



Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
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25 November 2016

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 2 DECEMBER 2016** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
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- 3. MINUTES** (Pages 1 - 6)
Minutes of the Audit Committee held on Friday 23 September 2016
- 4. EXTERNAL AUDIT**
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Report by Head of Strategic Finance
- 11. AUDIT COMMITTEE DEVELOPMENT PLAN** (Pages 191 - 194)
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- 12. AUDIT COMMITTEE WORKPLAN 2016 - 2017** (Pages 195 - 196)
Draft Audit Committee Workplan 2016 - 2017

Audit Committee

Martin Caldwell (Chair)
Councillor Iain MacLean
Councillor Elaine Robertson
Sheila Hill (Vice-Chair)

Councillor Michael Breslin
Councillor Roderick McCuish
Councillor Richard Trail

Contact: Adele Price-Williams

Tel. No. 01546 604480

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY,
LOCHGILPHEAD
on FRIDAY, 23 SEPTEMBER 2016**

Present:

Martin Caldwell (Chair)

Councillor Michael Breslin

Councillor Richard Trail

Councillor Iain Stewart MacLean

Sheila Hill

Attending:

Kirsty Flanagan, Head of Strategic Finance

Peter Cupples, Finance Manager

Kevin Anderson, Chief Internal Auditor

Fiona Mitchell-Knight, Audit Scotland

David Jamieson, Audit Scotland

Russell Smith, Audit Scotland

David Forshaw, Principal Accountant

Allen Stevenson, Head of Adult Services – East

Rona Gold, Community Planning Manager

Carolyn McAlpine, Human Resources and Organisational Development
Manager

Graeme Forrester, Area Committee Manager

The Chair welcomed Councillor Iain MacLean to his first meeting of the Audit Committee and wished the current Audit Scotland team all the best for the future as a new team will be in place for the next Audit Committee Meeting in December 2016.

1. APOLOGIES FOR ABSENCE

There were no Apologies for Absence intimated.

2. DECLARATIONS OF INTEREST

There were no Declarations of Interest intimated.

3. MINUTES

The Minutes of the Audit Committee held on Friday 17 June 2016 were approved as a correct record.

4. INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Audit Committee considered a report providing an update on Internal Audit activity during Quarter 2 on a number of areas including;

- 2016 / 2017 Audit Plan progress;
- Individual Audits undertaken;
- Continuous Monitoring Programme Testing;
- Internal Audit Development Plans; and
- Performance indicators.

Members were advised that in addition to the audits presented, a number of audits for Quarter 3 were currently at draft stage and would be issued to the Committee after final sign-off in the forthcoming weeks.

The Committee were advised that National Reports and any recommendations requiring follow-up will continue to be included in this quarterly report.

Decision

The Committee noted the content of the report.

(Reference: Report by Chief Internal Auditor dated 23 September 2016, submitted)

5. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2016 - 2017

The Audit Committee considered a report providing detail in respect to the following seven audits;

- Adult Care - Charging Scheme – Waivers.;
- CAA Compliance – Oban Airport;
- Census Submission Protocols;
- Hib North;
- Leader;
- Resource-link; and
- Strategic Finance.

The Head of Adult Services – East and the Principal Accountant advised the Committee that the management actions as set out in the report on Adult Care were underway.

In discussing the Adult Care - Charging Scheme – Waivers and Strategic Finance audits, members stated concerns regarding arrangements currently in place within the Integration Authority for effective communication and accountability.

Decision

The Committee noted the content of the summary report and detail contained within each individual report.

(Reference: Report by Chief Internal Auditor dated 23 September 2016, submitted)

At this point the Head of Adult Services - East and the Principal Accountant left and took no further part in the meeting.

6. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW-UP 2016 - 2017

The Committee considered a report and accompanying appendices detailing the results from a review performed by Internal Audit documenting the progress made by departmental management in implementing the recommendations made by both External and Internal Audit which are due to be implemented by 31 July 2016.

The Committee were advised that Internal Audit had agreed to reschedule the Review of Roads Maintenance Prioritisation 2015/16 element and now the new

Network and Standards manager is in post the element is expected to be completed by 30 November 2016.

Decision

The Audit Committee noted the contents of the report.

(Reference: Report by Chief Internal Auditor dated 23 September 2016, submitted)

7. LOCAL SCRUTINY PLAN 2016 - 2017 - AUDIT SCOTLAND

Members of the Audit Committee were presented with a report introducing the Local Scrutiny Plan (LSP) 2016/17. The LSP sets out the planned scrutiny activity in Argyll and Bute Council during 2016/17 and is based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising of all scrutiny bodies who engage with the Council.

Discussion focused on concerns that the self-evaluation of the care inspectorate might not address the client's view; with a need to be client not contractor led. Fiona Mitchell-Knight advised the Members that in her capacity as LAN Communicator lead for Audit Scotland she could pass on concerns expressed by the Committee.

Decision

The Committee noted the content of the Local Scrutiny Plan 2016/17.

(Reference: Report by Head of Strategic Finance dated 23 September 2016, submitted)

8. NATIONAL FRAUD INITIATIVE IN SCOTLAND

In June 216 Audit Scotland produced a bi-annual report on the National Fraud Initiative (NFI) in Scotland which provided some key messages in respect of NFI activity and recommendations which the Committee considered.

Decision

The Audit Committee noted;

- i) the findings from the recent Audit Scotland report covering outcomes from the NFI in Scotland for the 2014/15 data matching exercise;
- ii) that the Council has participated in the NFI programme to assess data matched applicable to this organisation; and
- iii) the self-appraisal of the Council's approach to participation in NFI exercises, as outlined in Appendix 2 of the national report.

(Reference: Report by Chief Internal Auditor dated 23 September 2016, submitted)

9. TREASURY MANAGEMENT ASSURANCE REPORT

A report providing detailed assurance to the Committee that appropriate arrangements are in place relating to management controls and risk for treasury management was considered by Members.

Decision

The Audit Committee noted the Treasury Management Assurance Report.

(Reference: Report by Head of Strategic Finance dated 23 September 2016, submitted)

10. AUDITED FINANCIAL ACCOUNTS

The External Auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2016. The audited accounts incorporating the audit certificate for 2015/16, which contained no qualifications, were presented to the Audit Committee.

Decision

The Audit Committee;

- i) approved the audited accounts for issue; and
- ii) congratulated the Head of Strategic Finance for the Audited Accounts containing no qualifications.

(Reference: Report by Head of Strategic Finance dated 23 September 2016, submitted)

The Audit Committee adjourned at 12:57 and reconvened at 13:14. At this point the Community Planning Manager joined the meeting.

11. EXTERNAL AUDIT ANNUAL REPORT

The Committee considered the proposed 2015/16 Annual Audit report to Members and the Controller of Audit in accordance with ISA260 International Standard on Auditing; and a draft letter of representation under ISA 580 to be signed and returned by the Accountable Officer with