitoring going forward using national and locally developed targets. There will be a minimum of four review meetings each year and performance will be reported to both the ADP and council on a quarterly basis. The Chair considers that adequate measures are in place to monitor the performance of Addaction Scotland in meeting the aims of the ADP. We

have recently been advised that a report detailing monitoring arrangements has been taken to the ADP Executive Group in April 2015. The council has informed us that the ADP is happy with progress to this date.

Action 3

Length of tender

55. In July 2014, the Scottish Government ADP National Support Team suggested that the length of the tender documentation and level of work required to submit an application could be deemed to favour applications from larger organisations over smaller bodies. The council's Procurement and Commissioning Manager has confirmed that the procurement team considered these issues in designing the ITT process and believed that all smaller incumbent providers would meet any pre-qualifying questionnaires and therefore a one stage tender was appropriate. In addition, there were four separate lots representing distinct geographical areas: bids could be submitted for one or more areas.
56. To assist smaller organisations some free sessions in preparing tenders were provided, which some existing service providers attended. These sessions were run in 2013 and 2014 through the Supplier Development Programme (SDP) and advertised on the council and SDP websites. In addition the ITT notice on Public Contracts Scotland website clearly stated that if suppliers required assistance with completing tender documentation that they could contact Business Gateway for support. Although the help detailed above was available and some predecessor third sector service providers were involved in work relating to the tender (para 41), correspondence from two previous third sector service providers stated that they did not believe that they were given support by the ADP in relation to the tender process. The council noted that no parties had contacted the ADP or Business Gateway for support regarding tenders. Evidence provided also shows that all questions in relation to the ITT were answered promptly through the Public Contracts Scotland portal. On the basis of the above, we have concluded that the process did not discriminate in favour of either smaller or larger organisations.

Governance issues

57. Governance issues were reported in the work carried out by Bill Brackenridge, the Chair of the SLCC. In October 2014, he was asked by the Chair of the ADP to investigate complaints regarding the allocation of money to support children and young adults with addiction problems by the Argyll and Bute ADP. He concluded that; "The corporate governance of this whole issue, in my opinion, falls far short of best practice."
58. The Chair of the ADP has confirmed that there are numerous forums in the ADP and that the structure is cumbersome. This makes it more difficult to determine reporting lines and the appropriate forum/group for raising issues. Some members of the ADP have also voiced concerns that having raised issues, they are not being discussed or answered timeously. In addition the council has noted that the constitutional basis for some groups and sub groups formed during the commissioning process was unclear.

59. The Chair of the ADP is aware of communication difficulties between various representatives across the partnership and is working towards improving them. The Chair has also expressed the opinion that the reasons for these difficulties cannot be attributed to any single cause, but has suggested that focussing on outcomes and working together in decision making and in meetings may help address these issues. We have been advised that the ADP has held two strategy development days and an improvement plan is currently being developed.

Recommendation 4

60. A number of weaknesses relating to the preparation, approval and custody of minutes were identified from our review, including;
- Meetings for which no minutes are available. Although some reports were taken to the Implementation (now Delivery) Group, minutes should have been recorded each time the Commissioning Group met i.e. the Minutes of 27 November 2013 of the Implementation group made reference to a commissioning meeting on 11 November 2013 for which there appears to be no minutes.
 - No formal evidence of the previous minutes being agreed at the next meeting of the ADP Commissioning Group.
 - No formal evidence of some post-contractual meetings with Addaction Scotland being agreed at the next meeting.
 - After 21 February 2014, the procurement group (Commissioning Group) did not prepare any minutes and evidence has had to be collated from emails, calendar appointments and meeting notes.
 - Some minutes remain in draft form on the ADP website significantly after meeting dates.

Recommendation 3

Findings of the internal review

61. In February 2015 a report covering the results of the council's internal review was discussed with senior officers of the council and the ADP. The internal review concluded that;
- "The contract was awarded in compliance with all relevant legislative requirements and the contract award has not been the subject of any formal legal challenge.
 - The service specification and other contractual provisions are in line with relevant advice and guidance and meet the requirements of the ADP.
 - The service specification and other contractual provisions did not and do not favour one particular supplier over another.
 - The decision to tender the contract in lots corresponding to the administrative areas of the Council afforded an opportunity to tender to existing locally based service providers. Most chose not to take this opportunity.
 - The supplier to whom the contract has been awarded is a highly regarded and experienced provider of the relevant services and appears to be more than capable of complying with its contractual obligations and providing service users with an excellent and effective service.
 - The one concern about the contractual process is that the period between the contract award and commencement of the contract to have been too short. This caused problems for the incoming service provider as described above and for the resolution of service user communication/ referral arrangements. I have however noted that that in recognition of the potential impact on service continuity, the Executive Group members asked the commissioning team to offer a one month extension to existing service providers to mitigate any potential risk during the transitional period and in particular over the festive holiday period. In effect this resulted in Addaction Scotland and existing service providers providing a parallel service for the month of January 2015 to support a smoother transition, except in Kintyre, Mid Argyll, Islay and Bute, and in part in Oban where the existing providers chose not to agree to the contract extension."
62. The council's view is that in these circumstances the contract remains valid and appropriate. Whilst some of these findings are consistent with our own, we believe that there is a risk that the contract variation may be a material change to the contract and may not be compliant with public procurement legislation. Based on our comments, the council has taken external legal advice regarding the contract variation (paras 29-30). We have also reported on the issue of Addaction Scotland's failure to be registered with the Care Inspectorate in time for the start of the contract (paras 15-18).
63. The internal report made recommendations for improvements relating to the lead time for moving to new suppliers, the governance structures of the ADP and the process for approval

and storage of minutes. These relate to recommendation 1, 3 and 4 of the recommendations reported below. The Chair of the ADP has been tasked with addressing the recommendations from the internal review. At its meeting of 11 March 2015 the ADP Executive Group, considered the internal review and accepted all the recommendations made by the council.

64. Despite the public interest in this issue, the council's report was not discussed with elected members or by any committee of the council. The council advised us that this was not done to avoid duplication and operate within the agreed governance structure of the ADP where matters relating directly to it should be reported to the ADP. In our Annual Report on the 2013/14 Audit we reported that members of the public have told us that they would like to see more information available on key issues. We recommended that the council should review the range of reports that it discusses in private and consider whether it is getting the balance right between open and closed consideration of items. The council has committed that this report will be taken to the ADP Executive Group and will be taken to public sessions of the Audit Committee and CPP Management Team.

Actions taken in response to audit findings

| | |
|---|---|
| 1 | To demonstrate accountability on this contract, the ADP/council have agreed that this report should be considered by the ADP Executive Group, the CPP Management team and the council's Audit Committee with a formal response minuted and monitored. The recommendations are not only relevant to ADP contracts. They should be considered for all council contract procurement exercises. |
| 2 | As the contract variation could be considered a material variation to the contract, the council has taken external legal advice on its compliance with public procurement legislation. |
| 3 | A timetable for quarterly reporting of Addaction Scotland's services to the ADP and council was presented and approved at the ADP Executive Group on 21 April 2015. |

Other recommendations

| | |
|---|---|
| 1 | Lead times of contracts should be assessed to ensure that there is sufficient time for handovers to be completed and contract requirements to be fulfilled. |
| 2 | The procurement manual and evaluation of tender documents should be updated to include a clause which states that where tender bids are close after being evaluated by the tender panel, further discussions will take place to differentiate the bids. This should be included for clarifying the position for all involved in the tender process. |
| 3 | To demonstrate sound governance, minutes should be taken at all important meetings of the ADP and then agreed at the following meeting. |
| 4 | Governance arrangements in the ADP should be improved to enhance openness and transparency. Allowing open discussion and debate on strategy, budgetary information, etc. will help members to contribute effectively to the work of the ADP. Delivering a robust improvement plan should help with communication difficulties. |

APPENDIX 2

ACTION PLAN

| Findings | Agreed Action | Responsible person agreed implementation date |
|---|---|---|
| ACTIONS TAKEN IN RESPONSE TO AUDIT FINDINGS | | |
| <p>1. To demonstrate accountability on this contract, the ADP/council have agreed that this report should be considered by the ADP Executive Group, the CPP Management Committee and the council's Audit committee with a formal response minuted a monitored. The recommendations are not only relevant to ADP contracts. They should be considered for all council contract procurement exercises</p> | <p>The report has been presented to:</p> <ul style="list-style-type: none"> • The ADP Executive Group on 19 May 2015 • The ADP Delivery Group on 8 June 2015 <p>And will be presented to:</p> <ul style="list-style-type: none"> • The CPP Management Committee on 17 June 2015 • The Audit Committee on 19 June 2015 | <p>Morag Brown Business Improvement Manager Community Services 19 June 2015</p> |
| <p>2. As the contract variation could be considered a material variation to the contract, the council has taken external legal advice on its compliance with public procurement legislation.</p> | <p>External legal advice was provided by Roger Cotton of Brodies LLP on 21 April 2015.</p> | <p>Anne MacColl Smith Procurement and Commissioning Manager</p> |
| <p>3. A timetable for quarterly reporting of Addaction Scotland's services to the ADP and council was presented and approved at the ADP Executive Group on 21 April 2015.</p> | <p>The report was presented to the ADP Executive Group on 21 April 2015 and approved.</p> <p>The first contract monitoring meeting with Addaction took 16 April 2015 and will be held quarterly thereafter for the duration of the contract, reporting performance to the ADP Executive Group</p> | <p>Jackie Connelly Performance Improvement Officer</p> |

| OTHER RECOMMENDATIONS | | |
|--|---|--|
| 1. The lead time for contracts should be assessed to ensure that there is sufficient time for handovers to be completed and contract requirements to be fulfilled. | Lead in time for contracts will be specified in the Council's procurement manual and will vary from contract to contract and a review of the risks associated | Anne MacColl Smith Procurement and Commissioning Manager ongoing |
| 2. The procurement manual and evaluation of tender documents should be updated to include a clause which states that where tender bids are close after being evaluated by the tender panel, further discussions will take place to differentiate the bids. This should be included for clarifying the position for all involved in the tender process. | The Procurement Manual will be updated and approved by Council on 15 September 2015 | Anne MacColl Smith Procurement and Commissioning Manager 15 September 2015 |
| 3. To demonstrate sound governance, minutes should be taken at all important meetings of the ADP and then agreed at the following meeting. | The process for the approval and publication of ADP minutes was agreed at the ADP Executive Meeting on 11 March 2015. Extract from minute: <i>Draft minutes (watermarked) will be saved as draft and once reviewed for approval at the next meeting any changes made, watermark removed and an approved minute saved. The minutes will be available on the website in PDF format.</i> | Carol Muir ADP Co-ordinator 11 March 2015 |
| 4. Governance arrangements in the ADP should be improved to enhance openness and transparency. | An improvement plan is currently being prepared which will address strategic developments | Carol Muir |

| | | |
|---|--|---|
| <p>Allowing open discussion and debate on strategy, budgetary information etc will help members to contribute effectively to the work of the ADP. Delivering a robust improvement plan should help with communication difficulties.</p> | <p>including governance and communication improvements. The improvement plan will be submitted to the ADP Executive Group on 2 July 2015 and thereafter updates on the implementation will be provided to the ADP Executive and Delivery Groups and CPP Management Committee as appropriate.</p> | <p>ADP Co-ordinator 2 July 2015</p> |
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**ARGYLL & BUTE COUNCIL
CUSTOMER SERVICES
STRATEGIC FINANCE**

AUDIT COMMITTEE

19 June 2015

REVIEW OF CODE OF CORPORATE GOVERNANCE

1. EXECUTIVE SUMMARY

- 1.1. This report advises that the Council' Governance Group has reviewed the action plan for 2014/15 and updated the content of the local code of corporate governance to reflect the governance position within the Council for 2014/15.
- 1.2. The Governance Group has prepared an action plan for 2015/2016.
- 1.3. The review allows the Council to include a statement of governance and internal control in the Annual Accounts for 2104/15.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the content of the report;
- 2.2 The Audit Committee provide comment on the content of the revised Code of Corporate Governance for 2014/15
- 2.3 The Audit Committee provide comment on the content of the Action Plan for 2015/16
- 2.4 The Audit Committee provide comment on the draft statement of governance and internal control for 2014/15

REVIEW OF CODE OF CORPORATE GOVERNANCE

1. INTRODUCTION

This report advises that the Council's Governance Group has reviewed the content of the local code of corporate governance to reflect the governance position within the Council for 2014/15. The Governance Group has prepared an action plan for 2015/2016. The review allows the Council to include a statement of governance and internal control in the Annual Accounts for 2104/15.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the content of the report;
- 2.2 The Audit Committee provide comment on the content of the revised Code of Corporate Governance for 2014/15
- 2.3 The Audit Committee provide comment on the content of the Action Plan for 2015/16
- 2.4 The Audit Committee provide comment on the draft statement of governance and internal control for 2014/15

3. DETAIL

- 3.1 CIPFA and SOLACE published a revised Framework for 'Delivering Good Governance in Local Government' in 2007. The Framework was intended to define the principles that should underpin the governance of local authorities and provides a structure to assist authorities with their own approach to governance. The Framework took the six core principles, from the 'Good Governance Standard for Public Services' (2004), and adapted these principles for local government, identifying eighteen supporting principles.
- 3.2 The Council's Governance Group, chaired by the Executive Director of Customer Services as Monitoring Officer, has responsibility for the preparation of the Code of Corporate Governance along with an Action Plan which identifies areas within the Council where work to improve the governance arrangements within the Council is being undertaken or is necessary.

The Governance Group is of the view that the actions on the action plan for 14/15 (appendix 1) have been completed.

The Governance Group includes:

- Head of Strategic Finance (s95 Officer);
- Head of Improvement & HR;
- Head of Governance and Law;
- Governance and Risk Manager;
- Internal Audit Manager.

3.3 The six core principles contained in the local code are;

Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

Members & Officers working together to achieve a common purpose with clearly defined functions and roles

Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Developing the capacity and capabilities of members and officers to be effective

Engaging with local people and other stakeholders to ensure robust public accountability

3.4 The review of the effectiveness of the system of governance and internal control is informed by the:

- Work of Officers within the Council;
- Work of External and Internal Audit;
- Statements of Governance or Internal Control provided by external bodies;
- External review and inspection reports; and
- Recommendations from the Audit Committee
- Recommendations from the Performance, Review and Scrutiny Committee.

3.5 It is requested that the Audit Committee provide comment on the revised code of Corporate Governance for 2014/15 (appendix 2), the action plan 15/16 (appendix 3) and the draft statement of governance and internal control for 2014/15 (appendix 4).

4. CONCLUSION

This review of the content of the local code of corporate governance gives assurance about the robustness of the Council's governance arrangements.

5. IMPLICATIONS

POLICY In line with SORP and recommended practice

FINANCIAL None

HR None

LEGAL Monitoring Officer statutory role, remit includes governance

EQUALITIES None

RISKS None

CUSTOMER SERVICE None

Douglas Hendry
Executive Director – Customer Services

For further information please contact:
Iain Jackson, Governance and Risk Manager
01546 604188

Appendices

Appendix 1 - Action plan for 14/15

Appendix 2 - Revised code of corporate governance

Appendix 3 - Action plan for 15/16

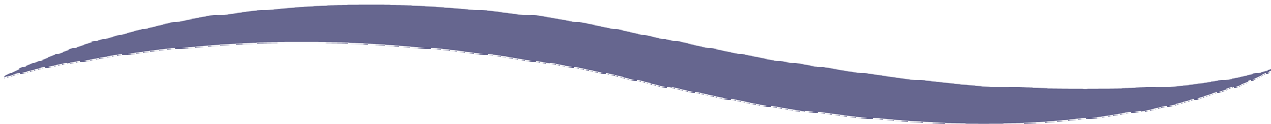
Appendix 4 - Draft statement of governance and internal control 14/15

Argyll and Bute Council – Corporate Governance Action Plan 2014/2015

The Corporate Governance Action Plan outlines the actions required to raise areas rated as partially compliant to a level rated as fully compliant with the requirements of the code along with actions being undertaken to maintain some areas rating as fully compliant.

| Ref | Local Code | Actions to achieve compliance | Success measures | Key dates | Lead | Ref. |
|-------|---|--|---|------------------|---|---------------|
| CG-1 | Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs. | The Council has been assessed as being at the working stage with 5 aspects of risk management at the working stage and a further 2 classed at the higher stage of embedded | Increase the number of aspects assessed as embedded | 31 March 2015 | Head SF | CG Code 4.3.1 |
| CG-2 | Develop protocols to ensure effective communication between members and officers in their respective roles | Develop protocol and undertake training | Actions completed | 31 December 2014 | Ch Exec Exec Dir – Cust Services | CG Code 2.3.1 |
| CG -3 | Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect | Actions from the action plan from Audit Scotland review have been completed | All actions due are completed | 31 December 2014 | Ch Exec Exec Dir – Cust Services | CG Code 3.1.1 |

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Code of Corporate Governance

Date 11 June 2015
Version 1.2 – annual update

Principle 1: Focussing on the purpose of the Authority and on the outcomes for the community, and creating and implementing a vision for the local area

1.1 Supporting Principle: Exercising Strategic Leadership by developing and clearly communicating the Authority’s purpose and vision and its intended outcome for citizens and service users

| Evaluation Key |
|---|
| 1. Not compliant with local code requirements |
| 2. Partially compliant with local code requirements |
| 3. Fully compliant with local code requirements |
| 4. Exceeds the requirements of the local code |

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|--|--|---------------------------|------------------------|
| 1.1.1 Develop and promote the Authority’s purpose and vision | The Council’s strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement Corporate Plan and Single Outcome Agreement approved by Council and published on the Council’s website | Chief Executive/ ED – Customer | 3 3 | Head of I and HR |
| | Clear terms of reference are set for the preparation of service plans in the Planning and Performance Management Framework to ensure fit with the Corporate Plan Service Plans clearly reflect corporate objectives | Chief Executive/ Executive Directors | 3 3 | All Service Heads |
| | Documented meetings have taken place to discuss key objectives in Corporate and Service Plans | Chief Executive | 3 3 | Executive Directors |
| | A Communications Strategy has been implemented. Public Performance Reporting Strategy has been implemented. Public Performance Reporting | Chief Executive | 3 3 | Head of I and HR |
| 1.1.2 Review on a regular basis the Authority’s vision for the local area and its implications for the Authority’s governance arrangements | Local Code of Corporate Governance has been developed in line with CIPFA/SOLACE guidelines | ED – Customer | 3 3 | Head of G and L |

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|--|---|-----------------------------------|---|---|----------------------|
| | Annual review of the Corporate Plan | Chief Executive/ ED - Customer | 3 | 3 | Head of I and HR |
| | Annual review of Service Plans | Executive Directors | 3 | 3 | All Service Heads |
| 1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners | Corporate framework for all partnerships within Argyll and Bute Community Planning Partnership | Chief Executive | 3 | 3 | Head of C & C |
| | Roles and responsibilities defined for Argyll and Bute Community Planning Partnership | | | | |
| 1.1.4 Publish an Annual Report on a timely basis to communicate the Authority's activities and achievements, its financial position and performance | Prepare and publish an Annual Report | Chief Executive/ ED - Customer | 3 | 3 | Head of I and HR |
| | Prepare and publish report for local government benchmarking framework Public Performance Reporting | Chief Executive/ ED - Customer | 3 | 3 | Head of I and HR |
| | Prepare and publish Annual Accounts and Efficiency Statements | Chief Executive | 3 | 3 | Head of SF |

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

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 | 14/15 | Lead Officer |
|---|---|-----------------------------------|---------------------|-------|-------------------------------------|
| 1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available | A robust performance management system has been developed which enables all operations to be reported on in terms of meeting performance standards targets and levels of customer satisfaction and linked to PSIF | Chief Executive/ ED - Customer | 3 | 3 | Head of I and HR |
| | Prepare and publish Statutory/Defined Performance Indicator Report. Public Performance Reporting | Chief Executive/ ED - Customer | 3 | 3 | Head of I and HR |
| | Documented meetings have taken place to discuss performance at service level PRS Committee | Chief Executive/ Leader | 3 | 3 | Executive Directors / Members |
| 1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery | An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. | ED – Customer | 3 | 3 | Head of G and L |

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|--|--|-----------------|-----|-----------------|
| | <p>Audit Committee meetings Part D of Constitution</p> <p>Performance, Review and Scrutiny Committee has also been established PRS Committee</p> | | | |
| | <p>The Council is proactive in reviewing its services through the internal audit team and external auditors</p> <p>Internal Audit Plan in place</p> | Chief Executive | 3 3 | Head of SF |
| | <p>The Council has a formally established complaints policy and procedure</p> <p>Complaints procedure web</p> <p>Unified approach to complaints handling across the organisation with a common point of entry.</p> <p>Staff have been trained in dealing with complaints and empowered and supported to deal with complaints</p> | ED – Customer | 3 3 | Head of G and L |
| | <p>The complaints system records actions taken to prevent complaints recurring, and evidence that complaints inform positive service improvement.</p> <p>Regular testing of the complaints handling system to ensure it meets consumer needs and expectations</p> | ED – Customer | 3 3 | Head of G and L |
| | <p>The Council has in place robust Critical Activity Recovery Plans for its identified critical activities which are subject to regular review and testing</p> | ED - Customer | 3 3 | Head of G and L |

1.3 Supporting Principle: Ensuring that the Authority makes best use of resources and that tax payers and service users receive excellent value for money

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|--|---|-----------------------------------|---------------------------|---------------------|
| 1.3.1 Decide how value for money (VFM) is to be measured and make sure the Authority has the information needed to review VFM and performance effectively. Measure the environmental impact of policies, plans and decisions. | Reviews of Council services to ensure best value principles adhered to Benchmarking: comparing economy, efficiency and effectiveness of services through our involvement in the Local Government Benchmarking Framework benchmarking framework Asset Management BV review | Chief Executive | 3 3 | All Directors |
| | A robust performance management system has been developed which enables all operations to be reported on in terms of meeting performance standards targets and levels of customer satisfaction and linked to PSIF | Chief Executive/ ED - Customer | 3 3 | Head of I and HR |
| | The authority responds positively to and acts upon the findings and recommendations of external scrutiny Audit Scotland Report and action plan Audit Scotland Follow-up Audit 2014 | Chief Executive | 3 3 | Chief Executive |
| | The Council is proactive in reviewing its services through the internal audit team and external auditors Audit Committee Performance Review and Scrutiny Committee | SMT Audit Committee | 3 3 | Head of SF |
| | Prepare and publish Annual Accounts and Efficiency Statements | Chief Executive | 3 3 | Head of SF |
| | Prepare and publish report for local government benchmarking framework | Chief Executive/ ED - Customer | 3 3 | Head of I and HR |

Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles

2.1 Supporting Principle: Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions, and the roles and responsibilities of the scrutiny function

| <u>Evaluation Key</u> |
|---|
| 1. Not compliant with local code requirements |
| 2. Partially compliant with local code requirements |
| 3. Fully compliant with local code requirements |
| 4. Exceeds the requirements of the local code |

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|--|-----------------|---------------------------|-----------------|
| 2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of senior officers | Statement of roles of Leader and Chief Executive included within the Council Constitution and will be reviewed annually. Part A of constitution | ED – Customer | 3 3 | Head of G and L |
| | The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution | ED – Customer | 3 3 | Head of G and L |
| | Local Code of Corporate Governance developed in line with CIPFA/SOLACE guidelines | ED – Customer | 3 3 | Head of G and L |
| | Roles and responsibilities defined for Argyll and Bute Community Planning Partnership | Chief Executive | 3 3 | Head of C and C |

2.2 Supporting Principle: Ensuring that a constructive working relationship exists between the authority members and officers, and that the responsibilities of members and officers are carried out to a high standard

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|--|----------------------------------|---------------------------|-----------------------------------|
| 2.2.1 Determine a scheme of delegation and reserve powers within the constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required. | The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution | ED – Customer | 3 3 | Head of G and L |
| | There are Terms of Reference and reporting arrangements for all sub-committees of the Authority Part C of Constitution | ED – Customer | 3 3 | Head of G and L |
| 2.2.2 Make the Chief Executive responsible and accountable to the authority for all aspects of operational management. | Responsibilities of Chief Executive detailed within Council Constitution Part A of Constitution | ED – Customer | 3 3 | Head of G and L |
| 2.2.3 Make a senior officer (the Section 95 Officer) responsible to the authority for ensuring that appropriate advice is given for all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control. | Section 95 Officer role identified in the Council Constitution and included as a member of the Strategic Management Team Part A of Constitution | Chief Executive ED – Customer | 3 3 | Head of SF |
| | Standing Orders and financial regulations contained in the Council Constitution Constitution | ED – Customer | 3 3 | Heads of G and L C and S SF |
| | Council Accounts comply with statutory and professional reporting standards and are prepared and approved in accordance with a preset timetable Part D of Constitution | Chief Executive | 3 3 | Head of SF |
| 2.2.4 Make a senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. | Senior Officer designated as Monitoring Officer. Role and responsibilities set out in the Council Constitution taking account of comments from Audit Scotland report. Constitution Monitoring Officer Protocol in place | ED – Customer | 3 3 | ED – Customer |

2.3 Supporting Principle: Ensuring relationships between the authority, its partners and the public are clear so that each other knows what to expect of the other

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|--|-----------------------------------|---------------------------|------------------|
| 2.3.1 Develop protocols to ensure effective communication between members and officers in their respective roles | <p>Protocols for Member / Officer relations detailed in the Council Constitution Constitution</p> <p>The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution</p> <p>Recommendations in Audit Scotland Report approved and Action Plan agreed</p> <p>Monitoring Officer Protocol in place Audit Scotland Report and action plan Audit Scotland Follow-up Audit 2014</p> | ED – Customer | 3 3 | Head of G and L |
| 2.3.2 Ensure that an established scheme for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place. | <p>Structured pay scales reflecting competence for Officers; Core Conditions of Service for Officers Core conditions of service</p> <p>Scheme for Member remuneration and allowances. Part F of Constitution</p> | Chief Executive/ ED – Customer | 3 3 | Head of I and HR |
| 2.3.3 When working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority. | <p>Roles and responsibilities defined for Argyll and Bute Community Planning Partnership</p> <p>Reference within Councillor Code of Conduct to partnership working Part F of Constitution</p> <p>Members Training refers to Improvement Service notebook on Corporate Governance</p> | Chief Executive | 3 3 | Head of C and C |

Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

3.1 Supporting Principle: Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|--|--|---------------|---------------------------|--------------------|
| 3.1.1 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect. | Recommendations in Audit Scotland Report approved and Action Plan agreed. Audit Scotland Report and action plan Audit Scotland Follow-up report 2014 | ED – Customer | 2 3 3 3 | Head of G and L |
| | The Council Constitution contains Standing Orders for meetings, a Scheme of Administration and Delegations, an Ethical Framework and a Code of Conduct Constitution | | | |
| | Formal meetings of the Council and its Committees only held in private as required by legislation | ED – Customer | 3 3 | Head of G and L |
| | The Council has a formally established complaints policy and procedure. Complaints procedure Complaints procedure web | ED – Customer | 3 3 | Head of G and L |
| | Minutes and Committee reports are published on the Council's website mod.gov | ED – Customer | 3 3 | Head of G and L |
| | Compliance with the Data Protection and Freedom | ED – Customer | 3 3 | Head of |

| | | | | | |
|--|--|---------------|---|---|-----------------|
| | of Information Acts FOI and DP | | | | G and L |
| 3.1.2 Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols. | <p>Protocols for Member / Officer relations detailed in the Council Constitution.</p> <p>The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution</p> | ED – Customer | 3 | 3 | Head of G and L |
| 3.1.3 Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice. | Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution | ED – Customer | 3 | 3 | Head of G and L |
| | Register of Members Interests is maintained Form issued to Members | ED – Customer | 3 | 3 | Head of G and L |

3.2 Supporting Principle: Ensuring that organisational values are put into practice and are effective

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | | Lead Officer |
|--|--|-----------------|---------------------------|---|------------------|
| 3.2.1 Develop and maintain shared values for both the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners | <p>The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement</p> <p>Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website</p> | Chief Executive | 3 | 3 | Head of I and HR |
| 3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice. | The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution | ED – Customer | 3 | 3 | Head of G and L |
| | The Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol | ED – Customer | 3 | 3 | Head of G and L |

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|--|--|--|--|--|
| | on Member / Officer relations, Public Interest Disclosure Policy Constitution | | | |
|--|--|--|--|--|

Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and risk

4.1 Supporting Principle: Being rigorous and transparent about how decisions are taken, and listening and acting on the outcome of constructive scrutiny

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|--|---|---------------|---------------------------|-----------------|
| 4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenges and enhances the authority's performance overall and that of any organisation for which it is responsible. | The role of scrutiny has been established through a scheme of delegation and committee structures. Part C of Constitution Performance review and Scrutiny Committee has been established | ED – Customer | 3 3 | Head of G and L |
| 4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based. | Minutes and Committee reports are published on the Council's website mod.gov | ED – Customer | 3 3 | Head of G and L |
| | Formal meetings of the Council and its Committees only held in private as required by legislation | ED – Customer | 3 3 | Head of G and L |
| 4.1.3 Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice. | Protocols of Member / Officer relations detailed in the Council Constitution Part F of Constitution | ED – Customer | 3 3 | Head of G and L |
| | Protocols for Member / Officer relations detailed in the Council Constitution. The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has | ED – Customer | 3 3 | Head of G and L |

| | | | | |
|--|--|---------------|-----|---------------------------------|
| | provided a copy of the Code to all Members Part F of Constitution | | | |
| | The Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution | ED – Customer | 3 3 | Head of G and L |
| | Register of Members Interests is maintained Form issued to Members | ED – Customer | 3 3 | Head of G and L |
| | The Council Constitution contains Standing Orders relating to Contracts Part E of Constitution | ED – Customer | 3 3 | Heads of G and L C and S, SF |
| 4.1.4 Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other arrangements for the discharge of the functions of such a committee. | An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Performance, Review and Scrutiny Committee in place. Audit Committee meetings Part D of Constitution | ED – Customer | 3 3 | Head of G and L |

4.2 Supporting Principle: Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|--|---------------------|---------------------------|---------------------|
| 4.2.1 Ensure that those making decisions are provided with information that is fit for purpose, relevant, timely, and gives clear explanations of technical issues and their implications. | Relevant information available to decision makers | Executive Directors | 3 3 | Executive Directors |
| 4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately. | Relevant advice and information available to decision makers | Executive Directors | 3 3 | Executive Directors |

4.3 Supporting Principle: Ensuring that an effective risk management system is in place

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|--|--|-----------------|---------------------------|--------------|
| <p>4.3.1 Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.</p> | <p>A risk based approach is a key component of the Council’s approach to Planning and Performance Management (Service Planning process requires identification of associated risks. Budget Monitoring process is risk based where a number of criteria are used to classify risk category of particular cost centres.) Service Plans</p> | Chief Executive | 3 3 | Head of SF |
| | <p>Strategic and Operational Risk management procedures and processes in place</p> <p>The Strategic Risk Register has been reviewed in detail as part of the agreed 6 monthly cycle and was reported to Council in February 2015</p> <p>February report to Council</p> <p>Reports to Performance Review and Scrutiny Committee as part of the agreed 6 monthly cycle and was reported to Council in 26 February 2015. Report to PRS</p> <p>Operational risk registers are maintained on a live basis and a report submitted to the Strategic Risk Group whose work is now subsumed into SMT</p> <p>The Council is a member of the CIPFA benchmarking club for risk management.</p> | Chief Executive | 3 3 | Head of SF |

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|---|---|-----------------|---|---|-----------------|
| | Appropriate training on risk management is provided to Members and Officers. Risk Management Training | Chief Executive | 3 | 3 | Head of SF |
| | Key documents to underpin the approach to risk management include a Risk Management Policy Statement and Risk Management Guidance. | Chief Executive | 3 | 3 | Head of SF |
| | The SMT has a role to oversee the effectiveness of risk management | Chief Executive | 3 | 3 | Head of SF |
| | Progress reports on the development of risk management have been submitted to the Audit Committee during the year. This included the commissioning by the Audit Committee of an assurance map using the recognised 3 lines of defence model. Audit Committee Reports | ED – Customer | 3 | 3 | Head of G and L |
| 4.3.2 Ensure that arrangements are in place for whistle-blowing to which staff and all those contracting with the authority have access. | Whistle blowing policy Public Interest Disclosure Policy in Council Constitution Part D of Constitution - anti-fraud strategy including public interest disclosure policy | ED – Customer | 3 | 3 | Head of G and L |

4.4 Supporting Principle: Using their legal powers to the full benefit of the citizens and communities in their area

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 | 14/15 | Lead Officer |
|--|--|---------------|---------------------|-------|-----------------|
| 4.4.1 Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities. | Council Constitution reflects the legal requirements placed upon the authority Constitution | ED – Customer | 3 | 3 | Head of G and L |
| | Statutory Plans, for example Local Development Plan local development plan | ED – D and I | 3 | 3 | Head of P and R |
| | Senior Officer designated as Monitoring Officer. Role and responsibilities set out in the Council Constitution. Constitution | ED – Customer | 3 | 3 | ED – Cus S |

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|---|--|---------------|---|---|-----------------|
| 4.4.2 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law | Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources | ED – Customer | 3 | 3 | Head of G and L |
| | Advice from the Council’s Chief Legal Officer or their nominated Officer is available at all decision making meetings Legal advice is available to all departments from the Council’s Legal Services department | ED – Customer | 3 | 3 | Head of G and L |
| 4.4.3 Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice, into their procedures and decision making processes. | Council Constitution reflects the legal requirements placed upon the Council Constitution | ED – Customer | 3 | 3 | Head of G and L |
| | Senior Officer designated as Monitoring Officer. Roles and responsibilities set out in the Council Constitution Constitution | ED – Customer | 3 | 3 | ED – Customer |

Principle 5: Developing the capacity and capabilities of members and officers to be effective

| 5.1 Supporting Principle: Making sure that members and officers have the skills, knowledge and experience, and resources they need to perform their roles well | Evaluation Key 1. Not compliant with local code requirements 2. Partially compliant with local code requirements 3. Fully compliant with local code requirements 4. Exceeds the requirements of the local code | | | |
|--|---|---------------|---------------------------|------------------|
| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
| 5.1.1 Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis. | Induction Training provided to all new Elected Members | ED – Customer | 3 3 | Head of G and L |
| | The Council has fully endorsed the Councillor’s Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Code of conduct in Constitution | ED – Customer | 3 3 | Head of G and L |
| | Corporate Induction Programme in place for all new employees | ED – Customer | 3 3 | Head of I and HR |
| | Development and performance review process in place for eligible employees, with training and development plans | ED – Customer | 3 3 | Head of I and HR |
| 5.1.2 Ensure that statutory officers have the skills, resources and support necessary to perform actively in their roles and that these roles are properly understood throughout the authority. | Development and performance review process in place for eligible employees, with training and development plans | ED – Customer | 3 3 | Head of I and HR |
| | Job descriptions and Person Specifications in place for employees | ED – Customer | 3 3 | Head of I and HR |

5.2 Supporting Principle: Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|--|---------------|---------------------------|------------------------------|
| 5.2.1 Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively. | Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process Members | ED – Customer | 3 3 | Head of I and HR |
| | Training provided to relevant Members and Officers in areas of identified need Elected Member Resources Council has signed up to Improvement Service CPD Framework IS CPD Framework | ED – Customer | 3 3 | Heads of I and HR G and L |
| 5.2.2 Develop skills on a continuing basis to improve the performance, including the ability to scrutinise and challenge and to recognise when outside advice is needed. | Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process Members | ED – Customer | 3 3 | Head of I and HR |
| | Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources Council has signed up to Improvement Service CPD Framework IS CPD Framework | ED – Customer | 3 3 | Heads of I and HR G and L |
| | An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. | ED – Customer | 3 3 | Head of G and L |

| | | | | |
|---|---|---------------|-----|------------------------------|
| | Audit Committee meetings Part D of Constitution | | | |
| 5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might for example, aim to address any training or development needs. | An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Audit Committee meetings Part D of Constitution | ED – Customer | 3 3 | Head of G and L |
| | Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process Members Council has signed up to Improvement Service CPD Framework IS CPD Framework | ED – Customer | 3 3 | Head of I and HR |
| | Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources | ED – Customer | 3 3 | Heads of I and HR G and L |

5.3 Supporting Principle: Encouraging new talent so that best use can be made of individuals skills and resources in balancing continuity and renewal

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|--|--|-----------------|---------------------------|---------------------|
| 5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all section of the community to engage with, contribute to and participate in the work of the Authority. | Community and Employee engagement activity Better Community Engagement Pack | Chief Executive | 3 3 | Executive Directors |

Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability

| 6.1 Supporting Principle: Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships | Evaluation Key 1. Not compliant with local code requirements 2. Partially compliant with local code requirements 3. Fully compliant with local code requirements 4. Exceeds the requirements of the local code | | | | |
|--|---|-----------------------------------|---------------------------|---|------------------------|
| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | | Lead Officer |
| 6.1.1 Clearly defined lines of accountability | Public Performance Reporting Strategy Communications Strategy Better Community Engagement Pack | Chief Executive/ ED – Customer | 3 | 3 | Head of I and HR |
| | The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website | Chief Executive/ ED – Customer | 3 | 3 | Head of I and HR |
| 6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required. | Ability to communicate with discrete groups in an appropriate manner Communications Strategy | Chief Executive | 3 | 3 | Executive Directors |
| 6.1.3 Produce an annual report on the activity of the scrutiny function. | Annual Audit Committee report Annual Report | Chief Executive | 3 | 3 | Head of SF |

6.2 Supporting Principle: Taking an active and planned approach to dialogue with, and accountability to, the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | Lead Officer |
|---|---|-----------------------------------|---------------------------|---------------------|
| 6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively. | Ability to communicate with all groups in an appropriate manner Social Media Policy Communications Strategy | ED – Customer | 3 3 | Head of I and HR |
| 6.2.2 Hold meetings in public unless there are good reasons for confidentiality | Minutes and Committee reports are published on the Council's website mod.gov | ED – Customer | 3 3 | Head of G and L |
| | Formal meetings of the Council and its Committees only held in private as required by legislation | ED – Customer | 3 3 | Head of G and L |
| | Compliance with the Data Protection and Freedom of Information Acts FOI and DP | ED – Customer | 3 3 | Head of G and L |
| 6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sectors of the community effectively. These arrangements should recognise that different sections of the community have different priorities and established explicit processes for dealing with these competing demands. | Ability to communicate with discrete groups in an appropriate manner Better Community Engagement Pack | Chief Executive | 3 3 | Executive Directors |
| 6.2.4 On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and satisfaction of service users in the previous period. | The Council's strategic objectives are reflected in the Corporate Plan and Single Outcome Agreement Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website | Chief Executive/ ED – Customer | 3 3 | Head of I and HR |
| | Prepare and publish Annual Accounts and Efficiency Statements | Chief Executive | 3 3 | Head of SF |
| | Prepare and publish an Annual Report | Chief Executive/ ED – Customer | 3 3 | Head of I and HR |
| | Prepare and publish report for local government benchmarking framework Public Performance Reporting | ED – Customer | 3 3 | Head of I and HR |

| | | | | | |
|---|---|---------------|---|---|-----------------|
| 6.2.5 Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so. | Minutes and Committee reports are published on the Council's website mod.gov | ED – Customer | 3 | 3 | Head of G and L |
| | Formal meetings of the Council and its Committees only held in private as required by legislation | ED – Customer | 3 | 3 | Head of G and L |
| | Compliance with the Data Protection and Freedom of Information Acts FOI and DP | ED – Customer | 3 | 3 | Head of G and L |

6.3 Supporting Principle: Making best use of human resources by taking an active and planned approach

| Local Code | Demonstrating Compliance | Responsible | Evaluation 13/14 14/15 | | Lead Officer |
|--|--|---------------|---------------------------|---|------------------|
| 6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making. | The Council has in place an Employee Joint Consultative Committee (EJCC) Minutes of EJCC | ED – Customer | 3 | 3 | Head of I and HR |
| | Structure for Trade Union engagement in place | | | | |
| | Development and performance review process in place for all employees, with training and development plans PRD process employees PDP Process Members | ED – Customer | 3 | 3 | Head of I and HR |
| | Mechanisms and processes are in place for communication and engagement with employees The Hub – news – cascade | ED – Customer | 3 | 3 | Head of I and HR |
| 6.3.2 Planned approach to securing a workforce for the future | The Council has in place strategies for the Recruitment and Retention of employees | ED – Customer | 3 | 3 | Head of I and HR |

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Argyll and Bute Council – Corporate Governance Action Plan 2015/2016

The Corporate Governance Action Plan outlines the actions required to raise areas rated as partially compliant to a level rated as fully compliant with the requirements of the code along with actions being undertaken to maintain some areas rating as fully compliant.

| Ref | Local Code | Actions to achieve compliance | Success measures | Key dates | Lead | Ref. |
|--------|---|---|---|---------------|---|---------------|
| CG-1 | Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs. | The Council's risk management activity has been assessed as Embedded with 2 themes rated "working" and a further 5 themes at the higher embedded stage. | Continue to show year on year improvement against CIPFA benchmarking | 31 March 2016 | Head SF | CG Code 4.3.1 |
| CG - 2 | Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect | Actions from the follow-up audit from Audit Scotland are agreed and completed | All actions are completed | 31 March 2016 | Ch Exec Exec Dir – Customer Services | CG Code 3.1.1 |
| CG - 3 | Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively | PDP's for Members engaged in the process and PRD's for Officers identify relevant training needs and have development plans in place | PDP's completed and development plans in place. Corporate target for completion of Officers PRD's achieved | 31 March 2016 | CH Exec and all Executive Directors | CG Code 5.2.1 |

| | | | | | | |
|----------------------|--|--|----------------------------------|----------------------|-------------------------------------|----------------------|
| <p>CG - 4</p> | <p>Decide how value for money (VFM) is to be measured and make sure the Authority has the information needed to review VFM and performance effectively.</p> | <p>Any actions brought out by the Audit Scotland assessment of how Asset Management is discharged within the Council will be addressed during 15/16.</p> | <p>All actions are completed</p> | <p>31 March 2016</p> | <p>Exec Dir – Customer Services</p> | <p>CG Code 1.3.1</p> |
|----------------------|--|--|----------------------------------|----------------------|-------------------------------------|----------------------|

BACKGROUND

Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).

A copy of the Code may be obtained from the Head of Governance and Law, Kilmory, Lochgilphead, PA31 8RT.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies to the following six headings:

- Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- Developing the capacity and capability of members and officers to be effective; and
- Engaging with local people and other stakeholders to ensure robust public accountability.

GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Executive Director of Customer Services as Monitoring Officer has responsibility for:

- Overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- Reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service. Specific responsibilities are assigned to the Head of Strategic Finance to ensure that public funds are properly accounted for.

AUDIT SCOTLAND FOLLOW-UP AUDIT

The Council was the subject of follow-up audit by the Controller of Audit during 2014-15.

The follow-up audit considered the actions taken by the Council in response to the issues highlighted in the statutory report in 2013-14 and concluded that the Council had responded constructively to the Accounts Commission findings on the 2013-14 statutory report and was making progress with improvement work. It was, however, too early to assess the effectiveness of the actions and plans being implemented.

The original action plan developed in response to the statutory report in 2013-14 consisted of 33 actions, 30 of which have been completed and 3 are on track for completion in line with the timescales set.

In response to the follow up audit in April 2014, and an internal review of the action plan, a further 10 actions were developed and agreed at Council in September 2014. 3 these additional actions have been completed, in line with the designated timescales, with all others on track.

In particular, the follow-up audit found that the leadership and political dynamics of the council were more stable but the situation remained fragile. The risk to the council had been reduced but there were difficult circumstances ahead and tough decisions to be made that will prove challenging to political management and ongoing stability.

The new political management arrangements provide a foundation for improved governance. The council needed to ensure councillors and officers have a shared understanding in practice about the roles and responsibilities as well as effective links within and across the new arrangements to ensure they meet their potential.

Scrutiny still needed to improve and the Council needed the continued commitment and engagement of councillors in the work of the Performance Review and Scrutiny Committee and the Audit Committee, in order to ensure that these Committees continue to make a more effective contribution to governance and accountability. The role of senior management was also crucial.

There has been full attendance and participation of members of the Audit Committee during 2014/15 and considerable progress made in developing effectiveness and participation at the Performance Review and Scrutiny Committee, over the same, period through training/development sessions having taken place, in particular, a joint training session with the Audit Committee. The Chair of the Performance Review and Scrutiny Committee is an independent lay person.

A best value audit is proposed for 2015 which will assess the extent to which political management arrangements support effective decision making, the effectiveness of the council's scrutiny arrangements and whether roles and relationships, including those between members and officers, facilitate the effective delivery of council business.

Audit Scotland invited the Council to complete a Best Value 2 template to demonstrate how Asset Management is discharged within the Council. The template and supporting evidence has been returned and feedback is awaited from Audit Scotland. They have indicated that this exercise is not linked to any other audit work that is currently being conducted within the Council but that the findings may be taken into account when reaching a conclusion on the Best Value 2 Report.

INTERNAL FINANCIAL CONTROL

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by officers within the Council.

In particular the system includes:

- Comprehensive budgeting systems
- Regular reviews by the Council and the above named bodies of periodic and annual financial reports which indicate financial performance against forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against forecast;
- Clearly defined capital expenditure guidelines;
- Project management disciplines;
- Guidance relating to financial processes, procedures and regulations; and
- An effective Internal Audit Section

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

This statement also covers the other bodies whose activities are incorporated into our Group Accounts and reliance is placed on the formal audit opinion contained in the financial statements of each individual body.

- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies continued to be developed in 2014-15. The Chief Executive presented an annual report on Audit and Risk Management to the Audit Committee. The Strategic Risk Register was also reviewed and agreed by the Policy and Resources committee. Operational Risk Registers are reviewed and updated on a regular basis. Results from the annual CIPFA benchmarking exercise highlighted continued improvement with an overall Embedded and Integrated rating.

INTERNAL AUDIT

Argyll and Bute Council and the above named bodies have internal audit functions, which operate to standards defined in the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work of

internal audit is informed by an analysis of the risk to which the Council and the above named bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's and the named bodies' Audit Committees endorse the analysis of risk and internal audit plans.

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council. The annual report includes an independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control and concludes that although a number of the areas reviewed provided a limited level of assurance, overall, systems for internal control were satisfactory during 2014-15.

The Chairman and Vice Chairman are independent lay members of the Audit Committee.

During 2014-15 the Council successfully recruited a permanent Chief Internal Auditor and the service was fully resourced throughout the year. The Internal Audit service also addressed all outstanding Public Sector Internal Audit Standard compliance action points within its development plan during 14/15.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2015-16, particularly in the context of continuous improvement within the Council:

- Development of delivery plans for the single outcome agreement (SOA) and ensuring this is reflected in council priorities.
- Ensuring resources and budget are aligned to support council priorities and SOA delivery plans, the service choices programme has been set up to address these issues and identify options and proposals going forward in a period of significantly reduced resources.
- Ongoing development of performance management and improving performance scrutiny.
- Further development of risk management to ensure risk management and business continuity are embedded within the council.
- Ensuring the internal audit function is fully resourced and work is planned to ensure the 2015-16 audit plan is delivered and that further improvements in the development of internal audit are achieved.
- The actions being taken by the Council in response to the Audit Scotland Statutory report and follow-up audit continues to improve governance arrangements within the Council.
- Any actions brought out by the Audit Scotland assessment of how Asset Management is discharged within the Council will be addressed during 15/16.

ASSURANCE

The review of the effectiveness of the system of governance and internal financial control is informed by:

- The work of officers within the Council;
- The work of Internal Audit as described above;
- The work of External Audit;
- The Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- External review and inspection reports; and
- Recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2014-15 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.

Cllr Dick Walsh
Leader

Sally Loudon
Chief Executive

Head of Strategic Finance

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
19 JUNE 2015**

BEST VALUE AUDIT 2015

1. Executive Summary

- 1.1 The report introduces detail of Audit Scotland's best value audit scheduled to commence summer 2015.
- 1.2 The Local Government in Scotland Act 2003, and its associated Ministerial Guidance, places a statutory duty of Best Value on all councils in Scotland. The Accounts Commission for Scotland has a duty to hold councils to account in relation to this and to provide public assurance through regular audit reports.
- 1.3 In October 2013 and July 2014 Audit Scotland reported findings from Best Value audit work in Argyll and Bute Council. On behalf of the Accounts Commission, further work at the council is planned to take place during 2015 and will consider progress in relation to;
- the extent to which political management arrangements support effective decision-making,
 - the effectiveness of the council's scrutiny arrangements,
 - whether roles and relationships, including those between members and officers, facilitate the effective delivery of council business
- 1.4 The Controller of Audit aims to submit a report from the Best Value audit to the Accounts Commission before the end of 2015.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the content of Argyll and Bute Best Value 2015 document.

For further information please contact Steve Barrett Interim Head of Strategic Finance (01546 604220)

**Steve Barrett
Interim Head of Strategic Finance
19 JUNE 2015**

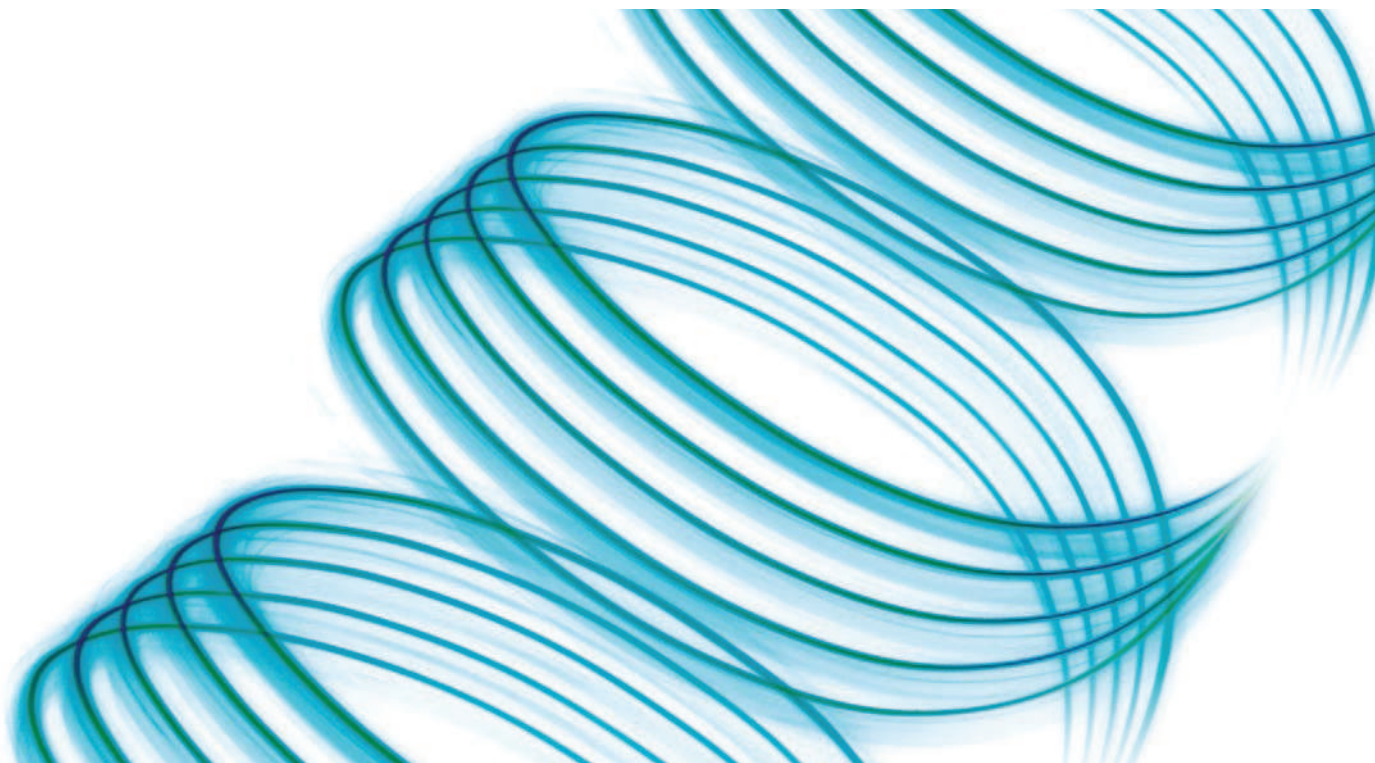
Appendices

1. Argyll and Bute Council Best Value Audit 2015

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Argyll and Bute Council

Best Value Audit 2015



Prepared by Audit Scotland

The Local Government in Scotland Act 2003, and its associated Ministerial Guidance, places a statutory duty of Best Value on all councils in Scotland. The Accounts Commission for Scotland has a duty to hold councils to account in relation to this and to provide public assurance through regular audit reports.

Audit Scotland publishes an annual external audit report on the council each year, most recently in October 2014. We set out the scope of this annual work in an annual audit plan, which can include a number of issues that have high profile in the

community. We can also carry out additional audit work within a year, such as that recently reported on the council's decision regarding a proposal for a community buy out of Castle Toward, and a recent commissioning process undertaken by the council on behalf of Argyll and Bute Alcohol and Drugs Partnership.

In October 2013 and July 2014 we reported our findings from Best Value audit work in Argyll and Bute Council. On behalf of the Accounts Commission, we will be undertaking further work at the council

during 2015. We will consider progress in the areas highlighted by the Accounts Commission in its findings on the July 2014 audit report, specifically:

- the extent to which political management arrangements support effective decision-making
- the effectiveness of the council's scrutiny arrangements
- whether roles and relationships, including those between members and officers, facilitate the effective delivery of council business.

We are interested in whether particular items of council business that have recently proved controversial and generated considerable public attention locally, indicate the need for improvement, either in council procedures, the way in which elected members and council staff engage with each other and with the local community, or the quality of services provided. In doing this, we will speak to elected members, council staff, partner organisations, community groups, MSPs and the MP during the summer of 2015.

We are mindful of the current local government environment and the major challenges facing all councils over the next few years. These include austerity and significant reductions in spending alongside increasing demand for many services. As with all of our work therefore, a council's capacity to meet these challenges, to handle the difficult decisions that they present and to explore transformational change in service design and delivery, will be of interest to us as well.

The Controller of Audit aims to submit his report from the Best Value audit to the Accounts Commission before the end of 2015.

Contact

If you have any questions, please contact Fiona Selkirk, Audit manager, at fselkirk@audit-scotland.gov.uk or on 0131 625 1869.



Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

This leaflet was produced in May 2015

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****CHIEF EXECUTIVE****19 JUNE 2015**

RISK MANAGEMENT AND AUDIT

1.0 EXECUTIVE SUMMARY

The Audit Committee requested an annual report from the Chief Executive on the overall approach to risk management and an outline of the current position /progress on how strategic risks were being addressed and linkage to internal and external audit.

The report details key issues/developments in relation to risk management and related activities around internal and external audit. Including items relating to Strategic Risks and Priorities, Operational Risks, Financial Risks, Strategic Risk Group, risk Management Improvement, members training, internal and external audit.

Specific reference is made to the Strategic risks relating to Population and Economic Decline and Finance Expenditure and detail is provided on the mitigating actions /plans in place to address these.

RISK MANAGEMENT AND AUDIT

2.0 INTRODUCTION

- 2.1 This report sets out a summary of the key issues / developments in relation to risk management and related activities around internal and external audit. The report sets out how as Chief Executive I have oversight of these areas and also sets down some of the important developments over the last year. The report is intended as a high level overview and further detail on any individual aspect can be provided.

3.0 RECOMMENDATIONS

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

4.0 DETAIL

Strategic Risks & Priorities

- 4.1 The Strategic Risk Register (SRR) is continuously monitored, however is subject to a formal bi-annual review, in August and February in line with Service Planning and Budget Setting processes.

The process for reviewing the strategic risk register is outlined below:

- Designated risk owner to update on an ongoing basis in consultation with appropriate chief officers /service managers and spokespersons.
 - SMT to review progress /update report.
 - Performance Review and Scrutiny Committee to consider progress/ update reports.
 - Policy and Resources Committee to consider progress update reports
- 4.2 Key risks identified in the SRR include Population and Economic Decline and also Finance expenditure. These are priority areas for the Council and a range of mitigations are in place in an attempt to address these risks. Although not an exhaustive list examples of mitigations in place are detailed in Appendix 1.
- 4.3 The Single Outcome Agreement sets out an overall objective of economic development and reversing population decline - "Argyll and Bute's economic success is built on a growing population". This is backed up by 6 outcomes. The SOA is designed to address a number of the strategic risks in the SRR.
- 4.4 Delivery plans for each of the 6 SOA outcomes were agreed by Council 26 June 2014. These delivery plans identify both the key partners and the actions necessary to deliver on the SOA outcomes. They are live documents and as such they will be subject to review and change in line with Community Planning

governance arrangements in order that they continue to represent the actions of partners to meet the outcomes. The plans have been developed to a robust standard that will allow good progress

- 4.5 To secure all sector support in partnership working to deliver our overall objective, Argyll and Bute Community Planning Partnership hosted an Economic Summit on the 29th October 2014. A number of key messages were heard on the day with main announcement being the establishment of the Argyll and Bute Economic Forum
- 4.6 Nicholas Ferguson, Chairman of SKY plc, agreed to chair the economic forum with the inaugural meeting held 17 March 2015 where it was agreed to focus initially on two areas where Argyll and Bute have a competitive advantage and there is scope for sustainable growth and creation of high value employment. The sectors are tourism and food and drink production and it was agreed to also focus on ensuring a collaborative approach to youth and education. Sub groups were formed for each of the three areas which report to the economic forum which will meet quarterly with the second meeting at the end of May 2015.
- 4.7 Finance Expenditure and Income has been identified as a Strategic risk. The Council faces a challenging financial outlook due to the national /global economic circumstances and more locally population decline. This is also a time when significant investment is required to address the commitments set out in the SOA and the key risks around economic and population decline etc in the SRR. The Council faces the challenge of a reducing resources base but increasing costs and demands for significant investment. It is essential the Council resources are allocated to its priorities.
- 4.8 The Services choices programme has been set up to address these issues and identify options and proposals going forward. The Policy and Resources committee at its meeting of 2nd April agreed to establish a project board comprising of 12 members, 8 administration and 4 opposition with trade unions invited to nominate 2 representatives. The project board is tasked with producing options to be presented to a workshop for all elected members on 5 June. The outcome of the workshop will then be reported to a special meeting of the Policy and Resources Committee late in June 2015 which will in turn make recommendations to a special meeting of the Council.
- 4.9 Related to the above, across the CPP, similar consideration is being given to the contributions being made to SOA outcomes. The CPP is beginning to take a wider look at activities, resources and expenditure. The potential for reallocating expenditure and budget will be a key test of the partnership.
- 4.10 The Integration of Health and Social Care is a substantial programme of reform led by the Scottish Government with the aim of improving the support given to people who need access to health and social care services in Scotland. Argyll & Bute Council and NHS Highland have agreed on a body corporate model, an Integrated Joint Board (IJB). The Integrated Joint Board is responsible for planning health and social care services for the local population, through a Strategic Plan which will include specific arrangements for risk management and audit. A small working group has been set up and is in the initial stages of developing shared risk registers.
- 4.11 There is no single approach to addressing the challenge facing Argyll and Bute. The combination of factors /actions set out in this report should move us in the right direction. This progress will be monitored and reported periodically to identify progress and any additional or alternative action required.

Operational Risks

- 4.12 The ORRs were subject to a major review during 2013-14. They are kept under review on an ongoing basis. Each quarter a report on the ORRs and changes to them is submitted to SMT and the SRG.
- 4.13 As part of the service planning process the service outcomes are reviewed to ensure the demand risks facing a service are being addressed. The Council has agreed a demand and supply approach to operational risk identification.

Demand risks represent the key challenges facing the Council that are driven /imposed externally through others having demands, expectations or obligations for the Council to meet and are directly linked to service outcomes.

Supply risk are defined as the risks related to how we plan, organise and deliver our services to meet our demand risks. To ensure consistency of approach across services supply risks are categorised into areas such as Human Resources, Finance, Assets, Information etc.

Financial Risks

- 4.14 A process for identifying key financial risks and their potential budgetary impact was established a number of years ago. This was further developed to ensure that financial risk information was reported in a summary format each quarter as part of the budget monitoring report.
- 4.15 There was scope to improve the process and approach to monitoring and reporting financial risks. Officers in Strategic Finance have been asked to review this process and are developing a revised approach that will simplify the identification and assessment of financial risks and streamline the reporting. A separate financial risks report will now be prepared and reported to Policy and Resource Committee every 2 months.

Strategic Risk Group

- 4.16 The work of the SRG, i.e. Risk Management, Health and Safety, Business Continuity and Civil Contingencies are now standing items on SMT business agenda with each reporting progress on a minimal 6 monthly basis.

In respect of Risk Management Activity, SMT consider reviews of SRR and ORRs, results of CIPFA benchmarking, updates to risk management policy and guidance together with progress reports on developmental issues.

Risk Management Improvement

- 4.17 The Council continues to be a member of the CIPFA Risk Management Benchmarking Club. The results of the 2014 exercise showed continued improvement with an overall rating of Embedded and Integrated. Two themes have been identified for improvement, i.e. Outcomes & Delivery and Partnership and Shared Resources. The 2015 exercise will commence shortly and results will be reported to the Audit Committee when these become available.
- 4.18 The development of an Assurance Map undertaken by Grant Thornton and the internal audit team was an important step in our risk management activity. Assurance mapping involves mapping coverage against key risks utilising a

“three lines of defence model” being;

- Front line /business operations
- Oversight of management activity
- Independent assurance providers.

This was a good piece of work and provided management with additional assurance that there were no significant or material gaps in our coverage.

- 4.19 An improvement plan (Risk Management Action Plan) for risk management is maintained. This will be updated to reflect the key issues coming from the risk CIPFA benchmarking report and any areas targeted for improvement.

Members Training

- 4.20 During 14/15 members were offered an opportunity to participate in risk management and develop their knowledge. Attendance at the seminars was good with 22 and 23 members in attendance. On 7 April 2014 a seminar was held to consider the draft SRR. Members reviewed each of the risks and contributed useful feedback on a number of aspects of the SRR which have been considered in preparing the latest update to the SRR. On 2 June 2014 members received 2 presentations from Zurich Risk Engineering on key issues / principles around risk management and from the Head of Strategic Finance on Argyll and Bute Council’s approach to risk management.

At the request of the Policy and Resources committee arrangements are being put in place for a further training session focused on the Strategic Risk Register and Risk Appetite.

Internal Audit

- 4.20 The Council successfully recruited a permanent Chief Internal Auditor during 14/15 and regular briefings take place with me on all audit matters. These briefings cover progress with the audit plan, considering the key issues arising from audit reports, reviewing internal audit performance and discussing internal audit development issues.
- 4.21 I continue to receive copies of all internal audit reports and the Chief Internal Auditor has direct access to me (and vice versa) should this be required. I receive a briefing on the Audit Committee papers.
- 4.22 It is important that management address action agreed as part of an audit and each month at SMT we review progress on all outstanding audit recommendations.

External Audit

- 4.23 I meet the Council’s external auditors on several occasions during the year. A meeting is always held to discuss the Assessment and Improvement Plan prepared jointly by all audit and inspection agents. With the Head of Strategic Finance I have the opportunity to comment on the proposed external audit plan and fee level. During the year I am able to comment on all external audit reports at the draft stage. Follow up of external audit activity is reviewed on a monthly basis by SMT.

5.0 CONCLUSION

- 5.1 The Council exists in a complex and challenging environment. The SRR comprises the key challenges / risks facing the Council. There are a range of organisational procedures in place to address this with operational risk register and service plans etc. to support the process. Internal Audit is free to act independently and objectively and remains free from interference by any element in the Council.

6.0 IMPLICATIONS

- 6.1 Policy – None. Report is for noting
- 6.2 Financial – None. Report is for noting
- 6.3 Legal – None. Report is for noting
- 6.4 HR – None. Report is for noting
- 6.5 Equalities– None. Report is for noting
- 6.6 Risk– None. Report is for noting
- 6.7 Customer Service– None. Report is for noting

Sally Loudon Chief Executive
19 June 2015

For further information contact: Kevin Anderson, Chief Internal Auditor 01369 708505

APPENDICES

1. Risk Mitigations

Appendix 1 Risk Mitigations

| No | Activity | Comment |
|----|---|--|
| 1 | Economic Forum | |
| 2 | CHORD Regeneration Programme | Programme on track with a number of significant projects completed or being completed summer 2015. |
| 3 | Lorn Arc TIF | 9 projects identified, three with start-up budgets approved and on track. |
| 4 | <p>Programme Management Arrangements to Deliver the SOA on 6 key themes as follows;</p> <ol style="list-style-type: none"> 1. Longer term financial and budget forecast – sets out the overall financial outlook and budget challenge from 2016-17 2. Service Choices – sets out a proposed approach to a longer term structured approach to balancing the budget 3. Investing for economic growth – sets out a proposed way forward, along with the Strategic Infrastructure Plan, to support economic growth 4. Strategic Infrastructure Plan – sets out a proposed way forward to develop a plan for the strategic infrastructure to support economic growth 5. Investing for Income – sets out proposals for consideration on how the Council may look to secure new sources of income rather than focus exclusively on cost reduction 6. Support for employees | Approved by SMT and to go to future Policy and Resources Committee. |
| 5 | Compelling Argyll and Bute Skills Audit and Economic Profiling | Report substantially completed with testing to be undertaken before submission of final report in August 2015. |
| 6 | Restructuring Economic Development and Strategic Transportation | Finalised draft plans to further re-orientate the service towards the delivery of the SOA. |
| 7 | Partnership Engagement | Increased partnership engagement with enterprise agencies, Skills Development Scotland and others. |

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****19 JUNE 2015**

Health and Social Care Integration – Due Diligence

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide details of the due diligence processes that have been applied to the creation of the overall Argyll & Bute Health and Social Care Partnership proposed budget for the 2015/16 financial year and the process for identifying finances to be allocated to the partnership.
- 1.2 The due diligence process is required to ensure that the resources delegated are sufficient for the Integrated Joint Board (IJB) to carry out its functions. A key element of the due diligence process is the 2015/16 budget being assessed against actual expenditure for the most recent three financial years (11/12, 12/13 and 13/14)
- 1.3 A Finance work stream is in place which comprises representatives from both Argyll & Bute Council and NHS Highland. The purpose of the Finance work stream is to manage all finance related issues, in respect of health and social care, up to and including the establishment of an integrated budget. The work stream will ensure that all financial management and reporting systems are in place in accordance with Section 8 of the Integration Scheme
- 1.4 The Audit committee to note the content of the report and conclusion in respect of the due diligence process that has been followed.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

19 JUNE 2015

Health and Social Care Integration – Due Diligence

2. INTRODUCTION

- 2.1 The purpose of this report is to provide details of the due diligence processes that have been applied to the creation of the overall Argyll & Bute Health and Social Care Partnership proposed budget for the 2015/16 financial year and the process for identifying finances to be allocated to the partnership. The due diligence process will apply to partnership arrangements.
- 2.2 The Scottish Government established the Integrated Resources Advisory Group (IRAG) to consider the financial implications of integrating Health and Social Care and to help develop professional guidance. The report provides detail on the process for analysing Argyll & Bute Council and health budgets.

3. RECOMMENDATIONS

- 3.1 Audit committee notes the content of the report and due diligence process that has been followed.

4 DETAIL

- 4.1 The due diligence process is required to ensure that the resources delegated are sufficient for the IJB to carry out its functions. A key element of the due diligence process is the 2015/16 budget being assessed against actual expenditure for the most recent three financial years (11/12, 12/13 and 13/14).
- 4.2 With the postponement of the go live date for the Integrated Joint Board, financial management responsibilities for health and social care budgets will remain with NHS Highland and Argyll & Bute Council respectively for 2015/16.
- 4.3 A Finance work stream is in place which comprises representatives from both Argyll & Bute Council and NHS Highland. The purpose of the Finance work stream is to manage all finance related issues, in respect of health and social care, up to and including the establishment of an integrated budget. The work stream will ensure that all financial management and reporting systems are in place in accordance with Section 8 of the Integration Scheme.

A number of key deliverables are noted including:

- Liaise with the Programme Lead Integration and other work stream leads in relation to cross work stream issues,
- Share details of associated financial resource,
- Apply due diligence,

- Link with North Highland or other Health and Social Care Partnership's in terms of lessons learned and integration plans,
- Draft financial regulations for the IJB,
- Achieve consolidated financial reporting for budget managers and the IJB, and
- Develop a training programme for finance staff and budget managers

4.4 The finance work stream of the Integration Project prepared an analysis of the budget likely to have transferred to the IJB had it gone live on 1st April 2015. It must be noted that the budget proposal did not reach approval stage due to the postponement of the go live date and, as such, the budget figures should be regarded as indicative and not as approved. The draft budget for 2015/2016 was a total of £250.4m. The contribution from health was estimated to be £188.7m and £61.7m from Social Care Budgets.

It should be noted that to operate within budget in 2015/16, health requires to achieve recurring savings of £4.0m and social care requires to achieve savings of £0.56m (this is the amount of savings required to be found across the Council to balance the budget for 2015/16. The target was agreed as part of the budget setting process for 2014/15). Plans have been developed for these savings however it will be a significant challenge to deliver fully on them. There are a number of financial risks associated with these budgets, although not an exhaustive list these include demographics, growth and demand pressures, cost and inflation pressures.

4.5 It is important that a process of due diligence is undertaken to ensure that the budget provided for the Partnership is sufficient, identifies current and historical pressures and demands and allows the Partnership to proceed on a sound financial basis.

4.6 As per IRAG guidance due diligence will be informed by an overview, for both Council and Health aspects, of the following:

2011/12 actual expenditure
2012/13 actual expenditure
2013/14 actual expenditure
2014/15 budget
2015/16 estimated budget

Due Diligence Process 2015/16 Social Work Budgets

4.7 The financial climate for health and social care budgets is likely to remain challenging across Scotland for several years to come. This will have a significant impact on the availability of funding.

Argyll and Bute Council, like many other Scottish local authorities, is facing a challenging financial outlook. In Argyll & Bute, the position will be made more difficult due to forecast demographic changes which will result in both an ageing and a decreasing population. This will result in Argyll and Bute Council receiving a reduced settlement.

In response to the financial outlook and also to ensure that the Council is playing its part in delivering on the Single Outcome Agreement for Argyll and Bute, the Council is taking a strategic approach to providing services now while also investing in the future. The Council has initiated a programme of service reviews entitled "Service Choices" to deliver on the savings required over the next five years, but with the focus on the savings required over 2016-17 and 2017-18.

Most Council services have been asked to provide high level savings options that equate to a reduction of between 20%-25% of their service budget for consideration. No decisions have been made as yet. The Council is in the early stages of the process and the savings target is set to allow Council Members to have choice over which options need to be further developed and which options will go out to public consultation. Options will include looking at how the service could be delivered differently and being more commercial where possible. Final decisions will be made in February 2016 and this will be after the 2016-17 funding has been announced which will give more certainty on the budget gap.

The service choices target facing the Social Care services that are within the scope of integration equates to a monetary saving of between £8.9m and £11.1m, but as previously noted, this is an initial target and it may be that services will not need to deliver the full amount of savings identified.

At this stage there are no additional monies expected for Social Care in 2015-16.

Due Diligence Process 2015/16 Health Budgets

- 4.8 Within health the base funding uplift from Scottish Government which has been indicated for 2016/17 to 2018/19 is 1.8%. It is likely that this will be fully consumed by pay awards, incremental drift and price increases. There is a prospect of additional health funding coming to Argyll & Bute by way of a National Resources Allocation Committee (NRAC) parity uplift. This is by no means certain though as the demographic shifts projected for Argyll & Bute will have an impact on NRAC funding entitlement. Basically the increasing elderly population will attract more funding, while the decreasing population overall will reduce the availability of funding. It is not clear at this stage which variable will have the greater impact and further work needs to be done on this to provide a clearer understanding of the availability of health funding in the years ahead.

In addition to inflationary cost growth, there will also be service demand growth due to an increasing elderly population and the introduction of new services and medicines. This will affect costs across a range of health services, the most significant likely to be GP prescribing and acute hospital services, particularly in relation to services provided out-with the area to Argyll & Bute residents in NHS Greater Glasgow & Clyde. Overall the financial implications of demand and costs increases outstripping funding uplifts over the next three years are unclear (*source: Report to Planning Group Meeting - IJB Planning and Assumptions Report*).

Within health, the Scottish Government regularly issues funding allocations that are labelled for a specific purpose. In 2015/16, three significant allocations have been received. These are;

| | |
|---------------------------------|--------|
| Integrated Care Fund (ICF) | £1.84m |
| Delayed Discharge Funding | £0.55m |
| Technology Enabled Care Funding | £0.49m |

These funds will be used to stimulate service change and should also enable the release of recurring savings from existing budgets.

The Integrated Joint Board's financial plan will be developed in 2015/2016 and service plans will be aligned with the level of resources that will be available.

- 4.9 The draft proposed IJB Budget for 2015/16 is detailed in table 1 and has been reviewed by the finance work stream.

| Table 1 – Draft proposed IJB budget for 2015/16 | | |
|--|-----------|--------------|
| | £m | £m |
| <u>Health Budgets</u> | | |
| Locality budgets (hospital and community services) | 65.1 | |
| Services provided by NHS Greater Glasgow & Clyde | 51.6 | |
| Services provided by other providers (Health Boards & Private) | 4.3 | |
| General Medical Services (GPs) | 15.8 | |
| Prescribing | 17.2 | |
| Dentists & Chemists | 11.8 | |
| Management & Corporate Functions (incl HB provided) | 6.8 | |
| Resource Release | 4.6 | |
| Public Health/Health Promotion | 1.2 | |
| Alcohol & Drugs Partnership (ADP) | 1.2 | |
| Highlands & Islands Travel Scheme (HITS) | 1.7 | |
| Depreciation | 2.4 | |
| 15/16 uplifts (inc NRAC parity uplift) | 5.0 | |
| sub-total health | | 188.7 |
| <u>Social Care Budgets</u> | | |
| Adult Care | 45.1 | |
| Children and Families | 11.7 | |
| Support Services (non-transferrable) | 3.9 | |
| Capital Charges/Depreciation | 1.0 | |
| sub-total social care | | 61.7 |
| Total | | 250.4 |

ONGOING MONITORING AND REVIEW

- 4.10 The finance work stream will continue to monitor the development of the IJB budget for 2016/2017 taking into account any saving be that are required to be made and any anticipated cost and demand pressures.
The IJB will appoint a S95 officer (The Chief Financial Officer) in accordance with S95 of the Local Government (Scotland) Act 1973. The Chief Financial Officer will have a statutory duty to ensure the proper administration of the financial affairs of the IJB.

The finance work stream will develop a set of Financial Regulations, which will be approved by the Integrated Joint Board, to ensure the appropriate financial governance of the IJB budget, including due diligence in terms of the payments to the IJB from Argyll & Bute Council and NHS Highland.

5. CONCLUSION

- 5.1 Satisfactory due diligence has been undertaken. A specific finance work stream has been established and there has been processes established in respect of the allocation of resources to the Integrated Joint Board with sharing of information across Health and Social Care. Significant risks remain in relation to future funding levels together with cost and demand pressures.

6. IMPLICATIONS

- 6.1 Policy - None
- 6.2 Financial - None
- 6.3 Legal - None
- 6.4 HR - None
- 6.5 Equalities - None
- 6.6 Risk – change in resource allocation may impact on agreed budgets
- 6.7 Customer Service – None

Kevin Anderson, Chief Internal Auditor

19 JUNE 2015

**For further information contact: Kevin Anderson, Chief Internal Auditor
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Feedback Analysis – Audit Committee Effectiveness Session

1. Executive Summary

- 1.1 This report provides summary analysis of the comments received during the March Committee effectiveness session.
- 1.2 An open inter-active session was held with participants invited to provide responses anonymously to a number of questions. The questions were themed around:
1. Strengths, Weaknesses and Gaps in relation to skills and experience
 2. Current arrangements and whether these facilitated effective discussion and review,
 3. Materiality and Objectivity
 4. How do we add value?
- 1.3 Responses in general were very positive and gave assurance that existing arrangements provided a firm base from which to build upon and continually improve.
- Participants felt they possessed a range of strengths citing experience in local government and business, good analytical skills and a “nose for an issue”.
 - A recurring theme was evident around the role of Audit Committee in pure audit terms and the ability to focus solely on risk management, control and governance process.
 - The link between Audit and Scrutiny was identified as an issue with comments being “Process okay, Outcome wrong” and also reference to “missed opportunity to follow up on good work of Audit Committee”
 - Participants felt they were able to be objective although it sometimes was difficult to totally avoid some bias; however, generally not an issue.
 - Current arrangements facilitated a strong efficient committee process which was supported by strong chair /vice chair arrangements. Members felt they were able to contribute to discussion at all times. Reporting improvements have allowed for open discussion on key material issues however materiality could be further defined in terms of a matrix or framework.

- There was a request for Management to be in attendance where reports were limited and also, on occasion, it may be necessary for officers to leave the room to allow further discussion.
- How do we add value as a committee, promote governance and reduce audit fees? Do more internal audit work.

Actions to be taken forward:

1. **Emphasise role of Internal Audit.** Definition of Internal Auditing to be included as watermark on report covers: *Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*
2. **Scrutiny follow up:** Development of protocols for forwarding /co-ordinating Audit reports to PRS for Outcome scrutiny work
3. **Development of Materiality Matrix:** Development of indicative materiality matrix to aid understanding of finding and action plans.
4. **Management attendance at committee protocol:** Standard protocol to be implemented whereby Limited opinion rated reports require management attendance.

- 1.4 The above action points have been added to the 15/16 Audit Committee Development plan which is a rolling plan and is updated on an on-going basis. Appendix 1 details the 15/16 plan.

2. RECOMMENDATIONS

- 2.1 Members to note report and content of 15/16 Audit Committee development plan.

3 CONCLUSION

- 3.1 This report provides members with summary analysis arising from March effectiveness session and details action points which will be taken forward via the Audit Committee development plan.

4. IMPLICATIONS

- 4.1 Policy – None
- 4.2 Financial – None directly however resource potential resource implication of additional internal audit work potentially offset by reduced external audit fee.
- 4.3 Personnel – None
- 4.4 Equal Opportunities – None
- 4.5 Legal – None.
- 4.6 Risk – None
- 4.7 Customer Service – None.

**SHEILA HILL
VICE CHAIR AUDIT COMMITTEE**

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Appendices

Appendix 1 – Audit Committee Development Plan

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Appendix 1 – Audit Committee Development Plan 15-16

| No. | Issue arising | Proposed action | Lead responsibility | By (date): | Comment |
|--------------------------------------|--|--|--|----------------|----------|
| Role of Audit Committee | | | | | |
| 1. | Lack of clarity about sources of assurance and the respective roles of the Audit Committee and Performance Review and Scrutiny Committee | <ul style="list-style-type: none"> Development of protocols for forwarding /co-ordinating Audit reports to PRS for Outcome scrutiny work | Chair of Audit Committee Chair of Performance Review and Scrutiny Committee | Sept 2015 | On-Track |
| 2. | Emphasise Role of Audit Committee and Internal Audit | <ul style="list-style-type: none"> Explore possibility of inclusion of Functions of the Audit Committee Diagram on covering reports. Develop role of Internal Audit Watermark for inclusion in reporting format. | Chief Internal Auditor | Sept 2015 | On-Track |
| Audit Committee Effectiveness | | | | | |
| 3. | Using CIPFA practical guidance for audit committees | <ul style="list-style-type: none"> Regular Effectiveness session during 15/16 | Chair of the AC, but facilitated by Vice Chair /Grant Thornton | March 2016 | On Track |
| 4. | Increasing the impact of the audit committee, and the understanding of the role the committee plays in the internal control framework | <ul style="list-style-type: none"> Chair to present Annual Report to the Council November 2015 | Chair of the AC | November 2015 | Not due |
| 5. | Development of materiality matrix | <ul style="list-style-type: none"> Development of indicative materiality matrix. | Chief Internal Auditor | September 2015 | On Track |

| No. | Issue arising | Proposed action | Lead responsibility | By (date): | Comment |
|--------------------------|---|--|---------------------------|------------------------|-----------|
| Delivering impact | | | | | |
| 6. | Accountability / Officer ownership of actions and attendance at Audit Committee meetings | <ul style="list-style-type: none"> Officer attendance required where reports express Limited Assurance opinion. | Head of Strategic Finance | June 2015 and on-going | On track |
| 7. | Ensuring that the Audit Committee can influence the scope and coverage of internal audit to meet their assurance requirements | <ul style="list-style-type: none"> IA to prepare indicative 2016-17 annual audit plan for December audit committee meeting, to ensure that Audit Committee members have the opportunity to influence the plan | Internal audit | December 2015 | On -track |

AUDIT COMMITTEE ANNUAL REPORT 2014/15**Introduction by the Chair of Audit Committee**

This report provides an overview of the Audit Committee's activity during the financial year 2014/15.

I am pleased to report that the Audit Committee continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note".

The Audit Committee met quarterly throughout the financial year i.e. March, June, September, and December; the meetings were attended by representatives of the Head of Governance and Law, the Head of Strategic Finance, the Chief Internal Auditor, Audit Scotland along with other Council Officers as and when requested to attend.

In 2014/15, the following Councillors served on the Audit Committee; Gordon Blair, Maurice Corry, Iain MacDonald, Richard Trail and Michael Breslin. In respect of the Chair and Vice Chair posts, I, Martin Caldwell continued in the role of Chair with Sheila Hill as Vice Chair.

In looking forward to 2015/16 and beyond, and given the significant financial pressures facing the Council, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting the challenges ahead and continuing to add value to the Council's governance framework.

Martin Caldwell
Chairperson

Sheila Hill
Vice Chairperson

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Terms of Reference

- 1.1 The Committee's Terms of Reference are to promote good internal control, financial and risk management, governance and performance management. This provides substantial assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.
- 1.2 The specific Terms of Reference are as follows –

Constitution

- The Council has established a Committee to be known as the Audit Committee.

Key Activities

- Agree the Internal Audit strategic plan, oversee and review action taken on Internal Audit recommendations;
- Consider the annual report, opinion, and summary of Internal Audit activity including the level of assurance it can give over the Council's corporate governance arrangements, internal control and risk management system, and to consider other specific Internal Audit reports.
- Consider the External Auditor's Annual Audit Plan, Annual Letter, relevant reports, and the report to those charged with governance and other specific External Audit reports;
- Comment on the scope and depth of External Audit work and to ensure it gives value for money;
- Commission work from Internal Audit, External Audit and third parties where appropriate;
- Consider the performance of Internal and External Audit;
- Facilitate training to support the role of Audit Committee Members;
- Develop a culture of compliance within the Council to ensure the highest standards of probity and public accountability;
- Support best practice in the financial administration of the Council;
- Review the Council's financial performance as contained in the Annual Report, and to report annually to the Council on the internal control environment;
- There should be a least one meeting a year, or part thereof, where the Audit Committee meets the Internal and External Auditors separately from management;
- The Committee will prepare an annual work plan setting out meeting dates for the financial year and anticipated Internal Audit, external audit and management reports expected to be covered at each meeting; and
- The Committee shall prepare an annual report to the Council covering its activities and key findings each year. This report will be considered at the Council meeting that agrees the External Auditor's annual audit letter; and in addition, the Committee will submit highlight reports to the Council as appropriate.

Regulatory Framework

- Maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- Monitor and seek assurance with regard to risk control measures through the review of the effectiveness of risk management systems and corporate governance in the Council;
- Monitor the Anti-fraud and corruption strategy and the Council's arrangements for dealing with any allegations of fraud or similar improper behaviour; and to consider the Council's compliance with its own and other published standards and controls; and
- Monitor the Council's compliance with the Public Interest Disclosure Act and the Bribery Act in the discharge of its functions.

Financial Accounts and Governance

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

Other Monitoring

- Assess the effectiveness of the Council's Performance Management System;
- Consider performance and inspection reports from Internal Audit, external audit and other relevant scrutiny bodies;
- Commission specific reviews to be carried out where necessary;
- Review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;

- Review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans in terms of audit work to be undertaken by both external and Internal Audit; and
- The Chief Executive will attend one meeting per annum to report on how the Council is addressing its key strategic risks and other matters of interest.

2.0 Audit Committee's Effectiveness and Impact

2.1 The Audit Committee's role is to ensure that the Council's internal control framework and governance arrangements are operating effectively. The Audit Committee receives and reviews reports covering:

- External and Internal Audit Annual Plans and Audit Reports;
- Quarterly Progress Reports on Internal Audit Plan;
- Audit Recommendation Follow up Reports;
- Risk Management Reports;
- Corporate Performance Audit Report;
- Council's Assurance & Improvement Plan;
- Financial Statements;
- Treasury Management Assurance Report;
- National Reports;
- National Fraud Initiative Reports; and
- Performance Management Annual review /assurance report.

2.2 The Audit Committee has the right to request updates after reviewing submitted reports. This approach afforded the Audit Committee the opportunity to ask directly key questions and receive assurances. In addition, the Audit Committee can routinely challenge management when agreed audit recommendations implementation dates were missed.

2.3 Audit Scotland in March 2014 presented their Annual Audit Plan setting out their approach to the audit of the Council, reflecting their statutory duties and risk based approach. The Audit Plan was considered by the Audit Committee and accepted. Internal audit also presented their annual audit plan for 2014/15 which was approved.

2.4 I am pleased to be able to note that Member attendance at quarterly meetings has significantly improved from previous years. In order to ensure the Audit Committee builds on its effectiveness and maintains a positive impact and high profile within the Council it is essential that members continue to attend scheduled meetings.

2.5 In its ongoing development the Audit Committee has introduced a number of changes resulting in additional assurance and improved effectiveness. These are:

- Securing an Assurance Mapping report for the Council
- Developing communication protocols between Internal and External Audit
- Securing an Annual Audit and Risk report from the Chief Executive.
- Ensuring reporting formats are in line with Public Sector Internal Audit Standards (PSIAS);
- Strengthening the process of annual audit plan preparation by requesting draft version for early discussion.
- Undertaking Effectiveness self -evaluation using CIPFA guidance documentation

- Introduction of informal Effectiveness / development sessions prior to Audit Committee meetings.

2.6 Increased management attendance at Committee meetings has allowed members to challenge officers actively in relation to findings and recommendations within reports. It is intended that where reports are of limited assurance level then relevant management /officer representation will be available as matter of course.

3. Assurances

3.1 Internal Audit Assurance

3.1.1 Internal Audit is a key source of assurance for both members and management on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.

3.1.2 The Committee has received regular reports and information from the Chief Internal Auditor including:

- Internal Audit's risk based planning methodology and annual audit plan;
- Regular progress reports;
- An Annual report from the Chief Internal Auditor in line with best practice in the CIPFA code for Internal Audit in Local Government which provided an opinion on the control environment and the effectiveness Internal Audit activity.

3.1.3 Control weaknesses are effectively dealt with due to the Committees' continued emphasis on the importance of fully implementing Internal Audit recommendations.

3.2 External Audit Assurance

3.2.1 External Audit is an essential part of the process of accountability and assurance for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management. Working closely with Internal Audit, the External Audit programme ensures that statutory responsibilities are delivered, without the duplication of audit work. Both programmes are submitted to the Audit Committee for scrutiny.

3.2.2 Assurance was received from external auditors, Audit Scotland, for 2013/14 financial statements as follows:

- They presented a true and fair view in accordance with applicable law;
- The accounts prepared properly in accordance with IFRS; and
- The accounts prepared properly in accordance with Local Government Act (Scotland) 1973.

3.2.3 External Audit is required to report by exception on a number of areas in relation to their audit, namely accounting records, statement of governance and control, availability of information and explanation and failure to achieve a prescribed financial objective. External Audit reported no exceptions in respect of these matters for 2013/14.

- 3.2.4 In their 13/14 report, External Audit included a review of internal audit and concluded that overall the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

3.3 Systems of Risk Management

- 3.3.1 It is the role of the Audit Committee to gain assurance on the adequacy of the system of internal controls and on the adequacy of the system of risk management. The role of the Audit Committee is to test the adequacy of the arrangements in place to manage risk. The Audit Committee in 2014/15 received risk management reports and these showed continued progress by the Council in the development and regular review of risk management systems. The Audit Committee has agreed to maintain its focus on seeking assurance on the development of adequate systems of risk management. The Audit Committee commissioned and secured an Assurance Mapping report which was prepared by Grant Thornton, Internal Audit Strategic partners. The Chief Executive also presented a report to the committee on Audit and Risk arrangements.

3.4 Governance & Internal Control

- 3.4.1 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2013/14, together with an Action plan, was presented and reviewed at the June 2014 Audit Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and approved for inclusion in the Annual Accounts, subject to External Audit feedback.

- 3.4.2 The draft Statement of Governance & Internal Control was informed by the:

- Work of officers within the Council;
- Work of External and Internal Audit;
- Statements of governance or internal control provided by external bodies;
- External review and inspection reports and
- Recommendations from the Audit Committee.

The content of the Governance Statement and the process for preparing the Governance Statement will be reviewed for 2014-15 financial year end.

4. Looking Ahead

- 4.1 Argyll and Bute Council is currently incurring an External Audit fee at the higher level as a result of increased correspondence from members of the public. It is the desire of the Audit Committee in carrying out its activities to endeavour to add additional assurance in respect of governance, risk and control processes which will hopefully contribute to a possible reduction in external audit fees.
- 4.2 The Committee is committed to self-evaluation and continuous improvement. Effectiveness sessions are planned to continue throughout the forth-coming year and members contributions are fully appreciated. Focus will continue to be on the role of the Audit Committee, developing skillset and expertise to allow effective challenge together with developing links with the work of the Scrutiny committee.

5.0 Independence

5.1 To assist in preserving the Committee's independence and provide a clear distinction between the Audit Committee and the Performance Review and Scrutiny Committee measures are in place including:

- The appointment of an independent chair and vice chair; and
- Clear terms of reference for both Committees

5.2 There are areas where Audit and Scrutiny naturally combine and a protocol for joined up working or areas of collaboration will be developed during 15/16. Initial discussion have taken place between the both Chairpersons and respective officer support.

6.0 Training and Development

6.1 The Council continues with its Internal Audit partnership approach with Grant Thornton which has proved very beneficial in terms of PSIAS compliance, strategic support and specialist discreet areas of work.

6.2 Audit Committee Effectiveness sessions have taken place throughout the year, aimed at addressing themes arising from analysis of the CIPFA self-assessment exercise. It is anticipated that these will continue throughout 15/16 although the frequency may be reviewed. Any specific training requirements or requests will be addressed as and when they arise.

7.0 Conclusion

7.1 Based on the reports received and reviewed by the Committee and the follow up work requested, it is the opinion of the Audit Committee that substantial assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2014/15. It is noted that a number of reports did have limited assurance however active monitoring / follow up of recommendations and management actions during the year leads to an overall substantial opinion grading.

7.2 Throughout 2014/15 the Audit Committee evolved and continues to evolve with an agreed framework of reporting which allows it to undertake appropriate assessment of the Council's progress in addressing identified issues covering risk, governance and internal control. With a solid base established in this regard, the Committee continues to adopt a pro-active posture on the Council's operations.

Audit Committee performance has been aided through the expertise and contribution from its Members during 2014/15.

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****CHIEF EXECUTIVE****19 JUNE 2015**

INTERNAL AUDIT – ANNUAL REPORT 2014 - 15

1.0 EXECUTIVE SUMMARY

- 1.1 This report is a review of Internal Audit for the period 2014/2015 and provides overall opinion on the level of assurance in respect of effectiveness of financial and management controls.
- 1.2 The annual audit plan for 2014/15 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS)
- 1.3 The report outlines reporting responsibilities, provides commentary in relation to professional standards and provides an analysis of Internal Audit activity and progress during 2014/2015.
- 1.4 Audit Committee are asked to note the conclusion and content of the report.

INTERNAL AUDIT – ANNUAL REPORT 2014 - 15

2.0 INTRODUCTION

2.1 This report provides the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

3.0 RECOMMENDATIONS

3.1 The Audit Committee note the content of this report.

4.0 DETAIL

4.1 FOREWORD

The annual audit plan for 2014/15 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS). Internal Audit also complies with the Service Outcome and Terms of Reference, both of which have previously been approved by the Audit Committee and are outlined below.

4.2 SERVICE OUTCOME

Assurance is provided that financial and management controls are operating effectively.

4.3 TERMS OF REFERENCE

Internal Audit is responsible for advising all levels of management and the Council (through its Audit Committee), on the Council's systems of internal control. It is a review activity which continuously reinforces line management's responsibility for effective internal controls. Internal Audit supports:

- Management's organisational objectives; and
- The Audit Committee's need for overall assurance on the quality and cost effectiveness of risk management systems and internal controls.

4.4 REPORTING RESPONSIBILITIES

The reporting responsibilities of Internal Audit are:

Section 95 Officer / Head of Strategic Finance

Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer. The Chief Internal Auditor meets with the Head of Strategic Finance to discuss the effectiveness of the system of internal control operated within the Council and Internal Audit performance against plan.

Chief Executive

Internal Audit has a dotted line responsibility to the Chief Executive. The Chief Internal Auditor meets regularly with the Chief Executive, covering progress of the annual audit plan, issued reports and areas of concern.

Audit Chairman

Internal Audit has a dotted line responsibility to the Audit Chairman.

Audit Committee

Internal Audit prepares and facilitates reports for the Audit Committee and during 2014/15; the following report areas were presented:

| | |
|------------------------------------|----------------------------------|
| Internal Audit Annual Plans | Internal Audits |
| Annual Risk Management report | Internal Audit Summary Activity |
| National Fraud Initiative Exercise | Internal Audit Follow up report. |

External Audit

It is the responsibility of Internal Audit to co-ordinate its activities with External Audit and in 2014/15 Audit Scotland sought to place reliance on the following areas of internal audit work:

| | |
|-------------------------------|---------------------|
| Non Domestic Rates | Trade Receivables |
| Council Tax | Financial Ledger |
| Payroll | Treasury Management |
| Trade Payables and Purchasing | Capital Accounting |

Under the Code of Audit Practice, External Audit will also place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

Auditee

Internal Audit in 2014/15 maintained contact with Executive Directors and Heads of Service individually and through Departmental Management Teams (DMTs) and the Strategic Management Team (SMT), throughout the financial year. Internal Audit provided management with an independent and objective

opinion on their controls and risks, recommending changes where appropriate through dialogue, audit reporting with graded recommendations set out in an agreed action plan.

In 2014/15, Internal Audit approach and reporting formats were in line with PSIAS good practice.

4.5 PROFESSIONAL STANDARDS

The Internal Audit Team service is compliant with Public Sector Internal Audit Standards and during The Internal Audit Team along with Grant Thornton completed all action points arising from the previous year's self-assessment /compliance review.

During the year compliance with PSIAS was the focus of many elements of Internal Audit work including:

- Ensuring revised practice was fully implemented
- Development of Internal Audit Manual.
- Continuous review of audit approach, stage tracker design and content of reporting

4.6 AUDIT PLAN 2014/15

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, a draft annual audit plan for 2014/15 was presented to the Audit Committee in December 2014; and a final plan approved in March 2015. The plan was compiled from an analysis covering four key headings as set out in the table below.

| | |
|----|--|
| 1. | Materiality – An assessment of financial data; |
| 2. | Risk – Assessment of operational, strategic and reputational damage; |
| 3. | Control Effectiveness - Assessing external and internal reviews and reports; |
| 4. | Performance Management – Assessing corporate, service and improvement plans. |

The output from the analysis exercise was discussed with Executive Directors and Heads of Service individually and through meetings of with Departmental Management Teams (DMTs) and the Strategic Management Team (SMT). Thereafter a final draft audit plan was presented to both the SMT and Audit Committee for approval.

In addition, the audit plan included contingency days for special investigations, reporting recommendation implementation and national fraud initiative work.

4.7 GOVERNANCE & INTERNAL CONTROL STATEMENT 2014/15

The Customer Services Department annually test Council compliance with the Code of Corporate Governance. The Code requires the Council to have in place appropriate management and reporting arrangements. The role of Internal Audit is to provide assurance that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law.

Internal Audit reviews the results of its own audits and the reports of External Audit. These audit reports are reviewed along with departmental internal control statements prepared and signed by the Executive Directors.

Once the above review work is done a draft joint statement is presented to the Strategic Management Team (SMT) and the Audit Committee for review at their annual meeting in June. The statement once approved is then forwarded for signing by the Council Leader, Chief Executive and Head of Strategic Finance. The draft joint statement of governance and internal control is the subject of a separate report to the Audit Committee.

In addition to the process outlined above, Internal Audit via its Strategic Partners, Grant Thornton commissioned a review of preparation process in response to External Audit comments in their 13/14 annual report.

4.8 PROGRESS OF THE ANNUAL AUDIT PLAN 2014/15**Resource Allocation 2014/15**

The 2014/15 audit plan was based on five full time posts with the total available days for direct audit work of 872 after deductions for non direct audit work, training and public and annual leave, etc. Actual audit days carried out by Internal Audit staff were 904, which included special investigations, with Grant Thornton providing assistance in the form of audit management and completion of the Assurance Mapping work.

A total of audit areas were planned for the financial year and these were allocated within the categories set out below:

| Audit Plan 2014 - 2015 | | Planned | Actual |
|--------------------------------------|--------------------------------|----------------|---------------|
| Fundamental Financial Systems | Full Audits | 3 | 3 |
| | Continuous Monitoring | 6 | 6 |
| Strategic and operational Risks | | 1 | 1 |
| Corporate Governance & IT | | 4 | 4 |
| Grant Certification | | 2 | 2 |
| Corporate Support | Community Services | 4 | 3 |
| | Customer Services | 6 | 6 |
| | Development and Infrastructure | 9 | 9 |
| | | | |
| Establishments | Non-Schools | 1 | 1 |
| LA Schools | Schools & NPDO | 3 | 3 |
| Procurement/ Commissioning Contracts | | 1 | 1 |
| Total | | 40 | 39 |

In addition special investigation, recommendation implementation reporting and national fraud work was undertaken. In 2014/15, 1 adjustment was made to the annual plan whereby the Health and Social Care Integration governance review was deferred to the 15/16 plan.

Audit Opinion

Based on audit work carried out in 2014/15 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

The review of corporate governance undertaken by internal audit has indicated that the systems for governance are operating effectively, and a draft Joint Governance and Internal Control Statement has been produced. The draft statement will be presented to the Strategic Management Team (SMT), Audit Committee and Executive. With specific regard to internal control, I am satisfied that all recommendations made have been or are currently being being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented.

The Annual Audit Plan for 2014/15 was completed as planned.

The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit and the Audit Committee are asked to accept the same assurance, based on the audit work completed in 2014/15.

4.9 ANALYSIS OF 2014/15

The audit plan has been completed and in particular:

- Quarterly reports have been prepared for the Audit Committee advising of progress with the Annual Audit Plan;
- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.
- In 2014/15 Internal Audit held regular meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.
- The Audit Committee receive final Internal Audit report extracts after issue to management for action.
- Analysis of returned client questionnaires in 2014/15 indicates that an average approval score of 3.9 was achieved by Internal Audit. The target for the section is to achieve 3 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 4.

The partnership with Grant Thornton and CIPFA has offered specialist support and advice where required. Grant Thornton undertook a discrete piece of work in relation to Assurance Mapping which was welcomed by management and the Audit Committee.

4.10 INTERNAL AUDIT PERFORMANCE

Internal Audit performance was satisfactory and indicators were all on track throughout the year. The Audit Plan was fully complete as a 31st March.

4.11 OVERVIEW

It has been a challenging year for Internal Audit with regards to implementation of revised processes and reporting formats. However, good progress has been made and in my opinion the profile of Internal Audit has improved and there is a consistency in quality of reports submitted. Management and External Audit continue to place positive reliance on the work of Internal Audit. Furthermore in its ongoing development the Audit Committee introduced a number of changes giving additional assurance in relation to:

- Introduction of regular updates of progress by the External Audit team of their audit plan;
- Enhancing the use of the strategic risk register including the inclusion of an assessment of scoring /risk appetite;
- Using the new Public Sector Internal Audit Standards (PSIAS) to introduce the internal audit charter and improve the process of scoping and signing off internal audits;
- Securing an Assurance Mapping report, and;
- Introduction of audit committee effectiveness sessions prior to audit committee meetings.

5.0 CONCLUSION

- 5.1 Subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively. The Internal Audit service continues to develop and improve.

6.0 IMPLICATIONS

- 6.1 Policy – None. Report is for noting
- 6.2 Financial – None. Report is for noting
- 6.3 Legal – None. Report is for noting
- 6.4 HR – None. Report is for noting
- 6.5 Equalities– None. Report is for noting
- 6.6 Risk– None. Report is for noting
- 6.7 Customer Service– None. Report is for noting

**Steve Barrett – Interim Head of Strategic Finance
19 June 2015**

For further information contact: Kevin Anderson, Chief Internal Auditor 01369 708505

APPENDICES

- 1. PERFORMANCE MEASURES 2014/15
- 2. AUDITS COMPLETED DURING 2014/15

APPENDIX 1 - PERFORMANCE MEASURES 2014/15

| Internal Audit Team Scorecard 2014 – 15 | | | |
|---|----------------------------------|-----------------------------|---------------|
| FY 14/15 | | | |
| TEAM RESOURCES | | | |
| People | | | |
| PRDs IA Team G ➔ | Target | Percentage of PRDs complete | |
| | 100% | 100% | |
| | Number of eligible employees FTE | Number of PRDs complete FTE | |
| | 5 | 5 | |
| Financial | | | |
| Revenue Finance | ACTUAL | BUDGET | G ➔ |
| Year to date | £225,970 | £227,372 | |
| Year end | £266,455 | £266,455 | |
| NEW INTERNAL AUDIT MEASURES | | | |
| % of risks within the SRR audited in reporting period | Actual | 60% | G ➔ |
| | Target | 30% | |
| | Benchmark | | |
| Quarterly meetings held with Chair of Audit Committee | Actual | Yes | G ➔ |
| | Target | Yes | |
| | Benchmark | Yes | |
| % satisfaction rates from post audit surveys | Actual | 100% | G ➔ |
| | Target | 80% | |
| | Benchmark | 80% | |
| % Recommendations followed up | Actual | 100% | G ➔ |
| | Target | 100% | |
| | Benchmark | 80% | |
| % customer satisfaction with audit reports | Actual | 100% | G ➔ |
| | Target | 80% | |
| | Benchmark | 80% | |
| Percentage qualified staff | Actual | 60% | G ➔ |
| | Target | 60% | |
| | Benchmark | 60% | |
| Internal Audit Training | Actual | 112 days | G ➔ |
| | Target | 150 days | |

APPENDIX 2 – AUDITS COMPLETED DURING 2014/15

| Audit Name | Level of Assurance | No. of recommendations | High Recommendations |
|--|---------------------------|-------------------------------|-----------------------------|
| NPDO Arrangements | High | 1 | 0 |
| Stock | Substantial | 0 | 0 |
| Sickness Absence | Substantial | 5 | 1 |
| Crematoriums | Substantial | 14 | 1 |
| Section 75 Planning | Substantial | 3 | 3 |
| Insurance arrangements | Substantial | 6 | 0 |
| LGBF Indicators | Substantial | 2 | 0 |
| Risk Management | Substantial | 2 | 0 |
| Procurement -Utilities | Substantial | 0 | 0 |
| Airports | Substantial | 2 | 0 |
| Customer Service Centre | Substantial | 7 | 0 |
| Flag | Substantial | 2 | 0 |
| Income Maximisation Direct payments | Substantial | 3 | 0 |
| Leader LAG | Substantial | 1 | 0 |
| Pyramid | Substantial | 7 | 3 |
| Flood Risk Management | Substantial | 0 | 0 |
| Fostering and Adoption | Substantial | 6 | 0 |
| Revenue & Benefits | Substantial | 0 | 0 |
| Communications | Substantial | 4 | 0 |
| Information Security | Substantial | 0 | 0 |
| Homecare | Substantial | 3 | 0 |
| Adult Learning | Substantial | 3 | 0 |
| Business Support | Substantial | 4 | 0 |
| Employability | Substantial | 1 | 0 |
| ICT | Substantial | 0 | 0 |
| Marine Services | Limited | 7 | 2 |
| Capital Contracts and Operating Leases | Limited | 3 | 1 |
| Land and Asset Disposal | Limited | 8 | 3 |
| Winter Maintenance | Limited | 10 | 3 |
| CHORD | Limited | 8 | 2 |

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****19 JUNE 2015**

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

- 1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 1.
- 1.2 Core activities together with a progress update statement are shown below.
- **15/16 Audit Plan progress:** Audit plan is currently on track.
 - **Individual Audits undertaken:** Nine individual audits have been completed during the period. Of these 9 audits, 7 are rated substantial and 2 are rated limited.
 - **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Reporting is by exception. Management have responded to previous quarter notifications and there are no outstanding issues. Weaknesses were identified in relation to Stock records and general procedures at an Integrated Equipment Store (Social Work). Weaknesses were also identified in relation to control processes relating to general ledger.
 - **National Fraud Initiative:** New matches have been released. Review work has commenced and findings will be reported to September 2015 Audit Committee.
 - **Development Plan:** Progress continues to be made against revised development plan action points. All items are currently on track.
 - **Performance indicators:** Revised indicators are in place and current status is on track / green.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

19 JUNE 2015

INTERNAL AUDIT SUMMARY OF ACTIVITIES

2. INTRODUCTION

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 1 against a number of areas;

- 15/16 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- National Fraud Initiative
- Development Plan
- Performance indicators

3. RECOMMENDATIONS

3.1 The Audit Committee is asked to note the content of the report.

4. DETAIL

4.1 The Audit Plan is currently on track however it should be noted that during the quarter individual audits were subject to delays resulting in over-run due to availability of service staff.

4.2 Audits completed to March are detailed in Table 1.

Table 1: Summary of Audits performed in Quarter 4 2014/15 & Quarter 1, 2015/16:

| Audit Name | Level of Assurance | No. of recommendations/ observations | High Recommendations |
|-----------------------------|--------------------|--------------------------------------|----------------------|
| 2014/15 | | | |
| Business Support | Substantial | 4 | 0 |
| Employability & Training | Substantial | 1 | 0 |
| Adult Learning Policy | Substantial | 3 | 0 |
| ICT | Substantial | 0 | 0 |
| 2015/16 | | | |
| Out of Authority Placements | Substantial | 5 | 0 |
| Roads Maintenance | Limited | 8 | 2 |
| HR Training | Limited | 9 | 0 |
| Health & Safety | Substantial | 5 | 0 |
| Catering | Substantial | 2 | 0 |

- 4.3 Audits planned for the Quarter 2 15/16 are shown in the table below. The number of Audits scheduled is reduced and is reflective of planned annual leave within the team.

Table 2: Summary of Audits to be performed in Q2 2015/16:

| |
|--|
| Quarter 2 |
| LEADER/ FLAG |
| Electronic signatures |
| Local Government Benchmarking Framework (LGBF) |
| Single Outcome Agreement |
| Education SQA |
| Planning Enforcement |
| Looked After Children |

- 4.4 A number of areas which were previously subject to individual audits now form part of our continuous monitoring programme. These areas are tested on a regular basis and detailed reporting will be by exception to Audit Committee. Standard audit tests are applied relevant to each auditable unit. Clients are notified by memo of any concerns and a follow up process is in place to ensure active management /rectification of issues raised. Table 2 below summarises activity to date outlining issues arising and provides a level of assurance.

Table 3: Continuous monitoring programme results:

| Audit Unit | Areas Tested | Issues Arising | Assurance Level | Follow up |
|-------------------------|--|---|------------------------|--|
| Payroll and Overtime | <ul style="list-style-type: none"> • Excessive & Regular Overtime • Ghost Employees • Starters and Leavers • Absence | <ul style="list-style-type: none"> • Excessive Overtime | Substantial | Management requested to provide detail. |
| Creditors | <ul style="list-style-type: none"> • Duplicate Vendors • Access rights | <ul style="list-style-type: none"> • Inconsistent use of Data fields | Substantial | Copy of vendor creation procedure to be sent to Internal Audit. Copy of analysis of duplicate vendor exercise to be sent to Internal Audit. |
| General Ledger Controls | <ul style="list-style-type: none"> • Raising and posting journals • Segregation of duties • Journal naming convention | <ul style="list-style-type: none"> • Journal Raised and Posted by Same Person • Journal numbers 1-6 missing (SF/1415) • Duplicate Journal Number | Limited | Management have agreed further awareness sessions to be undertaken. |

| Audit Unit | Areas Tested | Issues Arising | Assurance Level | Follow up |
|--|---|---|-----------------|--|
| Establishment Visits Stock Take – Integrated Equipment Store - Helensburgh | <ul style="list-style-type: none"> Procedures Stock Ledger Stock layout Issues and Receipts | <ul style="list-style-type: none"> No stock take procedures issued No stock ledger print out available Stock intermixed with consumables Issues and receipts not up to date | Very Limited | Management notified of weaknesses. Site re-visited where it was evidenced that work was on-going to ensure appropriate controls in place. A new electronic stock recording systems / single issue process is being implemented |

4.5 The Audit Commission's NFI team carries out matching work on behalf of Audit Scotland. The 2014-15 exercise timetable is as follows:

Table 4: National Fraud Initiative Timetable

| | |
|----------------------|---|
| From 29 January 2015 | The Audit Commission NFI team will make the 2014/15 exercise matches available. |
| 31 March 2016 | Audit Scotland will use the outcomes as at this date for the national report |
| June 2016 | Audit Scotland will publish the 2014/15 NFI report |

4.6 Council Tax data in relation to Council Tax Reduction Scheme has returned a number of matches and these are currently being reviewed as per the table below. From work undertaken to date, 359 discounts have been removed with an approximate value of £100k.

4.8 A new upload of Council Tax data and the Electoral role took place by the end of February 2015 and a new set of matches will be released shortly after.

Table 5: National Fraud Initiative Matches:

| Datasets | Total Matches | Matches Complete | Status of Sample Match Testing | Responsible Officer |
|-----------------------------------|---------------|------------------|------------------------------------|-------------------------------------|
| Council Tax to Electoral Register | 694 | 421 | Residual Cases to be investigated. | Revenues Supervisor |
| Council Tax rising 18's | 147 | 147 | Complete | Revenues Supervisor |
| Blue Badges to DWP Deceased | 52 | 52 | Complete – All issues resolved | Service Point supervisor/ Registrar |
| Total | 891 | 618 | | |

Table 6: Further release of National Fraud Initiative Matches:

| Datasets | NFI Key Filter Matches | Matches Complete | Matches in Progress | Responsible Officer | Completion |
|------------------|------------------------|------------------|---------------------|------------------------------|------------|
| Housing Benefit | 178 | 37 | 166 | Counter Fraud Manager | Sept 2015 |
| Creditors | 248 | 0 | 0 | Creditors Supervisor | Sept 2015 |
| Payroll | 420 | 0 | 0 | Payroll Supervisor | Sept 2015 |
| Personal Budgets | 4 | 4 | 0 | Finance Officer (Income Max) | Sept 2015 |
| Care Homes | 7 | 28 | 0 | Finance Officer (Income Max) | Sept 2015 |
| Insurance | 37 | 0 | 0 | Insurance Assistant | Sept 2015 |
| Total | 894 | 69 | 166 | | |

4.9 This section highlights progress made against the actions points in our 14/15 Internal Audit development plan as shown in Table 7. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards.

Table 7: Internal Audit Development Key Actions:

| Area For Improvement | Agreed Action | Progress Update | Timescale |
|------------------------|--|--|--------------|
| Training and CPD | Formalise our plans for internal audit training, including continuing professional development (CPD) | On Track: Senior Audit Assistants are signed up to complete IIA Diploma qualification. Participation in Strategic Finance Training programme | Ongoing |
| Performance Indicators | Review Performance Measures | Not scheduled | 30 Sept 2015 |
| Audit Plan Preparation | 2016/17 Draft Plan submitted to December Audit Committee | Not scheduled. | 31 Dec 2015 |
| SharePoint site | Upload Audit stage tracker information. | On Track: | 30 Sept 2015 |

4.10 Internal Audit scorecard data is available on pyramid. The indicators are showing green and / or on track with the exception of Revenue Finance indicator which is off track due to a year to date overspend in relation to back-filling part year sickness absence. The undernoted table is an extract of the key information.

Table 8: Internal Audit Team Scorecard 2014 – 15:

| | | | |
|---|----------------------------------|-----------------------------|--------|
| FQ 4 14/15 | | | |
| TEAM RESOURCES | | | |
| People | | | |
| PRDs IA Team | Target | Percentage of PRDs complete | |
| | 90% | 100% | |
| | Number of eligible employees FTE | Number of PRDs complete FTE | |
| | 5 | 5 | |
| Financial | | | |
| Revenue Finance | ACTUAL | BUDGET | G ➔ |
| Year to date | £208,068 | £208,340 | |
| Year end | £266,455 | £266,455 | |
| NEW INTERNAL AUDIT MEASURES | | | |
| % of risks within the SRR audited in reporting period | Actual | 46% | G ➔ |
| | Target | 30% | |
| | Benchmark | | |
| Quarterly meetings held with Chair of Audit Committee | Actual | Yes | G ➔ |
| | Target | Yes | |
| | Benchmark | Yes | |
| % satisfaction rates from post audit surveys | Actual | 100% | G ➔ |
| | Target | 80% | |
| | Benchmark | 80% | |
| % Recommendations followed up | Actual | 100% | G ➔ |
| | Target | 100% | |
| | Benchmark | | |
| % customer satisfaction with audit reports | Actual | 100% | G ➔ |
| | Target | 80% | |
| | Benchmark | 80% | |
| Percentage qualified staff | Actual | 60% | G ➔ |
| | Target | 60% | |
| | Benchmark | 60% | |
| Internal Audit Training hours | Actual | 411hrs | G ➔ |
| | Target | 500hrs | |

5. CONCLUSION

- 5.1 The 15/16 Audit Plan is on track. Continuous Monitoring activity has identified a number of weakness and these are being actively followed up with management. There are currently no material issues impacting on Internal Audit activity.

6. IMPLICATIONS

- 6.1 Policy - Internal Audit continues to adopt a risk based approach
- 6.2 Financial -None
- 6.3 Legal -None
- 6.4 HR -None
- 6.5 Equalities - None
- 6.6 Risk – None
- 6.7 Customer Service - None

**Kevin Anderson,
Chief Internal Auditor
19 JUNE 2015**

For further information contact:

Kevin Anderson, Chief Internal Auditor (01369 708505)

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 ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

19 JUNE 2015

 INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2015 - 2016

1. EXECUTIVE SUMMARY

- 1.1 There are 9 audits being reported to the Audit Committee. Seven audits have a substantial level of assurance with 2 being rated as limited assurance.
- 1.2 Internal Audit provides a level of assurance upon completion of audit work, this is evaluated as follows:

| Level of Assurance | Reason for the level of Assurance given |
|---------------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

- 1.3 The attached reports contain the 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.

- 1.4 A high level summary of each report is noted below:

- **Adult Learning:** This audit has a Substantial level of assurance. It was evidenced that Community Based Adult Learning activity has clear links with National Outcomes, Argyll and Bute's Single Outcome Agreement,

and the Council's Corporate Plan. The Action plan notes two issues in relation to Partnership arrangements being informal and potential for resourcing issues arising from referral process.

- **Business Support:** This audit has a Substantial level of assurance. It was evidenced that a strategy is in place in the form of an overarching Economic Development Action Plan (EDAP), 2013/18 supplemented by Area Based EDAPs. It was further evidenced that there were specific actions targeted at achieving the vision and strategy included within the Area Based Economic Development Action Plans. Weaknesses were identified in relation to the meaningfulness of performance measures and also the completeness of information reported to Area Committee, specifically scorecard data.
- **Catering:** This audit has Substantial level of assurance. The scope of the Audit looked at arrangements in place in respect of compliance with the Children and Young People Act in terms of Primary 1 to Primary 3 free school meal provision. It was evidenced the Service was well prepared for this piece of legislation with evidence of good planning and appropriate arrangements being in place. Minor weaknesses were identified in respect of manual recording and reporting arrangements.
- **Employability:** This audit has a Substantial level of assurance. It was evidenced that appropriate controls and arrangements are in place in respect of Service Level Agreements, Reporting and Recording, Finance and Risk Management. The service has received positive reviews from external scrutiny partners and is considered to be a top performer within Scotland. Despite this successful performance there are ongoing challenges. The decreasing number of referrals to Welfare to Work provision, combined with funding pressures and compounded by the disparate geographical area of delivery, makes the delivery of these programmes financially challenging.
- **Health and Safety:** This audit provided a Substantial level of assurance. The service is compliant with relevant legislation and arrangements are in place in respect of accident reporting and recording. Weaknesses were identified in respect of efficiency of process and a lack of a formal follow up process.
- **H R and Learning and Development:** This audit has a Limited level of assurance. A number of weakness were identified some of which are organisational wide. These include lack of co-ordination of overall training programme /initiatives, clarity of role between services and learning and development team, inconsistencies, duplication and inaccuracies in recording, maintaining and reporting training information.
- **Information Communication and Technology:** This audit has a Substantial level of assurance. The scope of the audit focused on Public Sector Network (PSN) Code of Connection and our compliance with the various requirements. It was evidenced that appropriate arrangements were in place and the Council is formally certified as compliant until February 2016.

- **Out of Authority Placements:** This audit has a provided an overall Substantial level of assurance however weaknesses were identified in relation to documentation and file management control. It was also noted that guidance and authorisation route documentation also requires to be updated in respect of revised service structure.
- **Road Maintenance Prioritisation:** This audit has a Limited level of assurance with a number of issues identified including the RMAMP not being updated since 2004. A lack of an audit trail in relation to reasons as to why schemes were excluded /included in programme of works. Reporting weaknesses in relation to performance indicator information were also evidenced together with control weaknesses in relation to system access and housekeeping arrangements.

2. RECOMMENDATIONS

- 2.1 Audit Committee note the content of this summary report and detail within each individual report.

3. CONCLUSION

- 3.1 Management has accepted each of the reports submitted and has agreed responses and timescales in the respective action plans. The total number of recommendations made within the 9 audits is 37 as undernoted:

- High – 2
- Medium – 28
- Low – 7

4. IMPLICATIONS

- 4.1 Policy - None
- 4.2 Financial - None
- 4.3 Legal - None
- 4.4 HR - None
- 4.5 Equalities - None
- 4.6 Risk - None
- 4.7 Customer Service – None

Kevin Anderson, Chief Internal Auditor
19 JUNE 2015

For further information contact: Kevin Anderson, Chief Internal Auditor
01369 708505

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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|--------------------|
| CUSTOMER DEPARTMENT | COMMUNITY SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | ADULT LEARNING |
| AUDIT DATE | APRIL 2015 |

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Community Based Adult Learning within Community Services as part of the 2014/2015 Internal Audit programme.

Adult learning is a key element in Scotland's approach to post 16 Education. The adult learning team provides a wide range of high quality lifelong learning opportunities in our communities. The overall aim is to increase participants' skills and capacity to contribute to their family and community lives, access training and employment, and realise their personal, social and economic potential

The Service outcomes (Guidelines for Community-Based Adult Learning Provision 2014-15) are:

- Partnership working contributes to effective delivery of a wide range of high-quality learning opportunities for adults, including promotion, guidance and support;
- Adults progress in recorded, accredited and non-accredited learning that is appropriate to their needs;
- Issues of exclusion, inequality and disadvantage are addressed through lifelong literacies and ESOL provision, and through other targeted learning opportunities aimed at vulnerable and excluded adults;
- Adults are better equipped to access work and training through a range of employability-related learning opportunities;
- Adults have improved resilience and capacity to play an active part in their family and community lives through a range of personal development and health-related learning opportunities.

The Adult Learning Budget for 14/15 is approximately £630k employing 16.12 Full time equivalent staff.

2. AUDIT SCOPE AND OBJECTIVES

The scope and objective of the audit were limited to:

- Review of established policies and procedures to assess compliance with relevant regulation, best practice and organisational requirements and objectives.
- Policy and procedures have been communicated and are readily available to employees, stakeholders and partners.
- Review monitoring and reporting protocols.

3. RISKS CONSIDERED

Operational Risk Register (ORR)

ORR: Failure to ensure our Adults are supported to access 'first steps' learning opportunities and progression, including literacies and basic ICT, through which they gain skills and confidence to participate fully in their work, family, community and social lives

Resources not aligned to service requirement

Inadequate Monitoring and reporting arrangements

- Non-compliance with legislation
- Non-compliance with operational policy
- Lack of awareness of processes and requirements
- Adverse publicity
- Adverse stakeholder reactions, comments and complaints

4. AUDIT OPINION

The level of assurance given for this report is substantial.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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:-

| |
|--|
| <p>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;</p> <p>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;</p> <p>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.</p> |
|--|

5. FINDINGS

The following findings were generated by the audit:

- 5.1 It was evidenced that HM Inspectors (HMIE) carry out inspections of Community Based Learning (CLD), as part of school inspections to evaluate the outcomes and impacts of the activities in local areas. These inspections focus on the work in the communities and their partners in the voluntary sector and in other public bodies. HMIE carried out inspections in March 2014 (Tobermory) and September 2014 (Oban).
- 5.2 Performance is assessed across a number of areas and the results of the recent inspections in Oban and Tobermory are shown below:

Oban

| | |
|-------------------------------|--------------|
| Improvements in Performance | Satisfactory |
| Impact on participants | Good |
| Impact on the local community | Very Good |
| Improving services | Good |

Tobermory

| | |
|-------------------------------|--------------|
| Improvements in performance | Good |
| Impact on participants | Good |
| Impact on the local community | Excellent |
| Improving Services | Satisfactory |

- 5.3 Where appropriate we have placed reliance on the recent external inspection process.
- 5.4 In Oban it was noted that partners are delivering a wide range of learning opportunities which are improving wellbeing and contributing to increasing life chances. It was also found that partners work well together to increase employability for young people and adults and address the needs of those affected by welfare changes. Strong informal networks between a wide range of partners in the learning community enable partners to regularly share information and have a good knowledge of

each other's provision. Partners are in the early stages of developing more formal, local structures through which they aim to support the systematic improvement of the quality of services and provision. Areas for improvement were identified as:

- Identify priorities for the Oban High School learning community based on shared evaluations and data analysis.
- Work together to improve progression routes and accreditation opportunities for learners.
- Jointly plan and evaluate to improve outcomes

5.5 In Tobermory it was evidenced that partners work well together and contribute to improving learning and wellbeing and increasing life chances. Local voluntary organisations and social enterprises make a particularly strong contribution to sustainable economic development, securing jobs and services. It was evidenced that whilst organisations work well together and share information at an informal level, self-evaluation and planning for improvement amongst learning community partners is incomplete and disjointed and that CLD staff do not consistently set clear outcomes or targets for important aspects of work to enable sufficient measurement of progress. Important areas of work are not informed by a clear partnership plan. It was evidenced that Partners do not have a clear awareness of their collective local progress against the Argyll and Bute Single Outcome Agreement (SOA). Inspectors were satisfied with the overall quality of provision. Areas for improvement in were:

- Establish a more systematic approach to partnership planning and evaluation.
- Improve opportunities for accreditation and reporting of achievement.

5.6 Adult Learning services contribute to the duty laid on the Local Authorities to submit a 3-yearly Plan that secures the delivery of community learning in the area, under the requirements for Community Learning and Development (Scotland) Regulations, 2013. It was evidenced that Argyll & Bute Council is currently working with partner agencies to ensure compliance with the regulatory requirement to publish the 3 year plan by 1st September 2015. Argyll & Bute have developed, along with East and West Dunbartonshire Councils, a web-based format for the Plan, that, when completed, will address requirements.

5.7 It was evidenced that Community Based Adult Learning has shared and considered the findings in the HMIE Reports at partnership meetings. It was further found that consideration has been given to incorporating the recommended improvements into the CLD Plan to be completed and issued in September 2015.

5.8 There is a requirement that the views of learners and communities must be sought and taken into account. It was evidenced that the CLD 'Actions Prioritisation Table' identifies these views which are gathered from various sources, including HMIE

Reports and community consultation.

- 5.9 It was evidenced that Adult Learning Services regularly attend partnership meetings and work alongside partners to provide Community Based Learning and to develop the CLD Plan. However, it was noted that the partnership arrangements are informal.
- 5.10 It was evidenced that Community Based Adult Learning activity has clear links with National Outcomes, Argyll and Bute's Single Outcome Agreement, and the Council's Corporate Plan.
- 5.11 It was evidenced that Community Learning and Development service use a management information system that records learner information and collates statistical data which informs Pyramid (Argyll and Bute Council's performance management system).
- 5.12 It was evidenced that monitoring and reporting protocols are in place with the use of user survey questionnaires, regular service management team reporting and regular partnership review meetings.
- 5.13 It was noted that an increasing number of referrals to access CLD services are coming from Job Centre Plus which has led to resourcing pressures within Community Based Learning.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There were 3 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Community Based Adult Learning staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|--|--|------------------------------------|--|---|
| 1. Partnership Arrangements | | High/ Medium or Low | | |
| It was evidenced that the partnership arrangements are informal. | Lack of clearly defined roles and responsibilities leading to ineffective working | Medium | Develop formal partnership arrangements | Community Learning Manager 30 September 2015 |
| 2. Referrals | | High/ Medium or Low | | |
| It was noted that an increasing number of referrals to access Adult Learning services are coming from Job Centre Plus which has led to resourcing pressures within Community Based Learning. | Council has inadequate arrangements in place to deal with the increasing number of referrals | Medium | Monitor and report the number of referrals coming from Job Centre Plus and any associated resource pressure | Community Learning Manager 30 September 2015 |

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|--|---------------------------------------|------------------------------------|---|---|
| 3. HMIE Areas of Improvement | | High/ Medium or Low | | |
| Although it was evidenced that discussions had taken place in respect of actioning the findings an action plan/tracker is not available. | Failure to action agreed improvements | Medium | An action plan/tracker to be developed | Community Learning Manager 30 September 2015 |

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Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|---|
| CUSTOMER DEPARTMENT | DEVELOPMENT AND INFRASTRUCTURE SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | BUSINESS SUPPORT |
| AUDIT DATE | MAY 2015 |

2014/2015



1. BACKGROUND

This report has been prepared as part of the Internal Audit review of Business Support within Development and Infrastructure Services and relates to the 2014/15 Internal Audit programme.

The Economic Development and Strategic Transportation (EDST) service plan describes the service purpose as:

“To unlock the potential of Argyll and Bute’s significant sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish, UK and EU economies.”

Economic development covers areas such as Business Gateway, EU Policy and Funding, Employability Services, regeneration projects, renewables, connectivity and key sectors including tourism, food and drink and forestry.

This audit will focus on the strategic support given to the development and growth of two areas; Business Gateway and Tourism.

The EDST service plan for 2014/15 shows a service outcome relating to sustainable economic growth with a number of success measures. These include growth in the number of start of businesses and growth in the number of existing businesses supported.

Tourism activity cuts across a number of sectors and brings significant benefits to Argyll and Bute and the wider Scottish economy. In particular, tourism activity links closely with food and drink, the retail sector and recreational activities.

2. AUDIT SCOPE AND OBJECTIVES

Outline scope has been agreed as a review of the strategic support to development and growth of Business and Tourism in Argyll and Bute and will include:

- Evidence of a clear vision and strategy, appropriately communicated to relevant stakeholders;
- Action plans are in place that relate to priorities and objectives outlined in strategy;
- Actions are monitored, measured and reviewed;
- Progress and performance is reported;
- Appropriate governance arrangements are in place;
- Risks have been identified and mitigated against; and
- Strategic support is not limited to Economic Development services and where appropriate links to other services and partners.

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity. Where appropriate testing will be undertaken using a modified CIPFA SBA control matrix together with relevant sampling methodology.

3. RISKS CONSIDERED

Risks considered are:

- Population and Economic decline;
- Failure to have a clear vision and strategy;
- Failure to have actions which are monitored and measured;
- Failure to report progress and performance; and
- Inadequate governance arrangements.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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:

| |
|--|
| <p>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;</p> <p>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;</p> <p>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.</p> |
|--|

5. FINDINGS

The following findings were generated by the audit:

Evidence of a clear vision and strategy, appropriately communicated to maximise growth

- It was evidenced that a strategy is in place in the form of an overarching Economic Development Action Plan (EDAP), 2013/18 supplemented by Area Based EDAP which will be prepared on a financial year basis up until 2017/18. Included within the overarching and area-based EDAPs is a clear vision namely “Realising our potential together, Argyll and Bute will unlock the opportunities offered by its significant, sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish and EU economies.” A review of the EDAP evidenced reference to business support, tourism and food and drink.
- It was evidenced that there is a clear emphasis on business support included in the Single Outcome agreement under Outcome 1, stating that “business and commercial opportunities are exploited in all communities across Argyll and Bute and opportunities relating to key sectors such as tourism, the digital economy, food and drink (incl. whisky) and renewables are being exploited by local businesses”.
- It was evidenced that the Service Plan for EDST includes an outcome of “Sustainable economic growth in Argyll and Bute” and it was further evidenced that success measures, target/timescales and benchmark criteria are in place.
- It was noted that a report was submitted to Council in January 2015 that outlined priorities for the period 2015/17 and it was further noted that the top priority is to “bring more jobs and more people into Argyll and Bute”.
- It was evidenced that this vision, strategy and priorities have been communicated throughout the organisation to all key stakeholders and made available on the Council’s intranet service (HUB). In respect of external stakeholders it was evidenced that consultation has also taken place.

Action plans are in place that relate to priorities and objectives outlined in overarching Economic Development Action Plan

- It was evidenced that there were specific actions targeted at achieving the vision and strategy included within the Area Based Economic Development Action Plans. Examples of actions are :
 1. Encourage business start-ups through development of small businesses.
 2. Business Gateway Advisers and other appropriate Argyll and Bute staff to continue to provide to Business Improvement Districts (BID) groups support and guidance.
 3. Develop a clear marketing proposition for Bute and Cowal for cruise ship companies, including cultural and leisure activities.
 4. Deliver a skills audit for the 4 Argyll administration areas aligned to the Highlands and Islands Skills Investment Plan. The research study is being led by the Economic Development Manager in partnership with Skills Development Scotland, Highland and Island Enterprises and Argyll College.

- Included in the Delivery Plans in respect of the Single Outcome Agreement a number of actions were identified which relate to priorities and objectives, these include:
 1. Support business growth through Highlands and Islands Enterprise, Scottish Enterprise and Business Gateway.
 2. Review business support mechanism in Argyll and Bute.
 3. Improve the alignment of Education and Training with business requirements and the economic opportunities within Argyll and Bute.
 4. Provide new and existing Small and Medium Enterprises with the opportunity to assess business skills workshops to help them develop.

It was evidenced that each of the actions outlined in the Delivery Plans for the Single Outcome Agreement have a responsible person, a completion date and an appropriate measurement.

- It was evidenced that within the Economic Development Service Plan, service outcomes include reference to sustainable economic growth within Argyll and Bute with a number of success measures and targets specified.

- A review of the Business Gateway Team plans evidenced a link between the team actions and priorities as outlined in the EDAP.

Actions are monitored, measured and reviewed

- Agreed actions are in their infancy and are being progressed by Economic Development Service and partners on an ongoing basis.
- In April 2015 Economic Development Service prepared a presentation to each of the 4 Area Committees outlining the progress against the EDAPs. These presentations included progress regarding actions and success measures, however, in respect of tourism there was no reference or update given to the agreed success measures, for example an increase of 5% in short stay visitor numbers or a 5% increase in coach tour visitor numbers. Other measures include an increase of 5% in the number of cruise ships and passengers. The Economic Development Manager has confirmed that updates were given verbally in relation to these measures and furthermore noted that indicators will be reviewed to ensure measures remain appropriate.
- It was noted that the strategic risk register included a red risk associated with population and economic decline with the joint risk owner being the Executive Director of Development and Infrastructure and Head of EDST. A number of current and planned mitigations are listed and it was evidenced that these are being actively progressed, are on track and in some instances complete e.g. establishing the Argyll and Bute Economic Forum (ABEF), holding Population Summit.

Progress and Performance is reported

- It was evidenced that Economic Development submits a quarterly performance report which focuses on progress against the targets and success measures outlined in the EDST Service Plan. The report is split between the 4 geographical areas of the Council. The performance review is by exception in regards to agreed targets and covers the following areas :
 1. Number of start-up businesses.
 2. Number of existing businesses requiring support.
 3. Turnover of start-up businesses.
 4. Business survival rates i.e. 1 year and 3 years rates.
 5. Number of full time equivalent jobs (FTEs) created within start-up businesses.
 6. The sectors where FTEs were created including tourism and food and drink.

- It was evidenced that included within Pyramid Performance Management system a range of performance measures are monitored, although not an exhaustive list these include :
 1. Number of existing businesses supported against target within each of the 4 areas within Argyll and Bute.
 2. Number of business start-ups supported by area.
 3. Growth in the number of business start-ups supported.
 4. Business % survival rates at 12 months.
 5. Business % survival rates at 36 months.
 6. Argyll and Bute Business Gateway customer satisfaction.

- It was evidenced that performance information is reviewed on a quarterly basis by service management and it was further evidenced that pyramid performance system accurately reflected data held.

- It was noted that performance scorecard information is reported to the Environment, Development and Infrastructure Committee and includes reference to both sustainable economic growth and business activity as detailed per the report submitted on 14th August 2014. It was noted, however, that scorecard information reported at Area Committee level does not include reference to business activity.

- It was noted that other local authorities have an overarching economic strategy document which outlines policy, strategy and local plans available on their website for public scrutiny, however, a similar document is not available within Argyll and Bute, although it is acknowledged that individual documentation is available, such as the overarching EDAP, 2013/18.

Appropriate Governance arrangements are in place

The following Governance arrangements were found to be in place:

- The area based Economic Development plans for the year are reviewed annually by the appropriate Area Committee.

- Progress updates are given to the 4 Area Committees by Economic Development and these are planned to be carried out annually.

- Quarterly Performance reports are forwarded for review to the Performance and Business Manager who collates a report for the Executive Director, Development and Infrastructure Services. The Executive Director then meets with all the third tier managers across Development and Infrastructure to go through the performance reporting in detail.
- Economic Development Service updates the Council's Pyramid Performance Management system on a quarterly basis with information relating to the Business development as detailed above. Pyramid information is reviewed by the Strategic Management Team and the Departmental Management Teams.
- Reporting to the Strategic Management Team is by exception.
- Reporting to the Policies and Resources committee is by exception.
- It was noted that Governance arrangements do not extend to full Council approving the EDAP. It is acknowledged, however, that the current process is that EDAPs are discussed at workshop sessions and agreed at Area Committees.

Risk have been identified and mitigated against

- It was evidenced that the Strategic risk register included a risk referring to Population and Economic decline and the need to develop strategies and action plans to address the decline in an effective manner.
- The strategic risk register has a series of mitigation factors including:
 1. Single Outcome Agreement targets population and economic recovery.
 2. Overarching Economic Development Action Plan, 2013-18.
 3. Argyll and Bute Local Development Plan implementation.
 4. Argyll and Bute Economic Forum.
- It was evidenced that operational risks have been identified in relation to sustainable economic growth within Argyll and Bute and included in operational risk register.
- It was evidenced that a paper detailing the key challenges in delivering the Single Outcome agreement and the steps necessary to address those challenges was presented to the Policy and Resources Committee on 27th November 2014.

Strategic support is not limited to Economic Development service and where appropriate links to other services and partners

- It was evidenced that the EDAPs includes an emphasis on “Partnership for Delivery” in order to achieve the vision in regard to business support and tourism including food and drink. The EDAP specifically states that “In particular, we will work closely with our private sector partners to facilitate the establishment of a new approach to business engagement and networking”. An example of this would be the Argyll and the Isles Strategic Tourism Partnership which promotes Argyll’s history, culture and landscape and also the partnership that the Council has with the Argyll and Isles Tourism Cooperative Ltd.
- It was evidenced that both the Single Outcome Agreement and the EDAPs include reference to partner organisations and in some cases are identified as the lead partner. These include
 - a. Highlands and Islands Enterprise.
 - b. Jobs and Business Glasgow.
 - c. Other Local Authorities across the Highlands and Islands, Argyll and the Islands Strategic Tourism Partnership.
 - d. Food from Argyll.
 - e. Argyll and the Isles Agricultural Forum.
- It was noted from the Leader’s report to the Council dated November 2014 that he attended the Economic Summit at the Queens Hall in Dunoon and that “key players from Argyll and Bute’s business community attended”. The Leader’s report emphasised the various partnerships that were in operation to promote Argyll and Bute’s business, tourism and drinks industry. Particular emphasis in the report was given to ABEF a “public/private partnership which will drive forward economic change in Argyll and Bute, ABEF will shape that strategic vision for the future and will, crucially, be business led”.

6. CONCLUSION

This audit has provided a substantial level of assurance. There are 2 medium recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Economic Development staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|---|------------------------------------|---|---|
| 1. Performance reporting | | High/ Medium or Low | | |
| Performance measures in some instances require to be reviewed. | Inappropriate performance recording. | Medium | Economic Development Manager is currently revising the area-based EDAPs for 2015/16 with regard to SMART in-year actions and success measures. The area-based EDAPs are to be endorsed by the Area Committees in August 2015. | Economic Development Manager 31 August 2015. |
| 2. Scorecards | | | | High/ Medium or Low |
| Scorecard data info to Area Committees does not include any reference to business activity. | All appropriate information is not cascaded leading to ineffective decision making. | Medium | Economic Development Manager to liaise with Programme Manager (Pyramid) to assess how the Area Committee scorecards were developed and how business activity could be aligned to that presented in the Economic Development scorecard. | Economic Development Manager 31 August 2015. |

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Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|--------------------|
| CUSTOMER DEPARTMENT | CUSTOMER SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | REVIEW OF CATERING |
| AUDIT DATE | MAY 2015 |

2015/2016



1. BACKGROUND

A review of Catering Services within Facility Services section of Customer Services has been planned as part of the 2015/16 Internal Audit programme.

The core service provided by Catering Services is the school meals service. Annually 1.02 million school meals are prepared and served from 67 production units to 13 dining centres, 10 secondary schools and 76 primary schools. There is approximately 157FTE within the Catering Service and 8 FTE Catering and Cleaning Management and Support.

The Catering Service has procedures and controls in place to fulfil the ISO 9001:2008 requirements.

All menus comply with Schools – (Health Promotion and Nutrition) (Scotland) Act 2007. This ensures that nutritionally balanced school meals are provided. School meals uptake, within Argyll and Bute, remains above the Scottish average for both free and paid meals. There is a programme of pupil consultation through focus groups which has led to Primary school menu improvements.

The Children's and Young Peoples Act 2014 placed an obligation on Local Authorities to provide free school meals (FSM) to all primary 1 to 3 pupils (P1 to P3), the obligation came into force in January 2015.

The additional obligations placed on the Authority have been estimated to have associated revenue costs of £321k for 2014-15 and £744k for 2015-16, with £264k for 2014-15 and £863k for 2015-16 of additional funding available. The associated capital costs have been estimated at £570,180 with £550,000 of additional funding available for 2014-15. The estimated costs were outlined in a report to the Policy and Resources Committee on 21 August 2014 and an updated report on 18 December 2014.

2. AUDIT SCOPE AND OBJECTIVES

The scope of the audit will be limited to the arrangements for compliance with Children's and Young Peoples Act 2014 (Provision of school meals) requirements, to include:

- Compliance with the obligation to provide free school meals to all primary 1 to 3 pupils.
- Processes for the recording and monitoring of levels of P1 to P3 free meal uptakes.
- Arrangements for the recording and monitoring of associated capital and revenue costs.

3. RISKS CONSIDERED

ORR - Insufficient resource to fully meet commitments arising from Children and Young Peoples Act, Section 93 Free school meals

ORR - Inadequate Kitchen Facilities /Equipment

Audit Risk – Non-compliance with Children and Young Peoples Act, Section 93 Free school meals

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

Compliance with Legislation

- All schools are providing free school meals with the exception of two rural schools that were identified as having no kitchen facilities. An alternative method of meeting the requirements of the Children's and Young Peoples Act 2014 (Provision of school meals) has been implemented, whereby parents/guardians are reimbursed the cost of school meals. This approach is consistent with authorities across Scotland where there are no kitchen facilities and is deemed compliant with the requirements of the act.
- It was evidenced that detailed timelines, risk assessments, costs and a pilot for the implementation of Free School Meals for P1 to P3 children showed a well planned and executed introduction of a major piece of legislative change.

Additional Equipment Requirements

- Documentation reviewed showed that the planning stages identified schools where the kitchens required additional equipment.
- A programme of meeting the additional equipment requirements has commenced, however is not yet complete due to the requirement of some major works/ adaptations.

Planning and monitoring of associated costs

- It was evidenced that a process for estimating the capital and revenue costs was in place and regularly updated prior to implementation.
- The actual capital costs for Q4 2014/15 and estimated costs for 2015/16 are shown in Table 1.

Table 1 – Capital actual and estimated costs

| Cost Element | Actual Cost for 2014-15 | Estimated Cost for 2015-16 |
|--|-------------------------|----------------------------|
| Dishwashers | £122,477 | £0 |
| Storage | £40,000 | £0 |
| Kitchen Refits | £0 | £415,000 |
| Van | £0 | £12,675 |
| Total Capital Costs | £122,517 | £427,675 |
| Scottish Government Funding Allocation | £550,000 | £0 |
| Net (cost)/surplus | £427,483 | (£427,675) |

- The actual revenue costs for Q4 2014/15 and estimated costs for 2015/16 are shown in Table 2.

Table 2 – Revenue actual and estimated costs

| Cost Element | Actual Part Year Cost for 2014/15 | Estimated Full Year Cost for 2015/16 |
|--|-----------------------------------|--------------------------------------|
| Food Purchases | £64,128 | £256,512 |
| Staffing Kitchens | £29,514 | £118,056 |
| Staffing Education | £9,213 | £36,855 |
| Equipment | £120,165 | £0 |
| Loss of Income | £101,500 | £333,000 |
| Pilot costs | £18,000 | £0 |
| Total Revenue Costs | £342,521 | £744,423 |
| Scottish Government Funding Allocation | £264,000 | £863,000 |
| Net (cost)/surplus | (£78,562) | £118,577 |

Recording and monitoring of Free Meal Uptake

- Four school kitchens were selected for review, two joint campuses, one small primary and one large primary:
 - It was evidenced that there is no set procedure or process for recording of P1 to P3 FSM uptake at the catering counters. This is largely due to historic practices at individual schools and the cross departmental responsibility for reporting the information. At present 15 schools have implemented a system using wristbands which has been proven to be effective.
 - Figures for school meal uptake are recorded at individual establishments and passed to a central point for processing. This procedure involves double entry, and increases the risk of human error.
 - It was noted that the catering service are in the third phase of implementing an Information Technology programme, the first and second phases involved role out of computers for all the kitchens and ensuring all Food Hygiene related forms were fully available via a SharePoint site. This has resulted in a greater level of control and improved effectiveness.

- The revised process involves an element of using IT and a training requirement has been identified and a step by step approach is being used to upskill the staff. However, there are time constraints in respect of when staff can be trained.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There are 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Catering staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|---|------------------------------------|--|--|
| 1. FSM uptake records | | High/ Medium or Low | | |
| There is no set procedure or process for recording of P1 to P3 FSM uptake at the catering counters. | Inaccurate recording of information | Medium | In consultation with Education Management and Head Teachers, consideration will be given to a procedure for schools with cashless catering and one for schools using manual. In the interim spot checks on the recording of actual uptake will take place. | Operations Manager (Catering) 30 September 2015 |
| 2. FSM uptake records | | High/ Medium or Low | | |
| The process for recording of school meal uptake involves double entry, and can lead to human error. | Increased risk of error leading to inaccurate reporting of figures. | Medium | In consultation with Education Management and Head Teachers, a revised process will be considered using the available technology reducing the requirement for manual input. | Operations Manager (Catering) 31 December 2015 |

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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|---|
| CUSTOMER DEPARTMENT | DEVELOPMENT AND INFRASTRUCTURE SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | REVIEW OF EMPLOYABILITY AND TRAINING |
| AUDIT DATE | MARCH 2015 |

2014/2015



1. BACKGROUND

A review of Employability and Training within the Economic Development and Strategic Transport Service has been planned as part of the 2014/15 Internal Audit programme, the review focussed on the Working Links contract for the UK Government's Work Programme.

The Scottish Government considers that developing the skills and employability of Scotland's workforce is essential for achieving economic growth. There are a wide range of strategies and policies linked to reducing unemployment and improving skills at a Scottish, UK and European level. At a Scottish level, these include the Scottish Government's Economic Strategy, the refreshed Skills for Scotland Strategy, the Working for Growth employability framework, Scotland's Youth Employment Strategy and the Opportunities for All initiative showing the importance attached to developing a well-educated and trained workforce.

The Employability Team in Argyll and Bute supports the long term unemployed, and helps people to access skills, training, opportunities and jobs. Over the past 15 years, they have assisted over 1,500 people access long term employment. There are 23 employees within the Employability Team.

The Employability Team works in partnership across Argyll and Bute, the Highlands and Islands, and West Dunbartonshire, to deliver Welfare to Work sub-contracts with Working Links and Learn Direct.

The Employability Team's most substantive contract is the delivery of the Work Programme. As a sub-contractor for the prime contractor Working Links, the Council delivers the Work Programme across Argyll and Bute, West Dunbartonshire, the Highlands (including Inverness city) and the Western Isles in partnership with the Tell Organisation (West Dunbartonshire), Lochaber Hope (Lochaber, Skye and Lochalsh) 20/20 Clearview (Caithness and Sutherland) and Third Sector Hebrides (Western Isles). As well as Campbeltown, Dunoon, Rothesay, Oban and Helensburgh, Argyll and Bute Council employees are based in Inverness and cover the Inner Moray Firth area.

The Work Programme journey lasts for up to two years, during this time the Employability Team works with customers to understand their needs and circumstances, and develop an employer portfolio and action plan all with the ultimate aim of finding a job that suits the customer. Once in employment, customers are supported by way of "in work" support.

The Argyll and Bute Employability Team and associated partners are entering the fifth year of delivery of a five year contract to deliver the Work Programme, if a client is taken on in the fifth year of the programme their referral will run for two years, therefore the contract runs up to seven years.

2. AUDIT SCOPE AND OBJECTIVES

The audit scope was limited to:

- Review the controls and arrangements in place regarding the initiatives to improve the employability of individuals who have been long term unemployed, including partnership arrangements.
- Review the arrangements in place to evaluate and report the success of initiatives.

3. RISKS CONSIDERED

ORR Failure to realise the economic and business potential of Argyll and Bute and not achieve the economic, social and physical regeneration of our communities.

ORR Failure to achieve the required job outcomes through UK Work Programme delivery.

Audit Risk: Failure to monitor and review initiatives for employment.

4. AUDIT OPINION

The level of assurance given for this report is substantial.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising Internal Audit findings according to their relative significance depending on their impact to the process. The individual Internal Audit findings contained in this report have been discussed and rated with management.

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:-

| |
|---|
| <p>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;</p> |
| <p>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;</p> |
| <p>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.</p> |

5. FINDINGS

The following findings were generated by the audit:

Controls in place

Referrals

- It was evidenced that Working Links receives referrals from the Department of Work and Pensions (DWP) who in turn refer clients to the Employability Team. Clients referred to the Employability Team are managed throughout their two years by the team and depending on the client's location they are either fully overseen by the Employability Team or a further referral is made to one of our partner organisations.
- Internal Audit reviewed the Working Links Contract which detailed the payment guidelines, the Employability Team receives 100% of the income for all Argyll and Bute referrals and a 10% - 15% management fee from referrals passed to our partner organisations.

Service Level Agreements (SLAs)

- It was evidenced that SLAs are in place with partner organisations (see Appendix 1 for locations) and a review of these showed that they are complete, consistent and properly authorised.

Governance and Controls

- A review of the Employability Team's most recent action plan showed a clear and transparent approach to governance and the control environment, with clear objectives for improvements and actions in order to achieve them.
- The Working Links Customer Relations Manager (CRM) system is governed by strict access controls with all users required to complete a full PVG check prior to being provided with access rights.
- Internal Audit place reliance on the testing and audit work completed by the Scottish Government and Working Links Internal Audit Department in respect of the client records.

Risk Management

- It was evidenced that there is reference to the Employability Team within the Operational Risk Register (ORR).
- Leading from the ORR, the Employability Team's most recent action plan contains a risk assessment specific to the team. This risk assessment includes identification of current risks, clear actions to be taken in order to mitigate those risks and their associated scoring that is in line with the Council's risk management framework.

Finances

- It was evidenced that a defined structure of payments for different categories of client is in place. These levels of payment are dependent on referral dates and the length of any employment achieved. Payments are made by Working Links in relation to referrals and outcome payments on a self-billing basis. Reconciliations of all payments expected and received for both the Employability Team and their partner organisations are in place and completed on a timely basis.
- Sustainable job outcomes are validated by the DWP prior to any payments being authorised.
- It was evidenced that a detailed record is maintained of all clients referred to the Employability Team and the expected payments relating to that client.

Evaluation and reporting

Financial Planning

- A review of the detailed financial model for the Working Programme Contract to monitor financial viability showed this to be complete, accurate and updated in line with service procedures and processes.
- It was evidenced that a sound process is in place for monitoring and reviewing the budget process.

Performance Management

- It was evidenced that "Minimum Service Levels" are agreed as part of the contract with Working Links, the arrangements for recording and monitoring of these was witnessed.

- It was evidenced that a sound process is in place for extracting data from the working links CRM system for input to the Council's Pyramid system.
- Reliance can be placed on spot checks and compliance checks carried out by Working Links and DWP.

Reporting

- It was evidenced that Economic Development is supporting Community Services in delivering the "Developing Scotland's Young Workforce" objectives.
- It was evidenced that quarterly performance reports are produced for the Economic Development service, a section on Employability is included.
- Formal reports and updates issued to DMT and SMT were reviewed and found to be timely and complete.

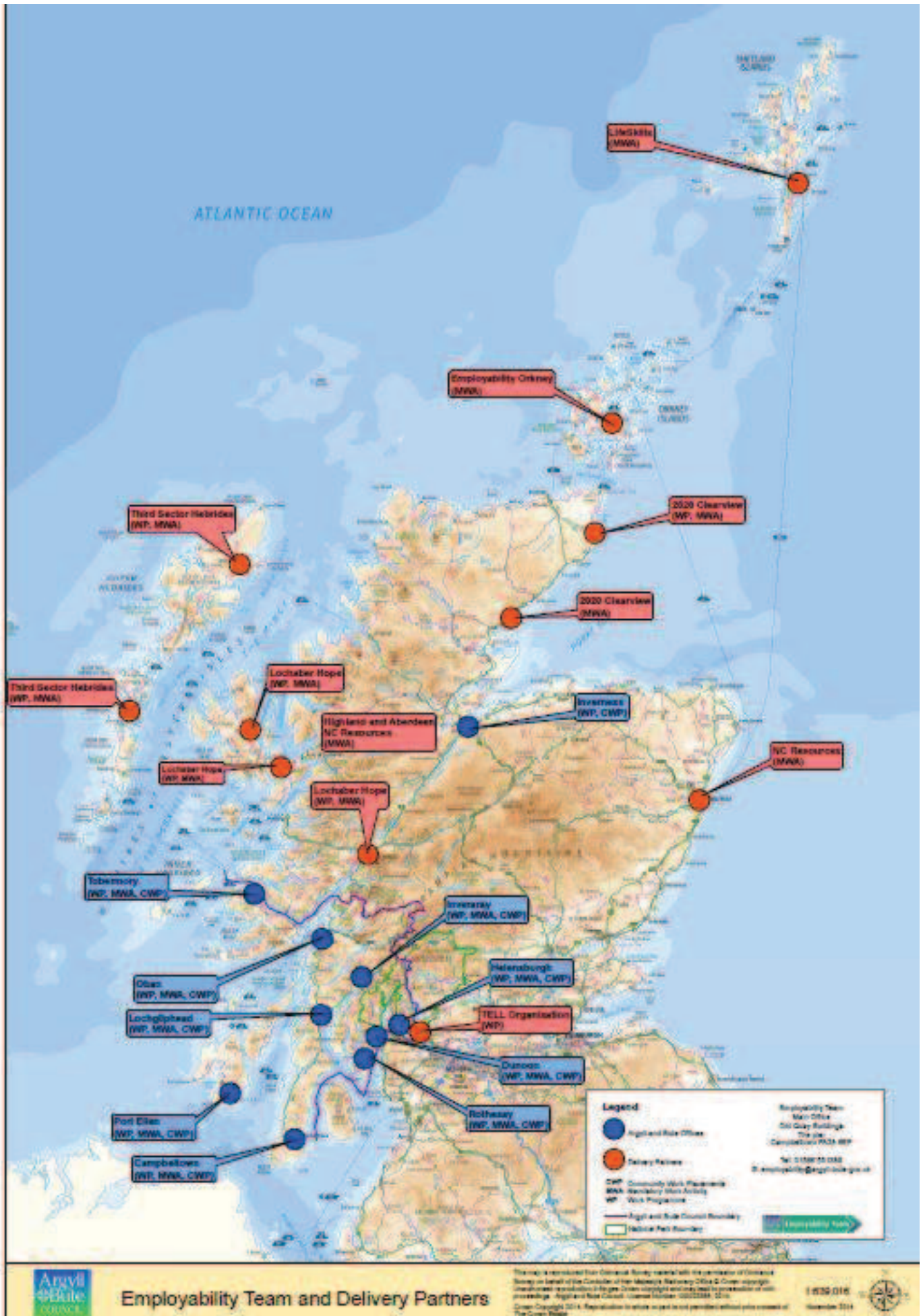
Document Management

- It was noted that records are kept in both hard file and electronic format dependent on contract criteria; this is not under the control of the Employability Team. This has resulted in a large volume of archive material being stored in a designated area that is due to be vacated in the near future with no alternative storage arrangements available at present.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There is one low recommendation for improvement identified as part of the audit, which will not be reported to the Audit Committee. Management have agreed to take action as a result of the recommendation, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Employability Team staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|-----------------------------|
| CUSTOMER DEPARTMENT | CUSTOMER SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | REVIEW OF HEALTH AND SAFETY |
| AUDIT DATE | MAY 2015 |

2015/2016



1. BACKGROUND

A review of the activities of the Corporate Health and Safety Team within Improvement and HR section of Customer Services has been planned as part of the 2015/16 Internal Audit programme.

Health and Safety is about preventing people from being harmed by or becoming ill through work. Over 200 people a year lose their lives at work in the UK and Ireland. Around 150,000 non-fatal injuries are reported each year, and an estimated two million suffer from ill health caused or made worse by work. This is so important that the law says every one of us must not put ourselves, other workers or the public in unreasonable danger.

Argyll and Bute Council do all that is reasonably practicable to ensure the health, safety and welfare of its employees at work and the health and safety of those affected by its undertakings.

There is a Corporate Health and Safety Policy which includes details of roles and responsibilities for Health and Safety within the Council.

The Health and Safety Team provide services including the following:

- The provision of health and safety advice to enable Council Services to meet their statutory duties and implement Council policies relating to health and safety.
- The generation, review and maintenance of corporate safety documents, including the statement of health and safety policy and relevant standards and procedures.
- Investigate significant accidents, incidents and near misses to identify root causes and recommend actions to prevent similar events occurring in the future.
- Provide information on accidents, incidents and near misses to Senior Management to enable review of Service performance.

2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives of the review will include:

- Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) compliance.
- Review the pre contract award vetting process by Health and Safety for procurement.
- Review the arrangements for reporting Health and Safety incidents to senior management.
- Review of the monitoring arrangements for remedial actions required.
- Health and Safety team's use of statistical analysis of the level of insurance claims and staff absences relating to Work place incidences.

3. RISKS CONSIDERED

ORR - Key responsible officers are not aware of their responsibilities.

ORR - Failure to Promote and implement the Health and Safety policy to ensure embedding of health and safety at work

ORR - HR / H&S policies and procedures if not implemented cause failure to comply with legislation, resulting in possible prosecutions, injury, loss of life, loss of staff resources and damage to reputation

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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:-

| |
|---|
| <p>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;</p> |
| <p>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;</p> |
| <p>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.</p> |

5. FINDINGS

The following findings were generated by the audit:

RIDDOR

A review of the internal instructions and process for compliance with the RIDDOR legislation evidenced the following:

- The internal form details all parts of the process and complies fully with the legislation.
- The process involves completion of an electronic form for submission to Health and Safety Executive (HSE) however the internal form is not electronic and relies on multiple copies being forwarded to various relevant departments within the Council.
- Thirteen incidents were reported involving employees occurred during 2014/15. These were investigated by appropriately authorised officers and any further action required was recorded.

CONTRACT VETTING

The contract vetting process involves a Health and Safety questionnaire, which is issued for all new contractors and reviewed by the team. A walk through of the process and a random sample of 5 contract questionnaires evidenced that:

- The process ensures contractors and suppliers are vetted prior to any contracts being placed by the Council. Tests confirmed the process includes appropriate authorisation, is comprehensive, timely and complete.
- Clause 11 within the procurement contracts covers Health and Safety, 11.2.3 instructs contractors to inform the Council of any incidents while the Contractor performs the contract. The process for monitoring this clause falls within the remit of the service departments, the Health and Safety Team relies on the service departments to highlight any issues arising. Five service based contract managers were contacted and to date four have responded, all of whom were fully aware of their duties to report any incidents to the Health and Safety Team and HSE.

REPORTING

A review of the internal accident reporting procedures showed:

- The process for reporting accidents covers all appropriate areas.
- The format of the form is not electronic and relies on multiple copies being forwarded to various relevant departments within the Council.
- The forms are reviewed by appropriately authorised officers and any further action required is recorded.
- Accident reporting procedures were noted as being available via a banner notification on the HUB, however the detail was not linked into on the Health and Safety pages of the Hub.

A review of the Health and Safety reports to Management showed:

- A template for reports to Departmental Team Meetings (DMT) has been developed and has standardised the report for all departments.
- At the time of the audit an annual report had not been submitted to SMT, relevant committees or Full Council, however, the Q4 DMT report contained all the relevant facts required for an annual report to be produced. The government through HSE recommends an annual report is produced by all public bodies.
- It was evidenced that the reported figures are accurate and supported by relevant documentation.

REMEDIAL ACTIONS

All accidents, incidents and near misses reported to the Health and Safety Section are reviewed and investigated to an appropriate level by a Health and Safety officer. Where they are significant, more detailed exploration is undertaken to determine the root causes and identify the actions which should be taken to help prevent similar incidents occurring in the future.

- It was evidenced that resulting actions are placed on the relevant Service's Health and Safety Plans.
- There is no formal tracking of actions recommended following incidents by the Health and Safety Team. Tracking of actions identified in response to incidents is the responsibility of each relevant Head of Service and their management team, the service health and safety plans are used by services to review progress against actions.
- The council has not been subject to any formal HSE intervention for the past 4 years.

STATISTICAL ANALYSIS

- Although staff accidents and injuries are monitored through incident reporting forms, the Health and Safety team do not receive statistics on the level of staff absences relating to work place incidents from the HR system, which could be used to ensure reporting is complete through a reconciliation exercise.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There are 4 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There is 1 low recommendation which is not reported to the Audit Committee. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Health and Safety staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|--|-------------------------------|------------------------------------|--|---|
| 1. Accident Reporting | | High/ Medium or Low | | |
| The process for reporting both accidents and RIDDOR incidents within the Council does not maximise the use of electronic systems. | Inefficient use of resources. | Medium | An electronic reporting tool is required and needs IT technical input to develop. Management will discuss options to obtain this with ICT and Digital Manager. | Health and Safety Manager 30 November 2015 |
| 2. Statistics | | High/ Medium or Low | | |
| Accidents are monitored through incident reporting forms. A reconciliation of the absence reporting stats with accident report will provide further assurance. | Incomplete reporting | Medium | HR will provide a periodic report containing relevant information and this will be reconciled by the H&S team to the incident reports received. | Assistant Health and Safety Manager/ HR Development Officer 30 November 2015 |

| 3. Management reports | | High/ Medium or Low | | |
|--|---|------------------------------------|--|---|
| There is no official Annual report submitted to SMT, relevant committees or Full Council. | Non-compliance with recommended practice. | Medium | The Q4 DMT report will be used to produce an annual report to SMT. | Health and Safety Manager Complete |
| 4. Action tracking | | High/ Medium or Low | | |
| There is no formal tracking by the Health and Safety team of actions recommended following incidents. Heads of Service have Health and Safety Plans in place and periodically review progress. | Actions are not fully implemented, leading to Health and Safety failings. | Medium | H&S will adopt the Internal Audit model of follow up and reporting of actions. | Health and Safety Manager 30 November 2015 |

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Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|----------------------------|---|
| CUSTOMER DEPARTMENT | CUSTOMER SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | LEARNING AND DEVELOPMENT – HR TRAINING |
| AUDIT DATE | MAY 2015 |

2015/2016



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Learning and Development – HR Training within Customer Services as part of the 2015/2016 Internal Audit programme.

Improvement and Organisational Development provide a range of professional support, advice and training for approximately 4,500 council employees, managers and elected members. A small learning Team have the responsibility for learning and development. A key role of the team is to prepare, co-ordinate and deliver a number of training programmes both face to face and via e-learning to develop the skills and knowledge of Argyll and Bute Council employees.

Individual employee training needs are identified primarily through the PRD process in combination with other corporate sources (e.g. stress audit, staff survey, legislative requirements).

Included in the service plan is an outcome relating to (IHR07) *“Our employees have the skills and attitudes to deliver efficient and effective services”*. A number of performance measures are quoted including 90% of PRD targets are met across the Council.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to:

- Review the procedures and processes in place to identify training and development needs;
- Review the processes for recording that training needs identified as a part of the PRD process are met;
- Review procedures in place in respect of formal training (professional qualifications);
- Review the performance recording and reporting arrangements.

3. RISKS CONSIDERED

- Training and development is not sufficiently aligned to the organisation's priorities and objectives, failure to achieve long term outcome/national outcomes for Community Planning: SOAO3. *“Education, skills and training maximises opportunities for all”*.
- Failures to support service outcome IHR07 *“Our employees have the skills and attitudes to deliver efficient and effective services”*.
- The delivery of training and development is ineffective at both an organisational and personal level.
- Training and development equips people to leave rather than support retention.

4. AUDIT OPINION

The level of assurance given for this report is limited.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
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|--|

5. FINDINGS

The following findings were generated by the audit:

General Findings:

- 5.1 The council operates with a small learning and development team (including Social Work staff) with the responsibility for corporate and social work learning and development, ranging from leadership and management development to social work SVQ qualifications. For 2014/2015 the expenditure for Corporate Learning and Development amounted to £991K (staff costs included, management and social work training). Earmarked reserves were drawn down to support the Argyll & Bute Managers course and Leadership Development which has temporarily increased this budget.
- 5.2 A key role of the team is to prepare, co-ordinate and deliver a number of training programmes both face to face and via e-learning to develop the skills and knowledge of Argyll and Bute Council employees.
- 5.3 It was found that Learning and Development have produced a flow chart outlining the processes involved in training course requests on Resourcelink, procurement of training course, and recording evaluation results.
- 5.4 With the exception of corporate led Learning and Development, Learning and Development across the rest of the Council is fragmented with minimal evidence of strategic direction and co-ordination within Services, including the recording of training undertaken by employees. Corporate learning and development demands (identified in PRD) and statutory requirements (corporate courses) are co-ordinated centrally, however all other Learning and Development opportunities are at the discretion of the Service and managed on an individual Service basis, aligning to needs of services.

Procedures and processes in place to identify training and development needs

- 5.5 Individual employee Training needs are identified primarily through the PRD process in combination with other corporate sources (e.g. stress audit, staff survey, legislative requirements).
- 5.6 It was found that only former APT&C staff and Teachers receive a PRD, manual workers do not currently receive PRD's. Manual worker Learning and Development opportunities are identified and managed by the Service. This has been identified by Learning and Development and is included in the HR and Organisational Development Strategy – Action Plan 2014-2018 as an action to be addressed in 2016.

- 5.7 With the exception of Social Work learning and development, all other Services have the responsibility for identifying learning needs which are specific to their Service. This includes legislative and regulatory requirements specific to posts. It was not evidenced that there is an agreed criteria for approving service specific training.
- 5.8 Social Work has an established Training Board. The Social Work Training Board is responsible for leading and co-ordinating the development and implementation of a learning and development strategy informed by Social Work principles and values. Corporate Learning and Development provide all support to the Training Board.
- 5.9 An area identified as good practice is that Development and Infrastructure undertook a training matrix exercise for each of their service areas to identify training needs and they combined this with the PRD training requests. This provided the level of information required to enable the completion of a costed service training plan. The information was used to aid future workforce planning requirements and provide a greater means of accurately budgeting for job specific non-discretionary training expenditure.
- 5.10 With the exception of Education who mainly record their own PRD information on to Resourcelink, the development form of the PRD is sent to Corporate Learning and Development staff who record identified corporate training course requests on Resourcelink. A specific email 'inbox' is dedicated to PRD's.
- 5.11 It was evidenced that information on corporate and social work training courses is available on the HUB.

Processes for recording that training needs identified as a part of the PRD process are met

- 5.12 It was not evidenced that there was a single corporate database that captures all staff training records, including training requests and training needs met. It was found that only corporate training course requests are recorded on Resourcelink.
- 5.13 Staff records are updated on Resourcelink to record attendance at corporate training events on receipt of course attendance sheets.
- 5.14 It was found that Services have developed their own databases for recording staff training requests and staff training records. These have been developed 'in-house' within the Services or have been purchased. There is inconsistency across Services on how training records are maintained. Some Services, for example Strategic Finance do not record staff attendance at training events.
- 5.15 It was found that Services are recording information relating to attendance at corporate training events on their own databases. This information is already being recorded on Resourcelink by Learning and Development; therefore there is

duplication when recording information. The reason provided for this was that this enables them to have an accurate and clear picture of all courses attended by their staff.

Procedures in place in respect of formal training (professional qualifications)

- 5.16 Staff requests for professional qualifications are made through Services and are paid for from Service budgets. It was not evidenced that there is formal structured approach to identifying or supporting formal training requirements.
- 5.17 Social Work have established and published (on the HUB) information on the support they will provide to undertake Social Work training courses. The Social Work Training Board has agreed to sponsor employees (two employees one year then one employee the next year) to undertake the Open University BA (Hons) Degree in Social Work Scotland. Expressions of interest are sought from employees towards the end of April each year. It was not evidenced that this in place in other Services and professional training is at the discretion of the line manager and dependent on Service budgets.
- 5.18 It was found that when undertaking a professional qualification supported by the Council, a training agreement should be signed by the employee undertaking the qualification and the Line Manager. It was not evidenced that formal training agreements are adhered to and used in all cases when employees commence formal training.

Performance recording and reporting arrangements

- 5.19 A number of performance measures are quoted including 90% of PRD targets are met across the Council. Information is recorded on the Learning & Development page of Pyramid. There were examples where the information recorded on Pyramid was found to be inaccurate. For example Internal Audit Service on Pyramid recorded the number of 'eligible employees' in the PRD section as 3, there are 5 permanent staff within Internal Audit. There have been a number of criteria filters set with regards to what 'eligible criteria' is defined as. Therefore as a result of this the numbers reflected for performance reporting purposes may not align to establishment lists for services.
- 5.20 It was evidenced that there are discrepancies between the information held by the Services in relation to completed and submitted PRD forms and the information recorded and held by Learning and Development. It was evidenced that e-mails sent to the dedicated 'PRD e-mail inbox' were not always recorded.
- 5.21 It was found that Learning and Development staff are duplicating the recording of corporate training needs both requested and met. Information is being recorded on Resourcelink and also an excel spreadsheet.

5.22 It was intended that the upgrade to Resourcelink 4 would have provided a single system for all learning and development information to be captured. However, the training module has not been included in the upgrade due to the results of the assessment process carried out by IT Services steering group. It is intended that the training module will be included in future upgrades.

6. CONCLUSION

This audit has provided a limited level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There are 9 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Learning and Development staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|---|------------------------------------|--|--|
| 1. Strategic Direction and Co-ordination | | High/ Medium or Low | | |
| Outwith Corporate Learning and Development there is a lack of strategic direction and co-ordination of Learning and Development including the recording of information. | The delivery of training and development is ineffective at both an organisational and personal level. | Medium | Finding to be reported to HR Board with recommendation that a consistent approach to approving, co-ordinating and recording information is agreed. | Improvement & Organisational Development Manager 30 November 2015 |
| 2. Procedures and Processes | | High/ Medium or Low | | |
| It was not evidenced that there is a criteria for individual Services and Learning and Development in respect of identifying service specific learning needs. | The delivery of training and development is ineffective at both an organisational and personal level. | Medium | Finding to be reported to HR Board with recommendation that a consistent approach to approving learning and development opportunities is agreed. | Improvement & Organisational Development Manager 30 November 2015 |

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|--|------------------------------------|--|--|
| 3. Processes for Recording Information | | High/ Medium or Low | | |
| There is no single corporate data base that captures all staff training records. | Complete information not available leading to ineffective decision making. | Medium | Implementation of Resourcelink 5 project will ensure all training records are recorded centrally | Head of Improvement & HR 31 March 2017 |
| 4. Processes for Recording Information | | High/ Medium or Low | | |
| Services have developed their own databases for recording staff training records. There is inconsistency across Services on how training records are maintained; some Services do not record information. | Complete information not available leading to ineffective decision making. | Medium | Finding to be reported to HR Board with recommendation that a consistent approach to approving, co-ordinating and recording information is agreed. | Improvement & Organisational Development Manager 30 November 2015 |
| 5. Processes for Recording Information | | High/ Medium or Low | | |
| There is duplication when recording information. Services Learning and Development staff are recording the same information either held on Resourcelink database or spreadsheets. | Ineffective use of resources. | Medium | A consistent approach is developed to recording training information that removes duplication. | Improvement & Organisational Development Manager 31 March 2016 |

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|--|------------------------------------|--|---|
| 6. Requests for Formal Training | | High/ Medium or Low | | |
| It was not evidenced that there is formal structured approach to identifying or supporting formal training (professional qualifications) requirements. | Inconsistencies in support requirements leading to ineffective use of resources. | Medium | Finding to be reported to HR Board with recommendation that a consistent approach to approving, co-ordinating and criteria is agreed. | Head of Improvement & HR 30 November 2015 |
| 7. Requests for Formal Training | | High/ Medium or Low | | |
| It was not evidenced that formal training agreements are adhered to and used in all cases when employees commence formal training. | Failure to adhere to agreed policy leading to ineffective use of resources. | Medium | Finding to be reported to HR Board with a recommendation that a reminder be issued to all services to use the training agreement for training. | Head of Improvement & HR 30 September 2015 |
| 8. Performance Recording and Reporting | | High/ Medium or Low | | |
| A number of inaccuracies were identified in the recording and reporting processes in respect of PRD figures, the methodology allows scope for inconsistencies or inaccurate information. There have been a number of criteria filters set with regards to what 'eligible criteria' is defined as. | Increase risk of inaccurate or misleading information leading to ineffective decision making and ineffective use of resources. | Medium | An amended approach to managing PRD recording is developed and agreed by SMT. | Head of Improvement & HR 30 June 2015 |

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|--|------------------------------------|--|---|
| 9. Performance Recording and Reporting | | High/ Medium or Low | | |
| The training module has not been included in the upgrade of Resourcelink 4. | Not maximising full functionality of Resourcelink leading to ineffective use of resources. | Medium | The training module will be implemented as a key element of Resourcelink 5 | Head of Improvement & HR 31 March 2017 |

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Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|---------------------------------------|
| CUSTOMER DEPARTMENT | CUSTOMER SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | INFORMATION COMMUNICATIONS TECHNOLOGY |
| AUDIT DATE | MAY 2015 |

2014/2015



1. AUDIT SCOPE AND OBJECTIVES

A review of Information Communication Technology (ICT) within the Customer Services Department has been planned as part of the 2014-15 Internal Audit programme.

The ICT Strategy 2013 – 16 looks at the major challenges to be addressed during that period within national strategies, Scottish Wide Area Network (SWAN) and Next Generation Broadband Project as well as information management and security, mobile working, collaborative and shared services, cloud computing and further innovation. This Strategy complements the Council's corporate objective to become a "forward looking and ambitious" organisation.

Argyll and Bute Council will continue to take advantage of ICT, plan and procure better and share future developments and operations where the benefits to the Council clearly deliver better services the people of Argyll and Bute.

Obligations in participating in the Public Service Network (PSN), dictate that organisations undertake annual security health checks and maintain appropriate security policies including Acceptable use and lockdown policies. The Code of Connection requirements for accessing the PSN are stringent.

The ICT service was successful in obtaining PSN accreditation on 26 September 2013. The service submitted a renewal for PSN accreditation on 24 December 2014 but was declined. The submission was deficient in the format of the remediation plan and the Baseline Personnel Security Standard (BPSS) requirement for all users to have Disclosure Scotland or PVG scheme membership. These deficiencies have now been addressed/ mediated and a renewed compliance certificate issued.

2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives of the audit are limited to:

- Assessment of compliance with the Public Service Network Code of Connection (PSN CoCo).

3. RISKS CONSIDERED

Strategic Risk Register (SRR): ICT infrastructure and asset base does not meet current and future requirements. Infrastructure and asset base is not being used or managed efficiently or effectively.

Operational Risk Register (ORR): Failure to ensure availability of IT applications when business needs them or to meet demand from services for assistance with implementing new technological advances

Audit Risk: Non-compliance with Public Services Network Code of Connection (PSN CoCo).

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture off little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

5. FINDINGS

Argyll and Bute Council successfully achieved re-accreditation to allow access to the Public Service Network on 23 January 2015. To achieve this, a validated information assurance assessment was carried out against a series of stated conditions to gauge compliance; evidence and explanations are provided in support of each response:

Network Diagrams & Scope

A technical diagram providing a pictorial, high level overview of Argyll and Bute Council's external network connections accompanied with supporting explanation was provided to evidence compliance.

Information Risk Management

The Executive Director of Customer Services is the nominated Senior Information Risk Owner. A risk management policy based on a technical risk assessment is in place and agreement reached that this will be regularly reviewed by the Council's Information Security Forum.

Physical Security

It was evidenced that access to each of the Council's data centres hosting PSN equipment is strictly controlled using dedicated swipe cards allocated to users according to their needs of access.

Personnel Security

It was evidenced that all Council staff have recently undergone BPSS checks to enable access to Council network and systems.

User Education

It was evidenced that the Acceptable Use Policy has been recently updated and includes ICT user guidance and references to further more specific guidance for staff. This policy must be signed by all members of staff in agreement of its requirements prior to being allowed access to Council networks and systems.

Incident Response

It was evidenced that the Council has considered the PSN incident Management process and has updated existing procedures accordingly. Incidents are managed and escalated as required with immediate investigation carried out.

Configuration

It was evidenced that only designated ICT staff have administrator access to ICT hardware and software configurations. A change management process is in place requiring testing and approval before rolling out patches and updates to Council ICT equipment. Requests for additional and removable media access must be approved by management prior to enablement.

Compliance Checking

Surecloud Check Consultant identified 6 areas receiving a Common Vulnerability Scoring System (CVSS) score of more than significant-medium risk. It was evidenced that mitigating actions are in place which reduce scoring to low or low-medium residual risk assessment for these 6 areas.

Patch Management

IT was evidenced that a patch management policy has been implemented to ensure that all critical patches are applied within one month of release and non-critical within 3 months unless operational problems have been identified.

Access Control

It was evidenced that all members of staff are allocated a unique user name to access the Council's network and applications connected to the active directory following completion and submission of a signed and authorised acceptable use policy. Individual applications not connected to the active directory will require additional user names allocated by the administrator for that system. Leaver reports are received from the Council's HR team and used to suspend these users for 6 weeks prior to full deletion. Access levels to systems are authorised by management according to business requirements as are mobile and remote working facilities.

Boundary Controls/ Gateways

It was evidence that the Council has deployed a protective marking system that is based on the Government Classification Scheme. Strict network controls are in place including firewall configurations, infrastructure changes managed using Prince2 methodology, content analysis including anti-virus and checks for malicious content on email and attachments and filters to allow attachments file types from a white list of allowed files.

Removable Media

It was evidenced that the standard build of Council PCs prevents the use of removable media, however, where business needs require access the removable media policy allows for senior management to authorise access on an exceptional basis.

Malware Protection

It was evidenced that servers are set to check for malicious content on web and email traffic and block when identified. Additional anti-virus software is active on all file server and desktop devices to identify malicious software including that from removable media and remove according to anti-virus policy

Mobile/ Home Working

It was evidenced that mobile/remote/home working solutions are exercised in accordance with the Council's remote/mobile working policy. User guidance is provided within the policy and allows for users to access Council systems to the same level as they would be permitted within Council premises. Full disk encryption and CISCO VPN client are installed on all council owned laptop computers as part of the standard build for remote working equipment, access to Council network and systems still requires user's 2 factor authentication (usernames and passwords) consistent with office based use. VPN certificates are deployed to laptops to verify that it is a council supplied device. Users are not allowed to access Council networks and systems from their own devices.

Wireless Networks

It was evidenced that the Council's wireless networks are segregated from guest access with the policy identifying and mitigating the risks of using wireless networks/devices.

Network Obfuscation

It was evidenced that annual security testing is undertaken to ensure that internal network information remains confidential and not available externally.

Protective Monitoring

All Council equipment that attaches to the corporate networks have static IP addresses and unique network names. Network and server teams monitor logs of user activity, exceptions and information security events on a daily basis to identify issues and unusual events, these are analysed, investigated, resolved and escalated to management where appropriate.

eMail

It was evidenced that the Council is using appropriate labelling that is in line with the Government Protective Marking Scheme.

5. Conclusion

This audit has provided a substantial level of assurance. There were no recommendations for improvement identified at this time.

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Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|----------------------------|------------------------------------|
| CUSTOMER DEPARTMENT | COMMUNITY SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | OUT OF AUTHORITY PLACEMENTS |
| AUDIT DATE | MAY 2015 |

2015/2016



1. BACKGROUND

A review of Out of Authority Placements within Community Services, Children & Families has been planned as part of the 2015/16 Internal Audit programme. The Children (Scotland) Act 1995 concentrates on the needs of children and their families and defines both parental responsibilities and rights in relation to children. Under the provisions of the Children (Scotland) Act 1995, 'Looked after Children' are defined as those in the care of their local authority. In addition to the above act the Children and Young people's Act 2014 has introduced the provision that children can opt to remain in placement until they are 21. Councils have a duty to provide social care for those who need it, whether they provide these services themselves, contract with the voluntary or private sector to provide them or give clients a budget to arrange their own care. Argyll & Bute Council Children & Families provide a range of services to protect and support vulnerable children. The current budget for 2015/16 Re out with Authority placements for Children and Families is £994k

2. AUDIT SCOPE AND OBJECTIVES

- A review of policies and procedures in relation to Out of Authority Placements;
- Application of policies and procedures
- A review of information sharing and partnership working protocols.

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity. Where appropriate testing will be undertaken using a modified CIPFA SBA control matrix together with relevant sampling methodology.

3. RISKS CONSIDERED

ORR - Failure to safeguard young people and families at risk.

ORR - Failure to improve the life chances of looked after children.

Audit risk: insufficient controls.

4. AUDIT OPINION

The level of assurance given for this report is Substantial

| Level of Assurance | Reason for the level of Assurance given |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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:-

| |
|---|
| <p>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;</p> |
| <p>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;</p> |
| <p>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.</p> |

5. FINDINGS

The following findings were generated by the audit:

A review of policies and procedures in relation to Out of Authority Placements

- It was noted that Community Services have in place a procedural Guidance document entitled “How to Purchase Care Services for your Client “ and that this document outlines the procedure for commissioning care from external , private or third sector providers for all Adult Services and Children and Family Services
- A review of the procedural Guidance document found that the document requires to be updated. The guidance does not reflect all the various stages in the placement process that are currently being carried out, e.g. the role of the placements manager in the overall process, an options appraisal to assess the appropriateness of a service provider is carried out or clarity of roles and responsibilities.
- It was evidenced that although individual procedural documents exist there is no single comprehensive document that sets out the actions from first identifying the requirement for a child to be placed in care through to the relevant forum that authorises the placement and the resulting financial procedures required to execute the payments. It is noted that there are recognised procedures in place and that these are embedded in working practice through the Children’s Resource Panel (CRP) and Joint Resource Panel (JRG).
- A review of Flowcharts forwarded to Internal Audit showing the authorisation routes to be undertaken in terms of commissioning services were found to be out of date.

Application of policies and procedures

- 5 out of 14 financial files held by the Income maximisation team were selected for review covering children who are currently at placements in establishments out with the authority.
- An exercise was carried out to reconcile the information within the finance placements database and the Social Work database and one error was found which related to an agreed placement.

- A review of the 5 files included scrutinising the “Individual Placement Agreement “ (IPA) for each of the files chosen to ensure that as per the procedures that each placement shows a clear audit trail that details :
 - What is being purchased
 - Why this is the appropriate provider
 - How the commissioned service will be funded, delivered, managed and reviewed.
- The files clearly showed the needs of the individual being assessed and what is therefore being purchased from the provider.
- It was evidenced that for 3 of the 5 files chosen an options appraisal had been carried out to assess the most appropriate service provider, however, for 2 of the files no evidence of an options appraisal could be found.
- The commissioned service will be funded , delivered , managed and reviewed as follows :
 - Funded: Files reviewed stated the cost of each placement and that the placement had been agreed by the appropriate body e.g. The Children’s Resource panel. Appropriate authorisations were in place.
 - Delivered: Files reviewed showed a clear summary of how the service should be delivered to meet the needs of the child.
 - Managed and reviewed: It was evidenced from the files reviewed that the placements are monitored and the case periodically reviewed.
- It was evidenced that all of the files reviewed had a copy of the contract with the service provider in the file, however, it was noted in 2 instances that contracts had not been signed by the service provider.
- It was evidenced in one instance a 3% increase had been applied to the payment, however, no evidence could be found on file that this increase had been authorised

A review of information sharing and partnership working protocols

- It was evidenced that a sharing and partnership working protocol document exists called “Information sharing procedures”. This document outlines the procedures necessary to provide a framework for the following :
 - When to share data, including the role of consent,
 - What to share and who is responsible for shared data,
 - Who to share with and the role of disclosure,
 - How to share securely,
 - How to resolve disputes

6. CONCLUSION

This audit has provided a Substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There are 5 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Social Work staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|--|--|------------------------------------|---|---|
| 1. Procedures | | High/ Medium or Low | | |
| A review of the procedural guidance document found that the document requires to be updated to reflect current practice, including the new roles established in September 2014 when the childcare service was completely reorganised | Outdated procedural information leads to non-compliance with current agreed practice. | Medium | Placements Manager along with Locality based Managers to update “How to Purchase Care Services for your Client” and document to incorporate department changes (including CRP & JRG process). | Children’s Placement Manager along with Locality based Managers 31 July 2015 |
| 2. Flowcharts | | High/ Medium or Low | | |
| A review of Flowcharts forwarded to Internal Audit showing the authorisation routes to be undertaken are out of date, including the new roles established in September 2014 when the childcare service was completely reorganised | Outdated authorisation information leads to non-compliance with current agreed practice. | Medium | Placements Manager along with Locality based Managers to update flowcharts showing changes made as a result of departmental reorganisation | Children’s Placement Manager along with Locality based Manager 31 July 2015 |

| | | | | |
|--|---|------------------------------------|--|---|
| 3. Options Appraisal | | High/ Medium or Low | | |
| No evidence of an options appraisal on the service provider could be found for 2 of the 5 files reviewed | Increased risk of ineffective decision making. | Medium | Placements Manager to resolve issue Document control file manage protocols to be reviewed | Children's Placements Manager 30 June 2015 |
| 4. Contract signed | | High/ Medium or Low | | |
| It was evidenced in 2 instances that contracts had not been signed by the service provider. | Council exposed to failure of service provider without recourse to law. | Medium | Placements Manager to resolve issue Document control file manage protocols to be reviewed | Children's Placements Manager 30 June 2015 |
| 5. Variations | | High/ Medium or Low | | |
| It was evidenced in one instance a 3% increase had been applied but no evidence of authorisation could be found. | Failure to make payments in line with agreed contract. | Medium | Payment control processes to be reviewed and meeting set up to resolve specific case identified. | Children's Placements Manager 30 June 2015 |

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Internal Audit Section

INTERNAL AUDIT REPORT

| | |
|---------------------|---|
| CUSTOMER DEPARTMENT | DEVELOPMENT AND INFRASTRUCTURE SERVICES |
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | ROADS MAINTENANCE PRIORITISATION |
| AUDIT DATE | JUNE 2015 |

2015/2016



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Roads Maintenance within Development and Infrastructure Services as part of the 2015/16 Internal Audit programme. The Roads Management and Maintenance Strategy as outlined in the Roads and Amenity Service plan is to “prioritise routes which are likely to contribute to economic growth and improved quality of life and contribute positively to the Council's Economic Development Service Plan”. The road network plays a vital role in supporting the local economy; facilitating the movement of people, goods and services throughout the area and connecting people with economic opportunities. The main legislation is contained in the Roads (Scotland) Act 1984, Section 1, which imposes a duty on local roads authorities, to maintain all public roads, to keep a list of “public roads” and to maintain and manage the list.

The Council's policy and procedures on Roads maintenance is detailed in the Roads Maintenance and Asset Management Plan (RMAMP). The purpose of this plan is to design a sustainable maintenance regime capable of managing the road network asset within the available resources and ensuring that the asset will be available for future generations.

The Society of Chief Officers of Transportation Scotland (SCOTS) has been working with all local authorities and Audit Scotland to develop a nationally consistent framework for the development of Roads Asset Management Plan. The Council's Annual Status and Options Report (ASOR) (2013), provides a baseline from which annual asset management reporting and planning can be developed. Roads maintenance for both reactive and planned maintenance is derived via a number of methods namely:

- Roads Scanning
- SCRIM Survey (measures skid resistance)
- Prioritisation i.e. strategic, main distributor, urban distributor, minor road, minor urban road
- Inspection by roads engineers
- Public complaints via the call centre and web site.

The Roads department uses an Asset and Management system (WDM) which captures and holds the required data in order to carry out both reactive and planned maintenance and to assign the relevant prioritisation.

Roads surfaces are scanned on a periodic basis depending on the category assigned to that road and this information is uploaded into the asset management system. This information is then used to prioritise the planned maintenance for the following year.

Reactive maintenance programs are as a result of road inspections and public complaints via the call centre and web site. The information is captured on the WDM system and on a daily basis the relevant area roads inspector will assess the information and issue an appropriate works instruction. The work will then be carried out in the appropriate timescale depending on the prioritisation assigned.

The overall Roads Maintenance budget for 2015/16 is £3.9m compared to £4.1M in 14/15, excluding winter maintenance and coastal protection activity. The Roads capital budget for 2015/16 is £4.3M as opposed to £6.8M in 2014/15.

2. AUDIT SCOPE AND OBJECTIVES

The main objective and scope of the audit is as follows:

- A review of procedures and policy in relation to prioritisation of maintenance
- The application of policy and procedures
- Monitoring, recording and reporting of performance

3. RISKS CONSIDERED

- ORR- Failure to have robust system in place to prioritise routes
- ORR- Failure to partnership/contractors in place to deliver work schedule
- ORR- Failure to prioritise routes to contribute to economic growth

4. AUDIT OPINION

The level of assurance given for this report is Limited

| | |
|---------------------|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and agreed with management.

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:-

| |
|--|
| <p>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;</p> <p>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;</p> <p>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.</p> |
|--|

5. FINDINGS

The following findings were generated by the audit:

A review of procedures and policy in relation to prioritisation of maintenance

- The Council has a Roads Maintenance and Asset Management Plan (RMAMP) 2004 which is deemed to be the council's policy and procedure. The 2004 RMAMP was accepted by full Council in February 2004.
- The RMAMP sets out the condition standards for the various elements of the road network and optimum timescales for the various activities that are undertaken to maintain the condition of the road network. The main areas contained within the RMAMP are :
 - Collecting inventory
 - Establishing the hierarchy of the Roads
 - Setting standards for condition of the network to be maintained at
 - Inspecting
 - Prioritising repairs
 - Matching workload to available budget
 - Programming work
- A review of the RMAMP showed that there is a procedure for allocating a hierarchy to roads which is used to prioritise planning for planned maintenance detailing the :
 - Hierarchy description
 - Type of Road
 - Detailed description

It was noted that the roads hierarchy is dated 2004 with development underway on an updated RAMP.

- The RMAMP sets out the criteria for handling both reactive and planned maintenance. "For Routine Maintenance, priorities will be defined for all categories of work. Each category may be undertaken separately according to the frequency defined in each case but it will be more efficient to combine a number of operations into a co-ordinated programme. This will particularly apply to remote rural areas where travel plays a significant part in the operation. This may mean a delay in undertaking some works in order to achieve greater efficiency."

- The programme of planned maintenance has been outlined in the roads reconstruction capital programme and has been evidenced as approved by Environment, Development and Infrastructure Committee. It was evidenced that WDM system creates a list of proposed programme maintenance using data populated from the annual road condition survey via road scanning and physical roads inspections. The proposed rankings are then discussed at area level by roads personnel considering traffic flows, recorded collisions, known development (including timber extraction), SCRIM etc. and a capital programme for the following year is then proposed. The 2004 RMAMP states that “the determination of priorities will be objectively based and use accurate condition data”.
- It was noted that a Roads Maintenance Manual is currently being developed.
- The Society of Chief Officers of Transportation Scotland (SCOTS) has been working with all local authorities including Argyll and Bute and Audit Scotland to develop a nationally consistent framework for the development of Road Asset Management Plans (RAMPs) It is noted that Roads Management is currently progressing a revision of the 2004 RMAMP in line with the SCOTS recommendations. Development work is ongoing and a revised RAMP is due to be presented to EDI in winter 2015/16.

The application of policy and procedures

- The programme of planned maintenance has been outlined in the Roads Capital reconstruction capital programme and has been evidenced as approved by and Environment, Development and Infrastructure Committee.
- It was evidenced that WDM system creates a list of proposed programme maintenance using data populated from the annual road condition survey via road scanning and physical roads inspections. The proposed rankings are then discussed at area level by roads personnel and a capital programme for the following year is then proposed. It was noted that included in the agreed programme for the following year were schemes which were not included within the list proposed by WDM but were included in the capital programme and vice versa. Explanations offered in respect of these variations were:

Schemes included in capital not in WDM proposed list

- (a) WDM has parameters that exclude scheme lengths of less than 300m with maximum join distance of 50m. If there are a number of schemes within short distances of one another they will be included as it is cost effective to carry them out at the same time.
- (b) Schemes may be added in due to other factors including: engineering judgement and local knowledge of road condition, carrying out works that would help preserve the Revenue Budget (e.g. a section of road that continually has pot holes), a section of road which is a source of significant complaint (from the Public and or Members)
- (c) Schemes may be dropped and put together as one scheme which occurred in Bute in 2014/15 which had 13 proposed small schemes within WDM but these were amalgamated into one large scheme. Also on Tiree during 2014 where the programme was adjusted to maximise benefits of economies of scale.
- (d) Ranking does not reflect any winter damage after the road condition survey is carried out.

Schemes excluded from WDM

- (e) The scheme may score high but is used by only a couple of houses e.g. remote rural access.
- (f) The annual scanner survey collects data for all 32 Scottish local authorities. The national annual survey collects 100% of A class mainland roads in one direction, 50% of B class roads, 25% of C class roads and 10% of Unclassified roads. This can lead to dated scanner information being held in the WDM system which required a greater degree of engineering judgement to be applied. In 2014 Argyll and Bute commissioned additional survey work to enable the full network to be surveyed. This has provided an up to date network condition and will also provide a benchmark to compare future the Road Condition Index.
- (g) There has been a focus over the last 3 years on the larger proportion of the budget is spent on Strategic Roads as a priority. Lower Hierarchy roads can be dropped in favour of the higher ranking roads.

- A summary of the Roads Reconstruction Capital schemes carried out in 2014/15 is as follows: :

| Area | Number of schemes | Amount spent | Comments |
|--------------------------|-------------------|--------------|---|
| Mid Argyll | 7 | £834,000 | All schemes delivered on time |
| Kintyre | 10 | £610,000 | All schemes delivered on time |
| Islay, Jura and Colonsay | 10 | £690,000 | All schemes delivered on time |
| Lorn | 9 | £749,000 | All schemes delivered on time |
| Mull | 6 | £1,540,000 | All schemes delivered on time |
| Cowal | 4 | £1,665,000 | All schemes delivered on time |
| Bute | 3 | £371,000 | All schemes delivered on time |
| Helensburgh and Lomond | 14 | £893,000 | 2 schemes delayed due to utility issues |
| Total | 63 | £7.352,000 | |

- A review of the schemes carried out during 2014/15 showed that there were schemes included that were not proposed via WDM and also schemes proposed by WDM that were not carried out. However in terms of the documentation provided there was no audit trail to confirm the rationale behind why schemes were included or excluded in terms of the various reasons outlined above.
- There is no reference in the RMAMP (2004) or any procedural document that details the various reasons as to why schemes may be included or excluded from the proposed capital works.
- A hierarchy is assigned to each road within Argyll and Bute which is reflective of the needs, priorities and actual use. The hierarchies also take account of local circumstances such as schools and hospitals. A weightings process is also in place to differentiate between strategic, main distributor, minor road, etc. It was noted that the Development and Infrastructure paper agreed by full Council in October 2014 outlines a revised proposed hierarchy which has yet to be agreed.
- It was evidenced from the WDM system that reactive maintenance works orders are captured within the system and allocated a priority category based on the nature of the defect and the road priority.

Monitoring, recording and reporting of performance

- Section 8.1 of the 2004 RMAMP states that “In order to demonstrate continuous improvement, performance has to be continually measured and this is undertaken through performance indicators, standards and targets”
- It was evidenced that included within the Pyramid Performance Management system a range of performance measures are monitored. Although not an exhaustive list these include :
 - % of CAT 1 roads defects by area being completed on time
 - % of roads instructions being completed on time
 - % of roads reconstruction capital projects being completed on time and on budget
 - Planned road repairs as a % of revenue budget

It was noted that included within the RMAMP (2004) are examples of three performance indicators namely:

- No. of public liability claims per 100km of road network
- No. of defects reported during safety inspections
- Reactive repairs as a % of revenue budget

A review of performance indicators within Pyramid showed that these particular performance indicators in the RMAMP are not included and consequently this highlights that there are potential gaps in information being reported in relation to the condition of the road. However the Annual Status and Options Report provide an annual analysis of road condition which supersedes the PIs detailed in the 2004 RAMP. It was also noted that there are a range of new performance indicators currently under development and subject to approval.

The RMAMP (2004) section 8.4 states that benchmarking will be used to provide a means of comparing our performance with that of others. It was noted that there are no current KPI's included within Pyramid that benchmark the Council against other local authorities. It was noted, however, that recording of benchmarking information does take place within the Association for Public Service Excellence (APSE) reporting which includes a wide range of performance measures and that section 3.13 of the Annual status and options report (2014) presented to the Environment, Development and Infrastructure committee in November 2014 includes benchmark comparisons to both Highlands and Islands Council and Devon Council. Benchmarking data is also included in reports to committee on Local Government Benchmarking (Improvement Service).

- It was evidenced that a Quarterly Revenue performance report (Finance) is prepared and presented to each area committee from information obtained from the Roads costing system (TOTAL). The report details:
 - Actual spend to date against budget
 - Overall budget
 - Percentage spend
 - Estimated quantity of works carried out

It was noted that there was limited management information provided within this report.

- It was noted that performance scorecard information is reported to the Environment, Development and Infrastructure Committee on a quarterly basis however this does not make explicit reference to Roads Maintenance data.
- It was noted that each area Committee is presented on a quarterly basis with score card information which includes Roads Maintenance performance information. A review of the score card information showed that for each area three KPI's are reported namely :
 - % Road area resurfaced against target
 - % Road area surface treated against target
 - % Cat 1 road defects repaired timeously against target

Financial information is also reported, namely % of planned repairs against budget.

- The WDM system is one of the main systems for Roads Maintenance data. It was noted during the audit that management is not comfortable with access and reporting from the system.
- It was noted that there are approximately 5000 works instruction recorded in the WDM system since initial implementation in 2007 under the heading "no further action". These relate to calls received by the call centre which have already been reported or are not part of roads remit.
- It was noted that the controls within WDM system require review i.e. the system can accept a works order completion date which is earlier than the instruction date.

6. CONCLUSION

This audit has provided a Limited level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There are two high and three medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are three low recommendations which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the staff and management of Roads and Amenity Services for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|--|--|------------------------------------|---|---|
| 1. Roads Maintenance and Asset Management Plan | | High/ Medium or Low | | |
| The 2004 RMAMP has not been updated since acceptance by full Council in February 2004. | Service/policy is not reflective of current practice/guidance. | High | Revised RAMP is due to be reported on late 2015 – early 2016. The Roads Management and Maintenance Strategy & the Annual Status and Options Report have been developed and reported to Council. These documents, in part, replace the 2004 RMAMP. | 31 January 2016 Roads Performance Manager Network |
| 2. Roads Maintenance Manual | | | | |
| It was noted that the Roads Maintenance Manual is currently under development and subject to approval. | Inconsistencies in practice leading to ineffective use of resources and ineffective decision making. | High | Roads maintenance manual is currently being prepared and will be forwarded to all relevant roads personnel. | 31 January 2016 Roads Performance Manager |
| 3. Roads Hierarchy | | | | |
| It was noted that the roads hierarchy is dated 2004 and a revision is currently under development and subject to approval. | Non-current information may lead to ineffective decision making | Medium | Revised hierarchy is due to be reported Summer 2016. | 30 November 2015 Roads Performance Manager Network |

| 4 Prioritisation of capital Schemes | | | | |
|--|--|---------------|--|--|
| <p>The 2004 RMAMP states that “the determination of priorities will be objectively based and use accurate condition data”- however, current practice includes an element of engineering judgement.</p> <p>There was also lack of documentary evidence to confirm the rationale behind why schemes were included or excluded in the 2014/15 capital reconstruction plan.</p> | <p>Failure to adhere to agreed policy leading to inconsistent decision making.</p> | <p>Medium</p> | <p>RMAMP to be updated to reflect selection basis i.e. engineering judgement.</p> <p>Audit trail to be provided in the form a scheme decision sheet detailing reasons for any departure from automated ranking</p> | <p>31 January 2016</p> <p>Roads Performance Manager Network</p> |
| 5. Performance | | | | |
| <ul style="list-style-type: none"> • It was noted that two performance indicators specifically mentioned in the RMAMP (2004) are not reflected in the current Pyramid performance data. • It was noted that there is limited performance data included in the quarterly Revenue performance report. • It was noted that Scorecard data reported to EDI Committee does not included specific reference to Road Maintenance indicators. | <p>Failure to provide key performance information may lead to ineffective/inconsistent decision making</p> | <p>Medium</p> | <p>Performance data including KPI's to be included in Pyramid are currently being reviewed and agreed. Policy documents will be updated accordingly.</p> | <p>30 September 2015</p> <p>Head of Roads and Amenity Services</p> |

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
19 JUNE 2015**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2014 – 2015.

1. EXECUTIVE SUMMARY

- 1.1 Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. This report and attached appendices are the results from a review performed by Internal Audit for recommendations due to be implemented by 30 April 2015.
- 1.2 The process requires departmental Executive Directors assigning a 3rd 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.
- 1.3 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 30 April 2015, the number implemented, the number of agreed future recommendations and their status, e.g. on course etc.
- 1.4 Appendix 2 provides a summary as at 30 April 2015, 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.
- 1.5 Appendix 3 provides a summary of all recommendations from National, External and Internal Audit reports by department and service that are due after 30 April 2015 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.

2 RECOMMENDATIONS

- 2.1 The audit committee note the progress.

3 CONCLUSION

3.1 Of the recommendations due for completion by 30 April 2015, 27 have been completed. Internal Audit is satisfied with the status of the remaining 9 recommendations being delayed but rescheduled, 1 has not responded.

Good progress is being made on the recommendations due after 30 April 2015 with 3 completed early and timely identification of 2 requiring to be rescheduled.

4. IMPLICATIONS

| | | |
|-----|-------------------|------|
| 4.1 | Policy: | None |
| 4.2 | Financial: | None |
| 4.3 | Legal: | None |
| 4.4 | HR: | None |
| 4.5 | Equalities: | None |
| 4.6 | Risk: | None |
| 4.7 | Customer Service: | None |

For further information please contact Kevin Anderson (01369 708505)

Kevin Anderson
Chief Internal Auditor
13 March 2015

APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 FEBRUARY 2015 – 30 APRIL 2015

| SERVICE | Complete | No Response | Delayed but rescheduled | Total Of ACTION PLAN NUMBER |
|--------------------------------|-----------|-------------|-------------------------|-----------------------------|
| ADULT CARE | 2 | 0 | 0 | 2 |
| CUSTOMER & SUPPORT SERVICES | 3 | 0 | 0 | 3 |
| EDUCATION | 2 | 0 | 0 | 2 |
| FACILITY SERVICES | 9 | 0 | 0 | 9 |
| GOVERNANCE & LAW | 0 | 0 | 1 | 1 |
| IMPROVEMENT & HR | 3 | 0 | 0 | 3 |
| PLANNING & REGULATORY SERVICES | 2 | 0 | 2 | 4 |
| ROADS & AMENITY SERVICES | 5 | 1 | 4 | 10 |
| STRATEGIC FINANCE | 1 | 0 | 2 | 3 |
| TOTAL | 27 | 1 | 9 | 37 |

RECOMMENDATIONS DUE AFTER 30 APRIL 2015

| SERVICE | Complete | On Course | Delayed but rescheduled | Total Of ACTION PLAN NUMBER |
|-----------------------------|----------|-----------|-------------------------|-----------------------------|
| ADULT CARE | 0 | 3 | 0 | 3 |
| CHILDREN & FAMILIES | 1 | 7 | 0 | 8 |
| CUSTOMER & SUPPORT SERVICES | 0 | 1 | 0 | 1 |
| ECONOMIC DEVELOPMENT | 0 | 2 | 1 | 3 |
| GOVERNANCE & LAW | 0 | 1 | 0 | 1 |
| IMPROVEMENT & HR | 0 | 11 | 0 | 11 |
| ROADS & AMENITY SERVICES | 1 | 5 | 1 | 7 |
| STRATEGIC FINANCE | 1 | 3 | 0 | 4 |
| TOTAL | 3 | 33 | 2 | 38 |

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APPENDIX 2

Recommendations Overdue 30 April 2015

| ACTION PLAN NO: | WEAKNESSES/GOOD PRACTICE: GRADE: | AGREED ACTION: | DATES : | COMMENT/EXPLANATION: | PYRAMID: RESPONSIBLE OFFICER: |
|---|---|--|---|---|---|
| DEPARTMENT SERVICE <u>REPORT NAME</u> | CHIEF EXECUTIVE'S UNIT STRATEGIC FINANCE <u>REVIEW OF RISK MANAGEMENT ARRANGEMENTS</u> | | | | |
| 1 | <p>The most recent Strategic Risk Register identifies 15 risks with gross risk scores ranging between 9 – 20, and residual risks classing 14 of the risks as 'amber' and one, relating to population and economic decline as a 'red' risk. Each of the risks is currently managed in the same way, with mitigation actions and planned actions reported to the Strategic Risk Group and Committees in the SRR. However, where risks remain 'red,' or above the risk appetite level we would recommend escalation of the risk to give management and the Audit Committee additional assurance that risks are being managed effectively.</p> <p>MEDIUM</p> | <p>Strategic Risk Group will review protocols considering proposed actions. A number of mitigations are already subject to delivery /realisation monitoring arrangements</p> | <p>28 February 2015 30 June 2015</p> | <p>Escalation protocols will be implemented upon completion of Appetite development activity. Strategic Risk Group has agreed an Appetite framework. A working group will be convened which will prepare Risk Appetite levels for each individual risk.</p> | <p>Delayed but rescheduled Head of Strategic Finance</p> |

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

DEPARTMENT CHIEF EXECUTIVE'S UNIT
SERVICE STRATEGIC FINANCE
REPORT NAME REVIEW OF RISK MANAGEMENT ARRANGEMENTS

| | | | | | |
|---|--|--|--|--|--|
| 2 | <p>The Council's current approach to defining the risk appetite for each strategic risk to use the residual risk scores from when the SRR was reviewed as a proxy.</p> <p>A more formal approach to defining risk appetite would mean that the Council could :use the gap between the current residual risk score and risk appetite to prioritise actions clarify areas where risks cannot fully be managed by the Council, eg population decline demonstrate the journey of improvement across individual risk categories acknowledge a willingness to take on risk in individual cases, where there is potential benefit to the Council to do so.</p> <p>MEDIUM</p> | <p>Strategic Risk Group will lead developments on Risk Appetite and associated monitoring / mapping frameworks</p> | <p>28 February 2015 30 June 2015</p> | <p>Strategic Risk Group has agreed an Appetite framework. A working group will be convened which will prepare Risk Appetite levels for each individual risk.</p> | <p>Delayed but rescheduled Head of Strategic Finance</p> |
|---|--|--|--|--|--|

DEPARTMENT CUSTOMER SERVICES
SERVICE GOVERNANCE & LAW
REPORT NAME REVIEW OF INSURANCE ARRANGEMENTS

| | | | | | |
|---|--|--|---|---|---|
| 2 | <p>It was noted there was a low response to the Invite to Tender due to the approach adopted .i.e. dealing directly with brokers.</p> <p>MEDIUM</p> | <p>Council’s traditional requirements for single supplier of all insurances was the industry norm at time of tender. Procurement and legal to review sourcing strategy at time of insurance renewal.</p> | <p>31 December 2014 28 February 2015 31 May 2015</p> | <p>The process is taking longer than expected due to competing work priorities, staff pressures and absences and is unlikely now to be completed before 31 May.</p> | <p>Delayed but rescheduled Legal Services Manager- Commercial/ Procurement Commission Manager</p> |
|---|--|--|---|---|---|

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

DEPARTMENT

DEVELOPMENT & INFRASTRUCTURE SERVICES

| | |
|----------------------------|---|
| SERVICE REPORT NAME | PLANNING & REGULATORY SERVICES <u>REVIEW OF UNIFORM SYSTEM 2013/2014</u> |
|----------------------------|---|

- | | | | | | |
|---|--|---|--------------------------------------|--|--|
| 1 | There are no formal procedures in place regarding systems administrators receiving notification when user’s roles and duties change, new users require access and users leave their post so require access removed. MEDIUM | A procedure for informing system administrators of all staff changes should be implemented. | 31 March 2015 30 June 2015 | Not progressed due to change in technical support. | Delayed but rescheduled Senior Technical Officer |
| 2 | The security protocols within the Uniform system are not currently used. MEDIUM | A timetable for switching on the Security protocol BS7799 should be discussed with management and this should be enabled. | 31 March 2015 30 June 2015 | Not progressed due to change in technical support. | Delayed but rescheduled Senior Technical Officer |

| | |
|----------------------------|--|
| SERVICE REPORT NAME | ROADS & AMENITY SERVICES <u>REVIEW OF CREMATORIUM 2014/15</u> |
|----------------------------|--|

- | | | | | | |
|----|--|--|---------------------------------------|--|--|
| 10 | Families/relatives are not advised that scattering/interment is not individual as it is likely that the ashes of more than one deceased is scattered/interred at any one time. LOW | Letter being drafted to notify the applicant, this will be incorporated with the literature, making families aware of the book of remembrance. | 31 March 2015 30 April 2015 | | No Response Crematorium Superintendent |
|----|--|--|---------------------------------------|--|--|

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

DEPARTMENT

DEVELOPMENT & INFRASTRUCTURE SERVICES

REPORT NAME REVIEW OF WINTER MAINTENANCE

| | | | | | |
|---|---|---|---|--|---|
| 2 | Documentation outlining operational procedures in respect of fleet, salt stocks management structures and standby rotas do not reflect the current operational set up. HIGH | Guidance notes to be updated to reflect operational set up, management responsibilities and methods, prior to start of main season | 31 March 2015 31 October 2015 | BPR exercise is being carried out for winter, any change to Policy to be reported to EDI Committee in August 2015. | Delayed but rescheduled Roads Performance Manager, Development & Infrastructure |
| 3 | The winter maintenance budget has remained relatively constant over the last 5 years at on average J1.2m per annum. However the average actual spend per annum for the same period is J2.4m. HIGH | A demand pressure of J0.5m has been included as part of 15/16 Budget exercise. Service provision will be further reviewed as part of the Service Choices programme. | 31 March 2015 31 October 2015 | BPR exercise is being carried out for winter, any change to Policy to be reported to EDI Committee in August 2015. | Delayed but rescheduled Head of Roads & Amenity Services |
| 4 | The Service plan does not specifically refer to Winter maintenance activity and a review of scorecard information showed no evidence of performance indicators or measures being in place. MEDIUM | Performance measures to be considered and incorporated into service plans and pyramid | 31 March 2015 31 October 2015 | Reporting mechanisms within new Winter Management System allow specific reporting on treatment performance and salt usage. PI implemented as part of revised service. | Delayed but rescheduled Roads Performance Manager, Development & Infrastructure |
| 6 | The Council has a list of contractors it may call upon to help it meet its statutory obligations. The list has not been updated in the last 3 years MEDIUM | Contractor list to be updated after liaising with procurement team | 31 March 2015 31 October 2015 | Approved list of contractors available at any time from Procurement. Selection of suitable local candidates for winter service assistance to be incorporated in operational plans as part of Winter BPR process 30th April – 1st October 2015. | Delayed but rescheduled Roads Performance Manager, Development & Infrastructure |

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APPENDIX 3

Recommendations Due After 30 April 2015

| ACTION PLAN NO: | WEAKNESSES/GOOD GRADE: | AGREED ACTION: | DATES : | COMMENT/EXPLANATION: | PYRAMID: RESPONSIBLE |
|--|---|---|--|---|---|
| DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES SERVICE ECONOMIC DEVELOPMENT <u>REPORT NAME REVIEW OF CHORD</u> | | | | | |
| 1 | Project governance arrangements do not fully comply with Prince 2 principles which is the Council’s agreed management methodology in respect of Project Board arrangements. MEDIUM | Role of Project Board to be communicated to Area Committees and additional training provided where required. | 30 June 2015 30 August 2015 | Timescale has been amended to reflect the programme of area committee meetings. | Delayed but rescheduled Project Manager - CHORD |
| SERVICE ROADS & AMENITY SERVICES <u>REPORT NAME REVIEW OF WINTER MAINTENANCE</u> | | | | | |
| 1 | Winter maintenance policy stipulates a prescribed volume of salt and the location of stocks. The salt depot at Connel airport has recently been closed and consequently the Council may in extreme winter conditions fail to meet its operational commitments. HIGH | Capacity in Operational stockpiles to be kept as full as possible during the winter service period to maintain resilience levels. (November 2014) Programme to provide additional capacity by August 2015 | 31 August 2015 31 October 2015 | Under discussion between Audit and HOS regarding acceptance of risk. | Delayed but rescheduled Roads Performance Manager, Development & Infrastructure |

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Steve Barrett
Interim Head of Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
PA31 8RT

27 May 2015

Dear Steve

Argyll and Bute Council
Review of Internal Controls 2014/15

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Argyll and Bute Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

In accordance with ISA 330 (The Auditor's Procedures in Response to Assessed Risks), specifically paragraphs 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results.

In 2013/14 we revised our audit methodology to allow us to obtain assurances from previous years' audit work where no significant risks were identified. Our controls work has, therefore, been more focused compared to previous years with detailed testing of the trade receivables, treasury management, Council Tax billing and collection and Non Domestic Rates billing and collection systems. For the Council's other main financial systems we have relied on prior years' audit work.

Where we have placed reliance on prior years' audit work, we have tested the key controls by undertaking a "walkthrough test". This involved updating our system controls and identifying whether there have been any changes to the control environment. We then select a transaction at random and checked that internal controls have been applied correctly at each stage of its processing.

The table overleaf summarises our approach to the auditing of key financial systems in 2014/15 including where we have placed formal reliance on aspects of the work of internal audit. Internal audit findings do not feature in this report as they are reported separately by the Internal Audit Manager.

| Key System | External audit coverage | Reliance on aspects of internal audit work |
|---|-------------------------|--|
| Trade Payables | ✓ * | ✓ |
| Payroll | ✓ * | ✓ |
| Trade Receivables | ✓ | ✓ |
| Financial Ledger | ✓ * | ✓ |
| Cash, Income and Banking | ✓ * | |
| Council Tax Billing and Collection | ✓ | |
| Non Domestic Rates Billing and Collection | ✓ | |
| Treasury Management | ✓ | ✓ |
| Capital Accounting | ✓ * | ✓ |

* *Reliance placed on previous years' audit work*

Audit findings

A summary of those areas where identified risks require management consideration is included in appendix A. Some less significant issues were also identified; these were resolved in discussion with management and do not feature in this report. The following paragraphs outline the more significant findings arising from our audit work.

Treasury Management

The June 2014 Investments reconciliations had no evidence of review by a senior officer. The borrowings element of the reconciliation contained significant unexplained differences shown in the interest incurred section. Further investigation identified that the reconciliation was incomplete. The Finance Manager, Corporate Support accepted that the reconciliation was not complete, explaining that it was a one off occurrence which, now that the team has additional staff resource, would not re-occur. Subsequent completed reconciliations did not contain any significant differences.

Period end reconciliations should be prepared timeously, and should always be reviewed by a senior officer, in order to identify errors or anomalies promptly.

Trade Receivables

A sample of 10 credit notes was selected for testing. All were properly approved. Although it was fairly clear why the credit note had been raised, in seven cases the reason for credit field had not been completed on the debtors system. The reason for credit field on the debtors system should be completed to clearly record the reason for the credit note being raised.

Trade Payables

Prior to the Oracle upgrade the Council were able to run a report to facilitate a random check on bank accounts changes. IT staff are trying to make reports available so that random checking can continue to be undertaken. There is however no timescale for this.

Council Tax Billing and Collection

Authorisation forms for two employees, showing their access levels to the Council Tax system, could not be found. The missing forms were for the change to access rights for a cash administrator to be granted refunds access (her original access authorisation was on file) and for the Revenues and Benefits Manager who was granted read only access back in 2007 when appointed to the post. We have confirmed that the access rights granted to these members of staff are appropriate, however the authorisation forms should be kept secure and scanned onto the system once they have been fully completed.

Payroll

Existence checking is carried out by e-mailing employee listings to departments for confirmation. However, a reply is only required if there are any changes to report. This does not provide sufficient evidence that adequate checking is carried out as only those with issues are replying. A reply should be required in all cases even where there are no identified changes to report. The Team leader for Payroll and Pensions has agreed that going forward they will request a reply from all departments regardless of whether any changes are required.

Overall Conclusion

Our overall assessment is that the key controls within the Council's main financial systems are operating satisfactorily. This allows us to take planned assurance on these systems for our financial statements audit work in 2014/15.

Risk Identification

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to Argyll and Bute Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

The contents of this letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Please do not hesitate to contact myself (0131 625 1931) or Russell Smith (0131 625 1949) if you have any queries on this management letter.

Yours sincerely



David Jamieson
Senior Audit Manager

Appendix A - Action Plan

| No. | Audit finding | Control risk | Proposed management response & action | Responsible officer | Date |
|------------------------------|--|---|--|-------------------------------------|---------------------|
| 1 Treasury Management | | | | | |
| | The June 2014 Investments reconciliations had no evidence of review by a senior officer. The reconciliation was found to be incomplete with significant unexplained differences. | Monthly reconciliations may not be prepared correctly. | All Monthly reconciliations are to be reviewed by Senior Finance Officer. | Finance Manager - Corporate Support | 30th June 2015 |
| 2 Trade Receivables | | | | | |
| | Sample testing of 10 credit notes identified seven cases where the reason for credit field had not been completed on the debtors system. | Credit notes may be raised for inappropriate reasons. | A reminder will be issued to all sundry debtors system users that the field for the reason for credit should be completed. The system supplier will also be asked if this field can be made mandatory. | NDR/Sundry Debt Administrator | 30th September 2015 |
| 3 Trade Payables | | | | | |
| | Although adequate controls are in place around any changes made to suppliers' bank details, there is currently no process in place to allow the random checking of entries. | Changes to suppliers' bank details could be made incorrectly. | Every time a bank account change is made, the entry is checked and counter-signed by another | N/A | N/A |

| No. | Audit finding | Control risk | Proposed management response & action | Responsible officer | Date |
|---|---|--|---|----------------------|------|
| | | | <p>member of staff.</p> <p>Whilst there is a small residual risk that an authorised member of staff could make an unauthorised change, this risk has been minimised so far as is possible</p> | | |
| 4 Council Tax billing and Collection | | | | | |
| <p>Authorisation forms for two employees, showing their access levels to the Council Tax system, could not be found.</p> | <p>Missing forms result in the lack of a full audit trail.</p> | <p>It is accepted that the filing of the authorisation forms has not been perfect. These will be kept as scanned images in future in order to reduce the possibility of them being misfiled or going astray.</p> | <p>Council Tax Systems Administrator</p> | <p>1st June 2015</p> | |
| 5 Payroll | | | | | |
| <p>Existence checking is carried out by e-mailing employee listings to departments for confirmation. However, a reply is only required if there are any</p> | <p>Departmental employee listings held by the Payroll section may not</p> | <p>Next round of existence checking scheduled March 2016.</p> | <p>Payroll Supervisor</p> | <p>March 2016</p> | |

| No. | Audit finding | Control risk | Proposed management response & action | Responsible officer | Date |
|-----|--|----------------------|---|---------------------|------|
| | changes to report. This does not provide sufficient evidence that adequate checking is carried out as only those with issues are replying. | be fully up to date. | HR Development team will now request a response to ensure that the information has been checked to ensure that we provide an Audit Trail. | | |

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
19 JUNE 2015**

NATIONAL FRAUD INITIATIVE IN SCOTLAND

1. Executive Summary

- 1.1 The NFI in Scotland is now well established and has been operating for over a decade. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies.
- 1.2 The attached National report includes key messages, impact and outcomes and provides detail on the future of the NFI. Cumulative NFI outcomes are now at £94million and across the UK £1.17billion of NFI outcomes have now been recorded.
- 1.3 The report includes a recommendation that Audit Committees or equivalent should review the self-appraisal checklist, Part A (Page 37) to ensure they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15.
- 1.4 The self-appraisal checklist has been completed and is shown at Appendix 2 to this report.
- 1.5 Other recommendations include Local Authorities taking steps to retain or invest in sufficient capability, in the short term and long term, to investigate non housing benefit fraud or corporate fraud including relevant NFI matches, after SFIS (Single Fraud Investigatory Service) is introduced.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the content of the June 2014 National Report included at Appendix 1.

For further information please contact Kevin Anderson Internal Audit on (01369 708505)

Kevin Anderson
Chief Internal Auditor
19 JUNE 2015

Appendices

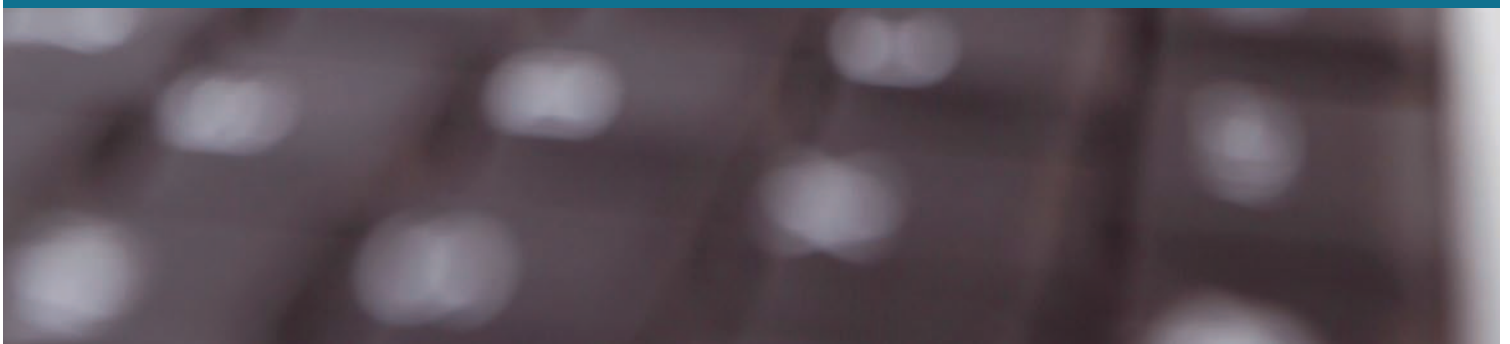
1. The National Fraud Initiative in Scotland
2. Self-Appraisal checklist

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The National Fraud Initiative in Scotland



Prepared by Audit Scotland
June 2014



Contents

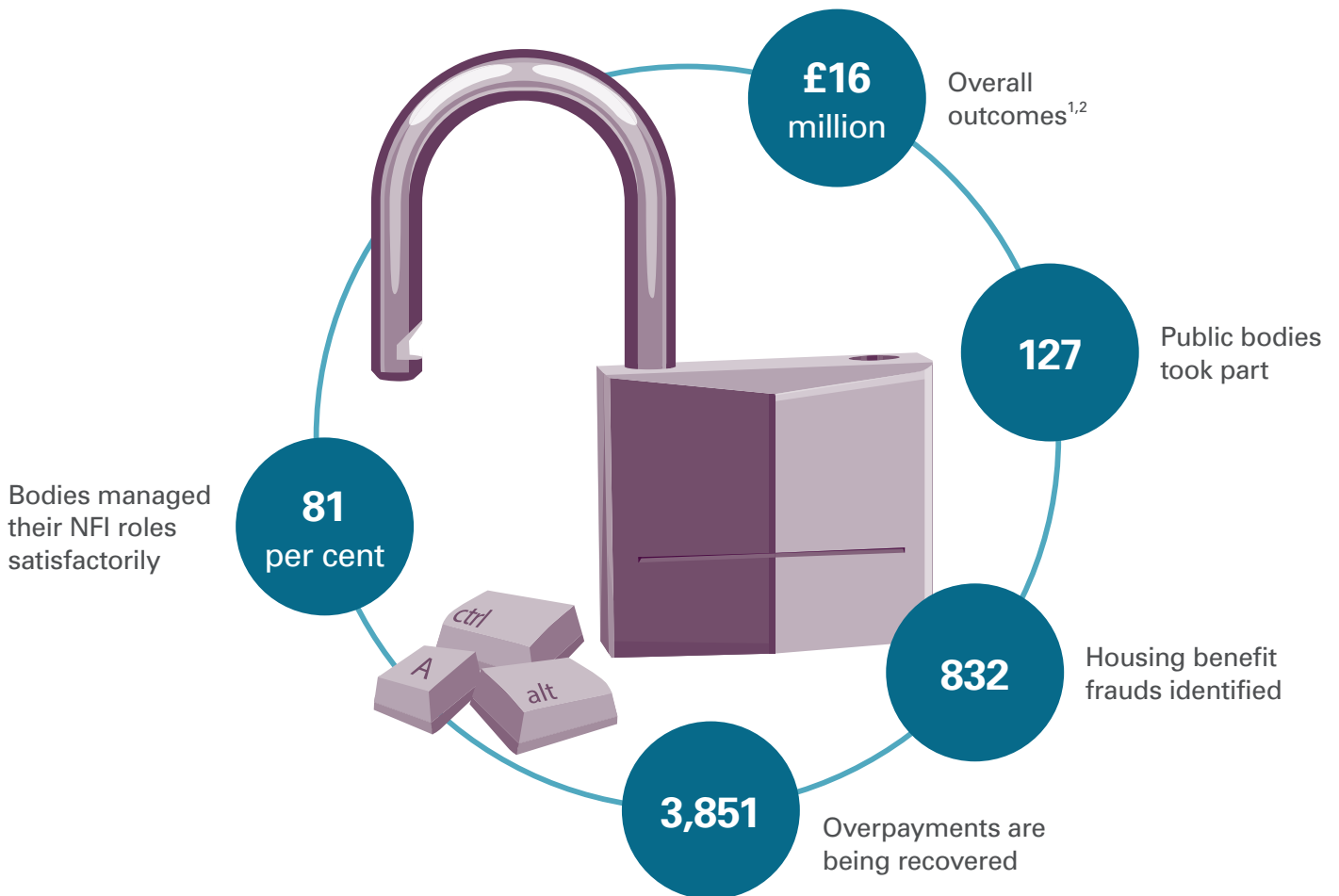


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Summary




Key facts



- For national reporting purposes, outcomes are collated as at 31 March 2014. Outcomes recorded by participants after this date are included in subsequent reports.
- Outcome figures referred to cover detected fraud, overpayments and error and include those already delivered as well as those that have been estimated where this is appropriate.

Key messages



- 1** Public bodies spend billions of pounds of taxpayers' money on the Scottish population, providing services and financial assistance to all citizens including those that need them the most. Systems underpinning public spending can be complex and errors can happen. Unfortunately, there are also some individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.
- 2** Fraud does not recognise organisational or geographic boundaries. Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and therefore can limit gaps available for fraudsters to manipulate and help identify those that have. It also helps bodies to identify process improvements that can reduce future errors and the costs of correcting these errors.
- 3** Audit Scotland, working closely with public bodies, external auditors and the Audit Commission, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.
- 4** Since we last reported on [The National Fraud Initiative in Scotland \(PDF\)](#)  in May 2012, outcomes valued at £16 million have been recorded and the cumulative outcomes from the NFI in Scotland are now at £94 million. These outcomes are a significant return to the public finances of Scotland at a time when public finances continue to be under pressure. Across the UK the cumulative total is now £1.17 billion. What cannot be measured, but is important, is the deterrent effect that undertaking regular data sharing and matching exercises has, such as the NFI.
- 5** The NFI 2012/13 involved 127 Scottish bodies across four sectors making this the largest and most diverse data sharing exercise since the NFI began. Scottish bodies submitted 599 data sets and these generated 382,137 data matches for further investigation.
- 6** There are 4,447 investigations still in progress and action is being taken to recover £4.5 million of overpayments.
- 7** The benefits of data sharing and matching enabled bodies external to those who submitted the data to identify outcomes of £1.5 million.

- 8 Most organisations take advantage of the opportunities provided by the NFI but some could act more promptly to investigate matches and therefore stop frauds and correct errors more quickly.
 - 9 The introduction of the Single Fraud Investigation Service (SFIS) has major implications for the resourcing of non housing benefits counter-fraud work. Councils should review their counter-fraud resources in light of this change and whether they are sufficient to deal with corporate fraud.
 - 10 The Cabinet Office will take over responsibility for the NFI team and web application from April 2015. Audit Scotland expects no impact of this change for the NFI 2014/15 exercise which is due to start in summer 2014.
-

Recommendations

All participants

- Audit Committees, or equivalent, should review the self-appraisal checklist at [Appendix 2, Part A](#) to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15 exercise.
- All public audited bodies participating in the NFI should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider:
 - whether it is possible to work smarter on the NFI matches; reviewing the suggestions at [Appendix 3](#) should help
 - using the NFI matches in conjunction with alternative matching services from other providers.

Local authorities

- Local authorities should take steps to retain or invest in sufficient capability, in the short and long term, to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches, after the SFIS is introduced.
 - Local authorities that administer pension schemes and are not already using more regular data matching to deceased records should consider doing this.
-

Part 1

Background



Key messages

- 1** The NFI is linked to the statutory audit of participating bodies and the results are reported every two years by Audit Scotland.
- 2** Data matching is an effective and efficient method to identify areas for further investigation by connecting discrepancies between different data sets. The powers to undertake data matching given to Audit Scotland enable it to cross entity boundaries and national borders.
- 3** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

1. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the NFI, are undertaken every two years and are linked to the statutory audits of the participating bodies. The latest exercise (the NFI 2012/13) started in October 2012 and is now nearing completion.

2. The success of the NFI comes primarily from the public servants who:

- investigate the NFI data matches
- identify and stop frauds and errors
- recover overpayments
- hold fraudsters accountable
- improve their systems.

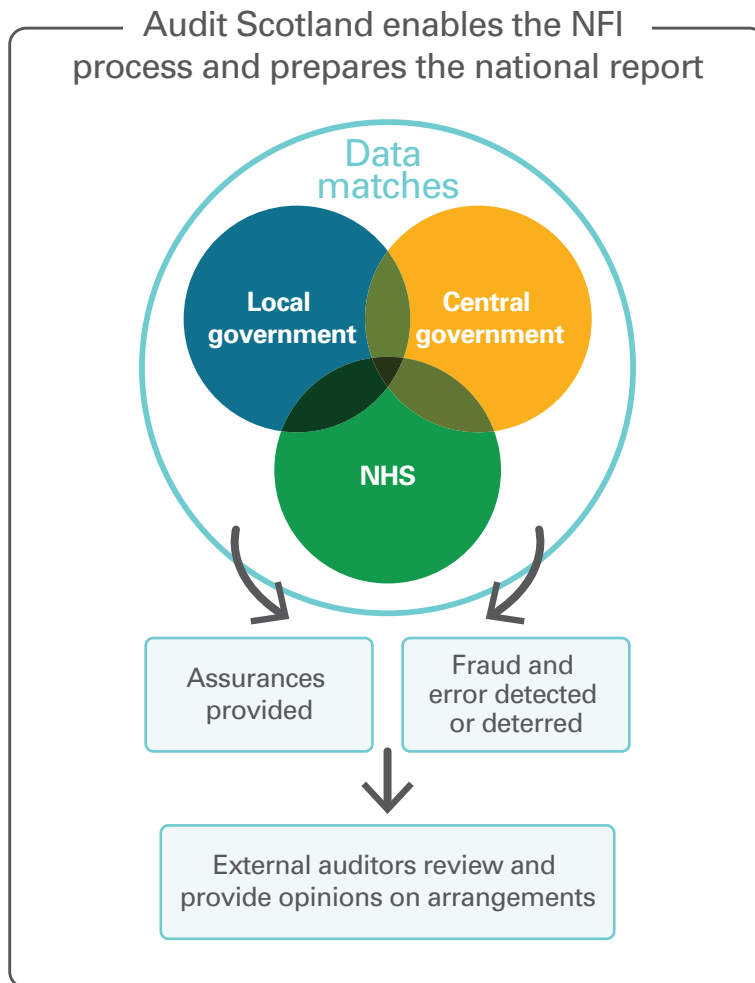
3. The role of external auditors in the NFI is vital. They review and conclude on the effectiveness of local arrangements in terms of how well the NFI is integrated into counter-fraud polices. They also provide assurance on the progress being made on the NFI investigations. Auditor conclusions provide the evidence for [Part 3. Helping to improve, holding to account \(page 28\)](#).

the NFI supports the public sector in taking action to prevent and detect fraud and error

4. **Exhibit 1** summarises the relationships and responsibilities within the NFI in Scotland.

Exhibit 1

Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland

5. The NFI in Scotland is now well established and has been operating for over a decade since it was first piloted. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters
- identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required

- operates across boundaries between public bodies in different sectors and countries
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high-priority matches.

6. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record appropriate outcomes on a secure web application based on their investigations.






7. For the NFI 2012/13 exercise Audit Scotland increased the number of bodies involved to 127, including a large further education college and a greater number of central government bodies. All data sets were mandated.

8. Audit Scotland also includes data about its own employees and those of audit firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

9. In total 599 data sets were submitted for data matching. These returned 382,137 matches and of these, 62,172 were identified as recommended matches, being matches with a higher risk of fraud or error. It is up to individual bodies to determine which and how many matches to investigate. [Exhibit 2](#) provides some examples of the types of data set matches undertaken.

Exhibit 2

Examples of the types of data set matches undertaken

| Type of data match | Potential fraud or error |
|--|--|
|  Housing benefit claimants to employees and public sector occupational pensions | Employees or occupational pensioners may claim benefit without declaring their income or by under-declaring the amounts. |
|  Employees to employees | An employee may be on long-term sick leave while working at another body. |
|  Public sector pensions to deceased persons' records | A pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be collected by a relative. |
|  Blue badges to deceased persons' records | The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or be sold for improper use. |
|  Employees to immigration records ¹ | It is unlawful for someone to obtain employment if they are not entitled to reside or work in the UK. |

Note: 1. This includes data about refused and expired visas, visas where there is no right to work and failed asylum applications.

Source: Audit Scotland

10. In addition to the main matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed. The data uploads took place in October 2011 and the results were provided to councils in January 2012 to investigate.

11. Across the UK only two councils, Angus and Perth and Kinross, decided not to upload data for this particular data match. The NFI is one of the proven ways by which councils can address fraud and error in this area. A number of councils also employ credit reference agencies to match single-person details against a wider range of data sets such as credit and utility records.

12. Audit Scotland carries out the NFI process under powers in the Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. The governance arrangements for the NFI are summarised at [Appendix 1 \(page 35\)](#).

13. The NFI is important in the context of the economic climate and fiscal projections for future public sector expenditure. The NFI exercises make a significant contribution to the security and transparency of public sector finances by ensuring that services and benefits are paid only to the correct people and by identifying and reducing fraud and error.

Part 2


Impact and outcomes



Key messages

- 1 Outcomes from the NFI 2012/13 are £16 million.
- 2 £10.5 million have been identified directly from the NFI 2012/13 investigations.
- 3 £5.5 million are further savings from the NFI 2010/11.
- 4 4,447 investigations are still in progress.
- 5 66 per cent (£4.5 million) of overpayments are being recovered.
- 6 Cumulative NFI outcomes are now at £94 million.
- 7 Across the UK £1.17 billion of NFI outcomes have now been recorded.

Outcomes

14. Since we last reported on [The National Fraud Initiative in Scotland \(PDF\)](#)  in May 2012 outcomes valued at £16 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £94 million and represent a significant return to the public finances of Scotland.

15. The 2012/13 outcomes are split:

- £10.5 million of outcomes from the NFI 2012/13 matches
- £5.5 million of outcomes from further follow-up work on the NFI 2010/11 matches.

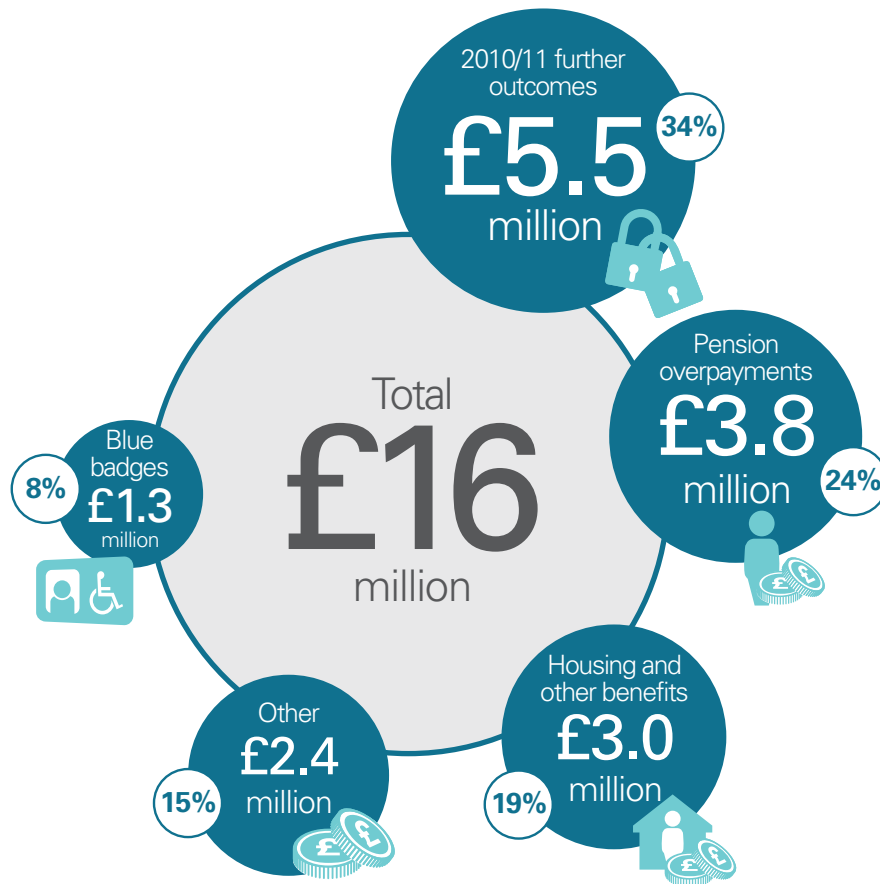
16. [Exhibit 3 \(page 12\)](#) provides more detail of key outcome areas recorded by bodies as at 31 March 2014.

17. Investigations from the NFI 2012/13 are ongoing. As at 31 March 2014, there were 4,447 investigations for this exercise still in progress. The evidence from previous exercises is that between reports, significant outcomes continue to be delivered. The last two NFI reports showed that:

- 39 per cent of 2010/11 outcomes arose after March 2012
- 30 per cent of 2008/09 outcomes arose after March 2010
- 45 per cent of 2006/07 outcomes arose after March 2008.

Exhibit 3

Analysis of NFI outcome from April 2012 to March 2014



Source: Audit Commission NFI secure web application

18. If this pattern is continued we could expect to see further outcomes in the region of £3 to £4.5 million from the NFI 2012/13.

19. Importantly, once overpayments have been identified, recovery action can be taken. As at 31 March 2014 there was £4.5 million of recovery action being taken in 3,851 cases.

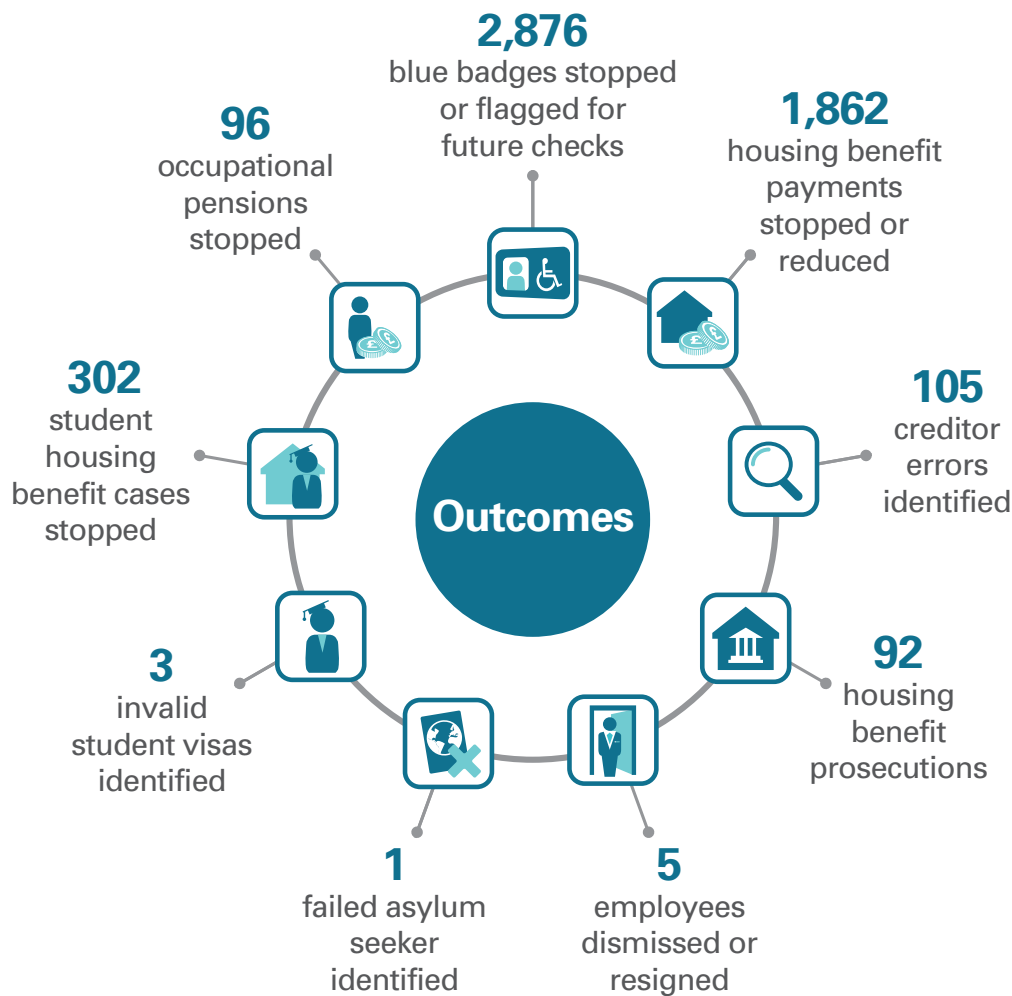
20. The NFI is more than the value of the financial outcomes recorded. [Exhibit 4 \(page 13\)](#) sets out the main results from the 2012/13 matches.

21. What cannot be measured directly is the value of the deterrent effect that the planned biennial NFI data matching has on potential fraudsters. Its significance should not be overlooked and is a key benefit to the Scottish public and taxpayers.

22. Overall outcomes are down on the last NFI exercise by 19 per cent in Scotland and 17 per cent across the UK. Late savings are consistent between exercises at £5.7 million for 2010/11 and £5.5 million for 2012/13. However, no obvious national trend can be assumed from the results of the last five NFI exercises because of changes in the scope of the NFI exercises, the number and variety of bodies participating and in the approach taken by bodies to tackling fraud and error.

Exhibit 4

Main results from the 2012/13 matches



Source: Audit Commission the NFI secure web application

23. The most successful matches from the current exercise, excluding late savings, in terms of financial outcomes accounting for 78 per cent (£8.1 million) of the total (£10.5 million), are:

- pensions – 36 per cent
- housing benefits – 29 per cent
- blue badges – 13 per cent.

24. For this exercise Audit Scotland mandated creditor data from all participants which were previously optional. This has resulted in 105 creditor outcomes of £1.1 million for this exercise compared to 13 outcomes worth £15,000 in 2010/11. Recovery action is taking place for 54 of these overpayments. In other cases overpayments have already been returned or credit notes provided.





25. The largest drop is in the area of pension outcomes which are discussed in [paragraphs 48–54](#).

Matches benefiting other bodies

26. One of the key benefits in undertaking a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. [Exhibit 5](#) summarises these for the NFI 2012/13 exercise for Scottish data submitted.

Exhibit 5

Matches benefiting other bodies

| Sector source data | Other bodies' outcomes (£) | Number of benefiting bodies |
|---|----------------------------|-----------------------------|
|  Central government | 670,983 | 5 |
|  Local government | 636,681 | 29 |
|  NHS | 195,998 | 11 |
|  Further education | 1,811 | 1 |
| Total | 1,505,473 | 46 |

Source: Audit Commission the NFI secure web application

27. The cross-sector scope of the NFI enabled 46 bodies to identify and take action on 717 outcomes worth £1.5 million. The majority are from cross-body housing benefits to other data sources such as student funding, payroll or pensions.

28. In the main these related to other Scottish bodies but there were also 26 English councils and the Northern Ireland Housing Executive able to identify outcomes from Scottish data. For example, one London borough removed six housing applications from their waiting lists as they were found to be in receipt of housing benefit at five Scottish councils.

29. For those participating bodies or sectors taking part in the NFI who may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may. If we look at the payroll and pension data submitted by central government and the NHS we see:

- central government bodies recorded direct outcomes of £1.7 million but also enabled £670,983 of outcomes to be identified at other bodies
- the NHS has recorded direct outcomes of £211,865 but also enabled £195,999 of outcomes to be identified at other bodies.

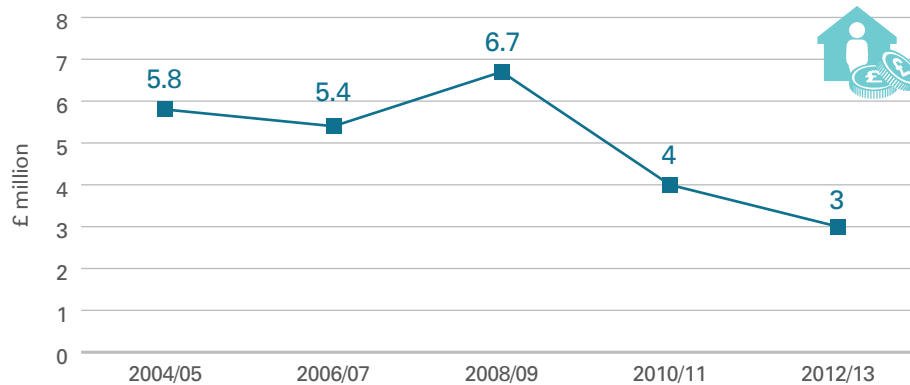
Benefit outcomes

30. The NFI provides councils with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment.

31. Where other benefits such as income support and jobseeker's allowance are also in payment, councils liaise with the Department for Work and Pensions (DWP) and joint investigations may be carried out. The amounts in this report include these other benefits, where relevant.

32. [Exhibit 6](#) summarises the benefit outcomes from all the NFI exercises to date.

Exhibit 6 Housing and other benefit outcomes



Source: Audit Commission the NFI secure web application

33. This would indicate that there has been a decline in benefit outcomes in the last exercise. The possible reasons are:

- previous NFI exercises have detected the most significant and longest-running frauds and errors
- the trend may demonstrate the exercise's impact and local measures in deterring fraud
- the efforts of bodies to continuously improve their systems
- that less resources are being used to follow up the NFI matches in councils.

34. However, £2 million of the 2010/11 figure were recorded after the last NFI report in May 2012. If this trend is repeated then we would expect to see benefit outcomes at similar levels to the last exercise.

35. What is interesting is that the number of cases recorded with overpayments at 1,862 is slightly up on the previous exercise of 1,792. The individual value of overpayments has fallen from £3,303 to £2,694. This would indicate that resources are still being applied in line with previous NFI exercises and that it is the other three bullets outlined in [paragraph 33 \(page 15\)](#) that are impacting on outcome levels.

36. Despite expected reductions, the continuing high levels of benefit outcomes are best explained by the increased number of bodies participating and supplying data in the 2012/13 NFI and the impact of the economic recession resulting in increased numbers of benefit claims.

Case study 1

An individual was sentenced to nine months in jail after being convicted for £70,000 benefit fraud. This fraud was identified from a NFI 2010/11 match between housing benefits and payroll.

Investigators identified that the person had failed to inform the council and the DWP (as required by law) about earnings from a partner who moved in with them in 2005. For seven years, until March 2012, over £10,000 was stolen annually from public funds by this individual.

This type of outcome demonstrates the effectiveness and efficiency of using data matching to identify potential frauds. By linking benefits payments with payroll income to the same address it could be established that there was undeclared income requiring further investigation. Trained fraud officers can be used effectively to investigate and build cases before referral to procurator fiscal for prosecution.

Without data matching it would have been very difficult and expensive to identify this undeclared change of circumstance.

Source: Local Authority

Student funding to housing benefit claims

37. One of the most successful matches in terms of numbers and coverage is student funding to housing benefits. With a few exceptions, mainly lone parents and disabled students, students are not eligible for housing benefits. This match takes council data and matches against the Student Awards Agency for Scotland (SAAS) student funding data.

38. The match enabled 25 councils to stop 302 housing benefits payments worth £0.7 million to ineligible students. Given the prevalence of this, it is hoped that councils make use of the more regular NFI data matching available for this area.

Public sector workers and pensioners to housing benefit claims

39. It is critical that the public has trust in its public servants. This match identifies errors and frauds that have taken place between public sector payrolls and pensions. By the end of March 2014 councils had identified benefit overpayments from their NFI 2012/13 matches relating to (2010/11 figures are in brackets):

- 1,089 (997) public sector pensioners
- 290 (322) local government employees
- 131 (100) persons working in the NHS in Scotland
- 8 central government employees.

40. While no overpayments are desirable, [Exhibit 7](#) puts some of these figures into context in relation to the populations involved and it does provide some overall assurance that these areas do not have high levels of fraud and error.

Exhibit 7

The NFI benefits outcomes compared to source populations

| Sector | Number | Overpayments identified | Overpayment value (£ million) |
|----------------------------|---------|-------------------------|-------------------------------|
| Public sector pensioners | 305,000 | 1,089 | 1.78 |
| Local government employees | 247,000 | 290 | 0.73 |
| NHS employees | 157,400 | 131 | 0.39 |
| Civil servants | 44,300 | 8 | 0.01 |

Source: Office for National Statistics, Scottish Government and the Scottish Public Pensions Agency

41. This exercise also included a further education college for the first time. While no outcomes were identified by the college there were five housing benefit overpayment outcomes identified by a council following up matches of their housing benefit (HB) data to the college payroll.

42. In terms of value, Glasgow City Council and East Dunbartonshire have so far achieved the highest levels of outcomes from their NFI 2012/13 benefits investigations (£454,256 and £299,610 respectively). A further eight councils recorded benefits outcomes in excess of £100,000. Only Shetland Islands Council recorded no benefit outcomes.

43. Another measure of success is the yield in terms of benefit outcomes to total housing benefit expenditure. [Exhibit 8 \(page 18\)](#) provides details of the top three councils in terms of yield ranking.

44. East Dunbartonshire Council consistently performs well by this measure across all of the NFI exercises that have been undertaken. The DWP estimates that for HB payments made in 2012/13, 5.1 per cent was overpaid in 2012/13.

Exhibit 8

Housing benefit (HB) yield by outcomes

| Council | Total HB expenditure | Rank by total HB expenditure (out of 32) | NFI 2012/13 HB outcomes | Rank by HB yield |
|-----------------------------|----------------------|--|-------------------------|------------------|
| East Dunbartonshire Council | £24,367,289 | 26 | £299,610 | 1 |
| Comhairle nan Eilean Siar | £6,957,240 | 30 | £69,502.02 | 2 |
| Clackmannanshire Council | £23,933,823 | 27 | £91,727.11 | 3 |

Source: Department for Work and Pensions (DWP) and the Audit Commission NFI secure web application

45. However, care must be taken when analysing these yield rankings as there are a number of factors that can influence movement. These factors are discussed later in this section. Generally councils need to consider whether finding significant outcomes indicate effective detection of fraud and error or whether improvements to controls within systems could be made to reduce errors.

Housing benefits to licences


46. These matches compare housing benefits data to council-approved licences granted to individuals to identify potential undeclared income. This has again proved to be a successful area for the NFI. [Exhibit 9](#) summarises the results from this exercise.

Exhibit 9

Housing benefit to licences results

| Licence type | Number | Outcome | Average outcome per case |
|------------------|--------|----------|--------------------------|
| Personal alcohol | 8 | £242,764 | £30,345 |
| Taxi drivers | 19 | £75,641 | £3,981 |
| Market traders | 2 | £6,493 | £3,247 |

Source: Department for Work & Pensions (DWP) and the Audit Commission NFI secure web application

47. In our 2010/11 [The National Fraud Initiative in Scotland \(PDF\)](#)  report, the personal alcohol match generated the largest outcome, estimated at £536,995. [Case study 2](#) further demonstrates how important cross-body data matching is in identifying the full extent of frauds being committed. The investigation was again initiated based on a match between personal alcohol licence and housing benefits payments.

Case study 2

The NFI outcome for this case is £164,850.

An individual had a housing tenancy from Council A for which they also received housing and council tax benefit. The NFI data matches identified that they were also in receipt of a personal alcohol licence from Council B. This indicated that they were potentially working in the Council B area but not declaring any income.

Following up this match the investigators confirmed that the individual was working but not declaring income and had also been living in the Council B area since 2006 but their daughter and grandchild were living in the Council A tenancy.

The subject cancelled the tenancy and has since been reported to the Procurator Fiscal Service for benefit fraud totalling £38,850.78. The remaining element of the outcome is based on seven years' tenancy fraud at £18,000 per annum.¹

Note: 1. Based on the average cost of housing a family in temporary accommodation for a year (*Protecting the Public Purse 2012*, Audit Commission, November 2012).

Source: Local Authority

Pension outcomes

48. The NFI provides pensions administering councils and the Scottish Public Pensions Agency (SPPA) with an efficient and effective means of checking that payments are only being made to living persons. The NFI 2012/13 helped these bodies identify 96 pensioners whose deaths had not been reported to them. Including other pension-related outcomes (for example, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings, the amounts for the NFI 2012/13 total £3.8 million.

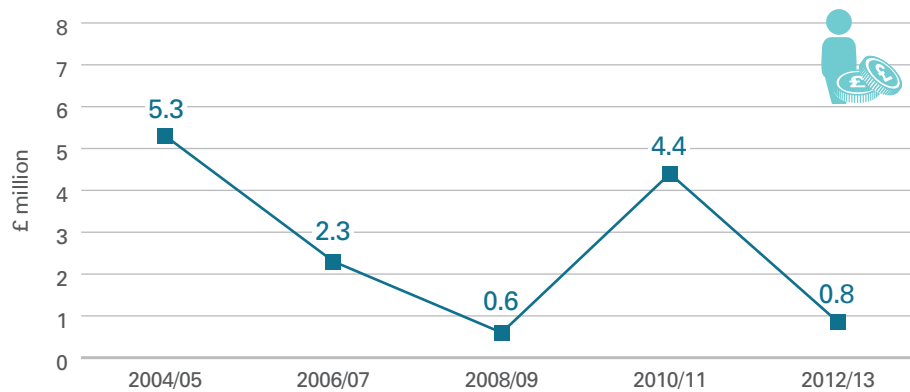
Scottish Public Pensions Agency

49. The SPPA recorded outcomes of £0.85 million from its 2012/13 matches where 23 outcomes were identified which is a drop from 2010/11 outcomes of £4.4 million. In 22 of these cases recovery is in progress. [Exhibit 10 \(page 20\)](#) summarises SPPA pension outcomes since the NFI started.

50. Obtaining up-to-date information on pensioners returning to work is a very difficult area, particularly on deceased data when one considers that the SPPA has members living in over 50 countries around the world.

Exhibit 10

Pension outcomes



Source: Audit Commission the NFI secure web application

51. However, the SPPA is to be commended for embracing more regular data matching opportunities that have almost certainly led to a reduction in overpayments. It continues to work closely with the National Records of Scotland to reduce the number and in particular the length of pension overpayments through quarterly checks. It has also made use of the additional mortality screening available from the NFI outside the two-yearly cycles to identify further matches.

Local government

52. While SPPA outcomes are down, there has been an increase in local government-run pension scheme outcomes and these account for £2.9 million pension outcomes across 73 cases.

53. There are 11 local government-administered pension bodies in Scotland and five returned outcomes. As in previous NFI exercises the majority of the outcomes from local government are in the:

- Strathclyde Pension Fund (SPF) administered by Glasgow City Council which has a membership of over 197,000 and which recorded outcomes of £2.2 million. SPF administers about 42 per cent of all the local government pensions in Scotland. These outcomes were from 52 cases of which recovery action is taking place in 45.
- Lothian Pension Fund administered by City of Edinburgh Council with over 65,000 members and which achieved outcomes of £0.3 million from three cases all of which are being recovered.

54. Given the success in reducing outcomes that the SPPA has demonstrated, there is an opportunity for local government pension schemes to undertake more regular data matching either through the NFI and/or the National Records of Scotland.

Blue badges

55. The 'blue badge' scheme allows individuals with mobility problems, and who may have difficulty using public transport, to park free at on-street parking meters and pay-and-display machines. Holders are also allowed to park in designated blue badge spaces and may also be permitted to park on single or double yellow lines in certain circumstances.

56. Badges are sometimes used or renewed improperly by people after the death of the badge holder. The use of a blue badge by an unauthorised person is an offence. Importantly, by using a blue badge to park without need, the space is denied to people with real mobility issues. This is the true social cost of this type of fraud.

57. Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress but, by 'flagging' the relevant records, they can at least ensure that badges are not improperly renewed in the future. By sharing information with other departments, councils can also recover valuable equipment and aids if they have not been informed of a person's death.

58. Scottish councils have reported correcting 2,876 (4,403 in 2010/11) blue badge records where the NFI helped them to identify that the holder was deceased. Edinburgh (992) and Scottish Borders Councils (338) collectively corrected over 1,328 records. Seventeen councils did not record any blue badge corrections compared to only ten in the 2010/11 exercise.

59. The Audit Commission first identified the problem of blue badge fraud in a report published in September 2009 and also in their subsequent annual *Protecting the Public Purse* reports. They identified how criminals falsify blue badges or steal genuine ones from cars, and how a blue badge can be sold on the black market for as much as £500.

60. On 1 January 2012, the new Blue Badge Improvement Scheme (BBIS), procured by the Department of Transport as part of the Blue Badge Reform Programme, was made available to local authorities. The BBIS, which is being phased in over the next three years, is designed to help to prevent fraud and enable more effective monitoring of cancelled, lost or stolen badges.

61. These new arrangements are welcomed and the NFI will continue to undertake the deceased data matching to assist in identifying potential abuse of the badge scheme until these are fully in place.

Council tax single person discounts

62. People living on their own or with no countable¹ adults in the household are eligible for a 25 per cent Single Person Discount (SPD) off their annual council tax bill. The National Records of Scotland estimates that just under 38 per cent of households are entitled to a single person discount.²

63. [Exhibit 11 \(page 22\)](#) provides an indicator of the scale of the discount value across Scotland when applied to average band D charge. This demonstrates that this discount is of considerable value and therefore it is of particular importance to ensure that awards are properly made.

Exhibit 11

Council tax SPD estimate



823,314
Single person households



£1,149
Scottish band D average charge (2012/13)



£287.25
Average 25% discount



£236,496,947
Estimated annual discount value

Source: Audit Scotland

64. This NFI match is very simple in that it matches council tax records to the electoral register and a match is returned where a single person discount has been awarded but the electoral register indicates that another countable adult is living there. A letter can then be issued by council staff seeking clarification of household composition and initiate further investigations if required.

65. There were 48,089 matches returned to the 30 Scottish councils that submitted data. Of these, 20 councils have processed 15,813 matches and recorded £2.5 million outcomes with 573 still being investigated. Some councils use additional data matching options to undertake this review and some do not record results on the NFI system. The average return of the 15,813 matches processed is £158 per match.

Other matches**Payroll**

66. The NFI matches data to identify cases of potential payroll fraud. But investigations can also lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Apart from other consequences, excessive working hours may pose public safety risks.

67. The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to reside or work in the UK and the NFI provides bodies with a means of supplementing their recruitment checks.

68. As a result of the 2012/13 matches, three public sector employees in Scotland have so far been dismissed or resigned after bodies confirmed that they did not have permission to reside or work in the UK.

Case study 3

An overseas worker continued working after the expiry of their right to work visa in 2009 (they had been working at the health board legally since 2007). The value of the employee's salary since 2009 was £77,290. Their contract was terminated in 2013.

Source: NHS

Student immigration checks

69. Since the NFI 2006/07 the SAAS has been provided with its own matches, identifying cases where students may not hold valid permissions to reside or study in the UK.

70. SAAS has recorded ten cases of students that were found, after investigating the NFI matches with the Home Office, not to be entitled to receive support. This was because either these individuals were not entitled to be in the UK or they had lied about their personal circumstances. These students had received student support amounting to about £163,451.

Case study 4

A student applied for funding to undertake a Diploma in Nursing. In their application, they stated that they had been born in South Africa and that their nationality was South African. They stated that they had been ordinarily resident in the UK for three years and had indefinite leave to enter or remain in the UK.

The SAAS received a copy of the student's residence permit showing that there was no time limit on their stay in the UK and processed the award accordingly.

The student's data was matched against Home Office data as part of the NFI 2012/13 exercise. A full visa history from the Home Office stated that the student had no legal status in the UK. It also confirmed that the United Kingdom resident permit provided to SAAS to support their eligibility for funding was a false document (a photocopy).

The student has been paid a total of £8,832 to date. However, had the fraud not been picked up through the NFI, the total funding package would have been £26,372.

As part of the investigation into this student, it was discovered that the student's partner had also provided false documentation to support their own application for student support. They had received a total of £17,138 to date.

SAAS officers interviewed both individuals under caution and submitted a case to the procurator fiscal. A trial date has been set for later this year.

The Home Office is currently taking separate action against both parties.

Source: Audit Commission NFI secure web application and SAAS

Case study 5

A student's data was matched against Home Office data as part of the NFI 2012/13 exercise. A full visa history was received from the Home Office stating that they had a valid student visa between 1998–2002 but have had no legal status in the UK since 2002. This student has received a total of £53,806 student funding.

SAAS officers interviewed the individual under caution and submitted a case to the procurator fiscal. A trial date has been set for later this year.

Source: Audit Commission NFI secure web application and SAAS

Payments to private residential care homes

71. The NFI matches information about private residential care home payments to data about deceased persons. This can identify where payments may be continuing for people who have died.

72. The NFI helped councils identify 120 cases from these data matches and overpayments worth £22,150. The majority (99 per cent) of these overpayments are being recovered.

Right to Buy

73. The NFI matches data relating to tenants that have bought, or are in the process of buying, their council property at a discount as part of the Right to Buy (RTB) scheme. The match, to housing benefit and other tenancy records, enables councils to identify potential cases where they may have been acting on false information provided in support of the RTB application. It also identifies change of circumstances such as the former tenant selling the property within the discount period. This means that some, or all, of the discount amount could be owed to the council.

74. The Audit Commission *Protecting the Public Purse 2013* report identified a 168 per cent increase in detected RTB cases in England. In Scotland two councils have identified three RTB cases, for the first time, where applications for RTB have been withdrawn following investigations following the NFI matches. Had these ineligible applications been successful these valuable social housing lets would have been unavailable to eligible tenants and councils might have incurred considerable additional housing costs to rehouse these people.

75. The Housing (Scotland) Bill currently going through the Scottish Parliament intends to end RTB in Scotland. Until this happens, the NFI RTB matches will continue to highlight potential cases where ineligible applications are being made.

What bodies actually save or recover because of the NFI

76. The estimated value of the NFI to the public purse since we last reported in May 2012 is £16 million. However, some of this represents overpayments that will never be recovered and estimated values that have been attached, for example, to cancelling a blue badge. These amounts may not translate into cash savings, but they are valuable outcomes nonetheless.

Case study 6

A Right to Buy to housing tenancy match highlighted a case where a person had lodged a Right to Buy application with one council despite them also holding a tenancy in a different council. The investigation confirmed that the tenant was also claiming housing benefit at the second address.

The tenancy fraud officer confirmed with the tenant that they did indeed hold two tenancies. The tenant had not felt they had done anything wrong providing they paid the rent. They have since ended their tenancy with the council where they were not actually residing but their son was. The Right to Buy application has also been revoked and the council is preparing the case for prosecution.

Source: Audit Commission

77. Audit Scotland previously canvassed bodies and established from those that responded that the NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do not keep separate records of the NFI recoveries. Indeed, Audit Scotland would prefer that bodies devoted their resources to investigation work, rather than require them to record the NFI amounts that are often recovered by frequent small payments over long periods of time.

78. Based on the current NFI exercise the recovery rate is 66 per cent, excluding estimates. If we add the estimated forward savings from areas such as benefits and pensions, being public money which has been prevented from being paid out in fraud or error following investigations, we can reasonably estimate that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £16 million.

79. This then is an identified direct cost to public bodies and taxpayers where fraud and errors have taken place. There are also other costs that are incurred where frauds and errors are identified. These include:

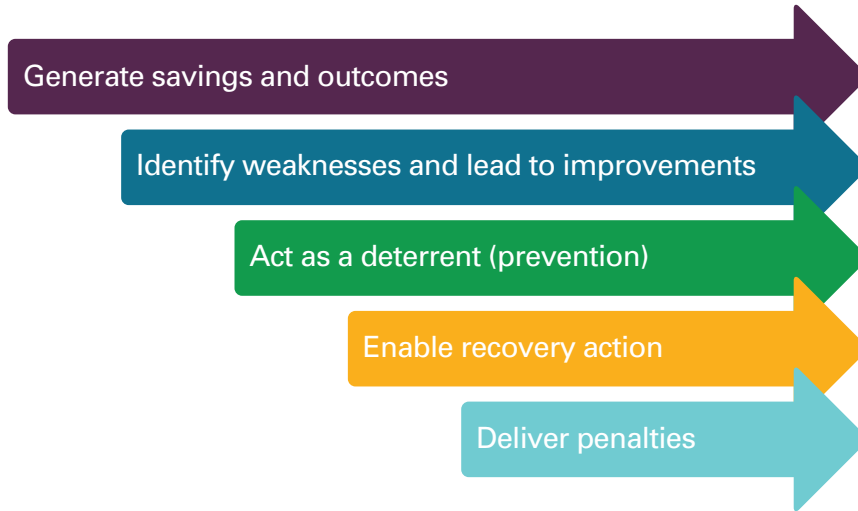
- the cost of investigating, correcting and recovering frauds and errors
- the opportunity cost of investigating, correcting and recovering frauds and errors instead of providing services
- the social cost of awarding incorrect benefits or providing ineligible services
- the reputational cost of failing to prevent frauds or in making errors.

What does the level of outcomes tell us?

80. The NFI impacts on a number of levels and across a number of bodies. These levels are summarised in [Exhibit 12 \(page 26\)](#).

Exhibit 12

The NFI impacts on a number of levels and across a number of bodies



Source: Audit Scotland

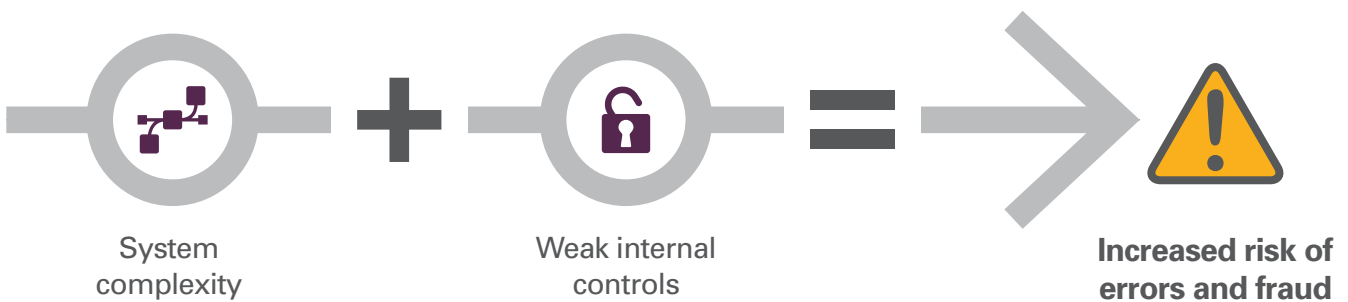
81. A key benefit of the NFI is the fact that by identifying fraud and error the opportunity is provided to bodies to establish why they occurred and then improve their systems. This can be done by:

- simplifying system processes
- reviewing and strengthening the internal controls that failed to stop or capture errors or fraud.

82. While it would be difficult to eliminate all errors and prevent all frauds the NFI can provide the focus for such reviews to take place. [Exhibit 13](#) summarises the circumstances where fraud and error are most likely to be found.

Exhibit 13

Circumstances that increase the risk of error and fraud



Source: Audit Scotland

83. System complexity can result in errors made by either the individual wishing to obtain a service or by the public servant processing the data. Where an individual knowingly exploits systems and controls by providing incorrect information, this is fraud.

84. The most effective approach to reduce the overall cost of fraud and error is to prevent it occurring in the first place. Both fraud and error can be reduced by public bodies establishing and maintaining sound systems of internal controls.

85. Audit Scotland does not take a view on whether high levels of the NFI outcomes are a good result or not. High levels of outcomes could be due to increased fraud and error in the system or to poor internal controls in operation.

86. Equally important is the assurance given to these bodies with few matches that in the areas covered by the NFI, there do not appear to be significant problems and the deterrent effect created by the NFI exercise taking place and being communicated to those whose data is included.

Part 3

Helping to improve, holding to account



Key messages

- 1** 81 per cent of participating bodies managed their roles in the NFI 2012/13 exercise satisfactorily.
- 2** 29 per cent of bodies need to follow up their matches more promptly.
- 3** Over a third of participating bodies need to integrate the NFI into their corporate policies and strategies for preventing and detecting fraud and error.
- 4** 17 per cent of bodies reviewed were considered not to have deployed sufficient resources for managing the NFI.

Overall findings

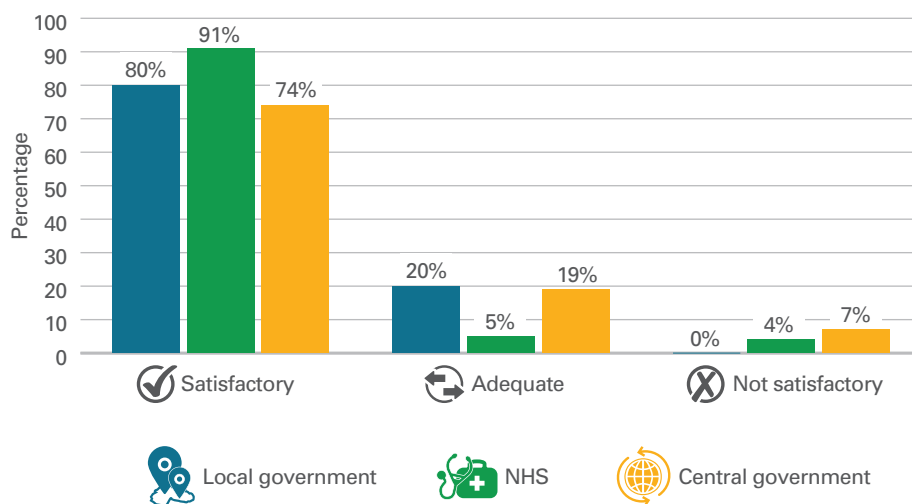
87. Local auditors concluded that 81 per cent of participating bodies had managed their role in the NFI 2012/13 exercise satisfactorily. However, a few showed scope for significant improvement.

88. [Appendix 2 \(page 37\)](#) includes a two-part checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to and during the NFI 2014/15 exercise. [Part A \(page 37\)](#) is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI. [Part B \(page 38\)](#) is for officers involved in planning and managing the NFI exercise.

89. Auditors also provided up-to-date information about each body's NFI performance and progress at the end of December 2013. In reaching their conclusions, auditors do not attach significant weight to the value of the NFI outcomes achieved by bodies but do look to see that bodies have approached the exercise proportionately and effectively.

90. While 81 per cent is slightly down on the 2010/11 exercise ratings, it continues to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that all sectors are taking the NFI seriously by putting adequate arrangements in place.

91. The biggest change from the last exercise is that central government bodies have, overall, weakened arrangements in comparison with NHS (improved) and local government (stayed the same) sectors ([Exhibit 14, page 29](#)).

Exhibit 14**External auditor review of the NFI arrangements**

Source: External auditors

92. The central government sector had the greatest number of new bodies participating in the NFI 2012/13 and this, together with the diversity and size of new bodies, perhaps explains the weaker results and opportunity for improvement.

93. Local government has the largest range of data sets and number of matches returned. It is not entirely unexpected, therefore, that they have been identified as having some scope to improve.

94. The NHS has improved its arrangements based on auditor returns and this is to be commended.

95. The majority of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment, while 90 per cent of the officers nominated to coordinate the exercise were considered suitable for the role.





Other key aspects of auditor reviews:

- 89 per cent of bodies submitted their data on time
- 91 per cent of bodies gave priority to following up recommended matches
- 15 bodies were considered not to have deployed sufficient or appropriate resources for managing the NFI exercise.

Areas that need improvement

96. Exhibit 15 summarises the key areas where local auditors indicated that there was room for improvement.

Exhibit 15 Areas of concern

| Areas of concern | Percentage of bodies needing to improve |
|---|---|
| Bodies are slow to follow up matches |  29% |
| There is limited or no internal audit monitoring of the NFI approach and outcomes to ensure identified weaknesses are addressed |  39% |
| Fraud and error polices and strategy did not integrate the NFI arrangements |  38% |
| Reporting the NFI progress and outcomes to senior management and board/members is limited or does not happen |  24% |

Source: External auditors

97. Auditors will follow up these findings in those bodies where improvements were required as part of the 2014/15 NFI exercise.

98. Auditors confirmed that appropriate arrangements had been made for issuing fair processing notices to those individuals whose data was submitted for the exercise.

99. Auditors reported that 11 per cent of bodies submitted data for the NFI 2012/13 after the specified processing deadline. This creates a need for another processing run at a future date, and thereby unnecessarily increases the cost of processing data. These bodies fell several months behind the other participants while waiting for their matches as well as causing other bodies to receive further matches.

100. Auditors reported that 21 per cent of bodies did not record their outcomes fully on the NFI secure website. Many could also improve the way they record their investigations and conclusions on the NFI application. Audit Scotland will work with colleagues in the Audit Commission to improve the clarity of recording requirements. [Appendix 3 \(page 41\)](#) provides some help in this area. However, the likely effect is that the value of the outcomes referred to in this report is understated in some areas.

Part 4

Future of the NFI



Key messages

- 1** The Cabinet Office is the new home of the NFI from 2015 and regards the use of data matching as an important tool in the prevention and detection of fraud.
- 2** The 2014/15 NFI exercise is due to start in June 2014 and Audit Scotland expects a smooth transition.
- 3** The next exercise will again look to expand the range of participating bodies and data sets.
- 4** The NFI is increasing its opportunities for flexible and real time data matching options aimed at fraud prevention.
- 5** The introduction of the Single Fraud Investigation Service (SFIS) has major implications for resourcing of council counter-fraud work.

Cabinet Office

101. Following the abolition of the Audit Commission it was recognised that certain key activities and services needed to be maintained. The NFI was recognised as one of these key areas and the Local Audit and Accountability Act (England) 2014 will transfer data matching powers and the Audit Commission's NFI team to the Cabinet Office on 1 April 2015.

102. These changes should have no direct impact in Scotland. Audit Scotland expects the same continuity of service for those taking part based on:

- Audit Scotland having its own data matching powers conferred to it by the Scottish Parliament ([Appendix 1, page 35](#))
- the core NFI team with all its experience and support is being transferred
- the third party contract for running the NFI web application will also transfer to the Cabinet Office
- the positive talks held with the Cabinet Office and other national audit agencies on the future of the NFI.

Participating bodies and data sets

103. Audit Scotland will continue to look at which bodies should be asked to submit data and which data sets. This exercise mandated the majority of data sets for the first time and expanded the number of bodies participating so it is unlikely that the number of bodies will increase significantly. It also brought in the further education sector for the first time and, given the housing benefit outcomes identified based on the payroll data from this one college, the participation for this sector may be expanded.

104. In terms of data sets the direct payments made to eligible people for long-term social care support have been successfully piloted by the Audit Commission in England and will be considered for inclusion in the 2014/15 NFI exercise in Scotland for Scottish councils.

105. The draft data specifications are available on the Audit Commission's website and key contacts have been notified of these.

106. There are some very large registered social landlords' tenancy databases that Audit Scotland would like to work with to ensure the eligible and most vulnerable are being housed. This would have to be provided on a voluntary basis but Audit Scotland sees it as an area where a positive impact can be made.

Single Fraud Investigation Service (SFIS)

107. The introduction of the SFIS has major implications for resourcing of council counter-fraud work. In the near future many experienced and trained counter-fraud experts will move to the SFIS who will then investigate all welfare benefits.

108. The risk for local government bodies is that they do not adequately address this resource loss to ensure that sufficient capacity remains to counter other types of corporate frauds.

The NFI 2014/15 aims

109. The overall aims of the NFI are to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation
- contributing effectively to the fight against fraud.

110. To meet these aims the NFI 2014/15, which will be launched in June 2014, will involve work under three broad themes:

- Continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks.
- Putting more emphasis on fraud prevention through the development of real time data matching services.
- Extending data matching for fraud purposes to a broader range of organisations and sectors.

111. Audit Scotland looks forward to the next NFI exercise and continuing to work with the Audit Commission and Cabinet Office, other UK audit agencies and participating bodies to successfully deliver these aims.

112. In the longer term the roll-out of Universal Credit is expected to have an impact on the data sets contributing to the NFI. The future direction of the exercise will be assessed at that time.

Endnotes



-
- ◀ 1 For NFI data matching, individuals recorded as qualifying for council tax single person discount on the basis that they live with other disregarded adults are excluded.
 - ◀ 2 *Estimates of Households and Dwellings in Scotland*, National Records of Scotland, 2012.

Appendix 1

Governance arrangements



Background

The following summarises the key legislation and controls governing the NFI data matching exercise.


Legislation

The NFI 2012/13 exercise was carried out under powers given to Audit Scotland for data matching included in the Criminal Justice and Licensing (Scotland) Act 2010 passed by the Scottish Parliament. Under this legislation:

- Audit Scotland may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders
- Audit Scotland may require specified persons to provide data for data matching exercises. These include all the bodies to which the Auditor General for Scotland or the Accounts Commission appoints auditors, licensing boards, and officers, office holders and members of these bodies or boards
- other persons or bodies may participate in Audit Scotland's data matching exercises on a voluntary basis. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to Audit Scotland
- the requirements of the Data Protection Act 1998 continue to apply
- Audit Scotland may disclose the results of data matching exercises where this assists the purpose of the matching, including disclosure to bodies that have provided the data and to the auditors appointed by the Auditor General for Scotland and the Accounts Commission
- Audit Scotland may disclose both data provided for data matching and the results of data matching to the Auditor General for Scotland, the Accounts Commission, the Audit Commission, or any of the other UK public sector audit agencies specified in Section 26D of the Public Finance and Accountability (Scotland) Act 2000, for the purposes described above
- wrongful disclosure of data obtained for the purposes of data matching by any person is a criminal offence

- Audit Scotland must prepare and publish a Code of Practice with respect to data matching exercises. All bodies conducting or participating in its data matching exercises, including Audit Scotland itself, must have regard to this code
- Audit Scotland may report publicly on its data matching activities.

Code of data matching practice

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data-protection safeguards such as a requirement for Audit Scotland to prepare a Code of data matching practice, and to consult with the UK Information Commissioner and others before publication. Our code, [The Code of data matching practice 2010 \(PDF\)](#) , was updated in November 2010 to reflect the new legislation and to ensure that the NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for the NFI purposes.

The NFI web application

Bodies access the application via the internet using password access and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Audit Commission regularly reviews the application and implements developments to improve its functionality, ease of use, and security.

Interactive training was available to participating bodies and auditors via the web application to support the Audit Commission and Audit Scotland Guidance.

Security review and accreditation

The Audit Commission's NFI system is accredited to government standards¹ and is subjected to regular stringent security review. This covers infrastructure, information storage, handling and processing when under the control of the Audit Commission's data processing contractor and the NFI team. The review was undertaken by a consultant from the National Computing Centre (NCC) who confirmed compliance with government information standards.

This accreditation involved demonstrating to key government departments that the NFI is suitably secured and that information risks are managed to government standards. The NCC also undertook independent penetration testing of the NFI systems and concluded that the NFI was '...well implemented and robust from a security perspective'.

As well as regular internal reviews by the Audit Commission, the other UK audit agencies (ie, Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the National Audit Office) now also share a programme of independent audits of the different aspects of the NFI data security. The Information Commissioner's Office has also conducted an NFI data security audit at the invitation of the Audit Commission.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

¹ The National Fraud Initiative (NFI) system has undergone accreditation against HMG Information Assurance Standard No.1&2.

Appendix 2

Self-appraisal checklist



| Part A: for those charged with governance | Yes/No/Partly | Is action required? | Who by and when? |
|--|---------------|------------------------|---------------------|
| Leadership, commitment and communication | | | |
| <p>1 Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?</p> | | | |
| <p>2 Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?</p> | | | |
| <p>3 Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?</p> | | | |
| <p>4 Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?</p> | | | |
| <p>5 Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?</p> | | | |
| <p>6 Do we review how frauds and errors arose and use this information to improve our internal controls?</p> | | | |
| <p>7 Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?</p> | | | |

| Part B: for the NFI key contacts and users | Yes/No/Partly | Is action required? | Who by and when? |
|--|----------------------|--------------------------------|-----------------------------|
| Planning and preparation | | | |
| 1 Are we investing sufficient resources in the NFI exercise? | | | |
| 2 Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data. | | | |
| 3 Is our NFI key contact (KC) the appropriate officer for that role and do they oversee the exercise properly? | | | |
| 4 Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation? | | | |
| 5 Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes? | | | |
| 6 Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements? | | | |
| 7 Do we plan to provide all NFI data on time using the secure data file upload facility properly? | | | |
| 8 Do we adequately consider the submission of any 'risk-based' data-sets in conjunction with our auditors? | | | |
| 9 Have we considered using the real-time matching (Flexible Matching Service) facility offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management? | | | |
| Cont. | | | |

| Part B: for the NFI key contacts and users | Yes/No/Partly | Is action required? | Who by and when? |
|--|---------------|------------------------|---------------------|
| Effective follow up of matches | | | |
| 10 Do all departments involved in NFI start the follow-up of matches promptly after they become available? | | | |
| 11 Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly? | | | |
| 12 Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up? | | | |
| 13 Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular? | | | |
| 14 (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services? | | | |
| 15 Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the procurator fiscal)? Are we recovering funds effectively? | | | |
| 16 Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error? | | | |
| 17 Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work? | | | |
| 18 Overall, are we deploying appropriate resources on managing the NFI exercise? | | | |

Cont.

| Part B: for the NFI key contacts and users | Yes/No/Partly | Is action required? | Who by and when? |
|--|---------------|------------------------|---------------------|
| Recording and reporting | | | |
| 19 Are we recording outcomes properly in the secure website and keeping it up to date? | | | |
| 20 Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)? | | | |
| 21 If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes? | | | |

Appendix 3

How to work more efficiently



| Concerns | How to work more efficiently |
|--|--|
| Many participants are not using the latest time-saving enhancements to the NFI software. | Ensure staff within the organisations that take part in the NFI keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches. |
| Matches that are time critical and could identify an overpayment are not acted on first. | Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration, can be dealt with as soon as they are received. |
| Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments. | Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned. |
| Disproportionate time is spent looking into every match in every report. | Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations. |
| Enquiries from other organisations that take part in the NFI are not always responded to promptly. | Prioritise responses to enquiries from other organisations so investigations can be progressed. |
| Data quality issues that are highlighted within the web application are not addressed before the next NFI exercise. | Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches. |

Source: Audit Commission NFI team

The National Fraud Initiative in Scotland

This report is available in PDF and RTF formats, along with a podcast summary at:

www.audit-scotland.gov.uk 

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Appendix 2

Self-appraisal checklist



| Part A: for those charged with governance | Yes/No/Partly | Is action required? | Who by and when? |
|--|--|---|--|
| Leadership, commitment and communication | | | |
| Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff? | Yes – Senior Management and Audit Committee are committed to NFI. | N/A | N/A |
| Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error? | Yes –Argyll & Bute Council actively use NFI matches. | Yes – Anti-Fraud Strategy to be reviewed to include increased reference to NFI. | Chief Internal Auditor September 2015 |
| Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)? | Yes –Progress and Outcomes are reported via Internal Audit Activity Summary report at each Committee meeting | N/A | N/A |
| Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are? | We have met all data submission requirements. Additional arrangements are in place in respect of Creditors and C/Tax | N/A | N/A |

discount activity.

| | | | |
|---|--|------------|------------|
| <p>Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?</p> | <p>Yes – Internal Audit monitor progress and outcomes.</p> | <p>N/A</p> | <p>N/A</p> |
| <p>Do we review how frauds and errors arose and use this information to improve our internal controls?</p> | <p>Yes – A policy is in place whereby the Chief Internal Auditor is notified of an Internal Control weaknesses identified during fraud investigations.</p> | <p>N/A</p> | <p>N/A</p> |
| <p>Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?</p> | <p>Yes – Number of Prosecutions, Sanctions and Cautions is publicly available on website and available internally via scorecards.</p> | <p>N/A</p> | <p>N/A</p> |

Audit Committee Work Plan 2015-16

June 2015: This is an outline plan to facilitate forward planning of reports to the Audit Committee.

| Date | Report Designation | Lead Service | Regularity of occurrence/ consideration | Date of Reports to Committee Services | Additional Comment |
|---------------------|--|--|---|---------------------------------------|--------------------|
| Friday 19 June 2015 | | | | | |
| | Argyll and Bute Alcohol and Drugs Partnership Progress Report | Chief Officer Argyll & Bute Health and Social Care Partnership and Argyll and Bute ADP Chair & Executive Director – Community Services | By Exception | 10 June 2015 | |
| | Unaudited Financial Accounts | Interim Head of Strategic Finance | Annual | 10 June 2015 | |
| | Review of Code of Corporate Governance | Interim Head of Strategic Finance and Executive Director – Customer Services | Annual | 10 June 2015 | |
| | Best Value Audit 2015 | Interim Head of Strategic Finance | Annual | 10 June 2015 | |
| | Risk Management and Audit | Chief Executive | Annual | 10 June 2015 | |
| | Health and Social Care Integration – Due Diligence | Chief Internal Auditor | By Exception | 10 June 2015 | |
| | Feedback Analysis – Audit Committee Effectiveness Session/Audit Committee Development Plan 15 - 16 | Vice Chair Audit Committee | By Exception | 10 June 2015 | |

Audit Committee Work Plan 2015-16

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|--------------------------|--|----------------------------|-----------|-------------------|--|
| | Audit Committee Annual Report 2014/15 | Chair Audit Committee | Annual | 10 June 2015 | |
| | Internal Audit - Annual Report 2014-15 | Chief Internal Auditor | Annual | 10 June 2015 | |
| | Internal Audit Summary of Activities | Chief Internal Auditor | Quarterly | 10 June 2015 | |
| | Internal Audit Reports to Audit Committee 2015 - 2016 | Chief Internal Auditor | Quarterly | 10 June 2015 | |
| | External & Internal Audit Report Follow up 2014 - 2015 | Chief Internal Auditor | Quarterly | 10 June 2015 | |
| | External Audit Reports | External Auditors | Quarterly | 10 June 2015 | |
| | National Fraud Initiative in Scotland | External Auditors | Bi-Annual | 10 June 2015 | |
| Friday 25 September 2015 | | | | | |
| | Internal Audit Reports | Chief Internal Auditor | Quarterly | 16 September 2015 | |
| | Internal Audit Activity Summary Report | Chief Internal Auditor | Quarterly | 16 September 2015 | |
| | Internal /External Audit Follow up | Chief Internal Auditor | Quarterly | 16 September 2015 | |
| | Audit Committee Action Plan | Chief Internal Auditor | Quarterly | 16 September 2015 | |
| | Risk Management Annual Assurance Report | Head of Strategic Finance | Annual | 16 September 2015 | |
| | Treasury Management Annual Assurance Report | Head of Strategic Finance | Annual | 16 September 2015 | |
| | Performance Management Annual Assurance Report | Head of Improvement and HR | Annual | 16 September 2015 | |
| | External Audit Reports | External Auditors | Quarterly | 16 September 2015 | |

Audit Committee Work Plan 2015-16

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|---|--|--|-----------|-------------------|--|
| | External Audit Annual Report | External Auditors | Annual | 16 September 2015 | |
| | Audited Financial Statements | Head of Strategic Finance | Annual | 16 September 2015 | |
| | Governance of Community Planning Partnership | Area Governance Manager & Community Planning Manager | | 16 September 2015 | |
| Friday 4 December 2015 | | | | | |
| | Internal Audit Reports | Chief Internal Auditor | Quarterly | 25 November 2015 | |
| | Internal Audit Activity Summary Report | Chief Internal Auditor | Quarterly | 25 November 2015 | |
| | Internal /External Audit Follow up | Chief Internal Auditor | Quarterly | 25 November 2015 | |
| | Audit Committee Action Plan | Chief Internal Auditor | Quarterly | 25 November 2015 | |
| | Draft Internal Audit Annual Plan | Chief Internal Auditor | Annual | 25 November 2015 | |
| | External Audit Reports | External Auditors | Quarterly | 25 November 2015 | |
| | Annual Assurance Map Review | External Auditors | Annual | 25 November 2015 | |
| | Strategic Risk Register Review | Head of Strategic Finance | Annual | 25 November 2015 | |
| Future Reports – dates to be determined | | | | | |
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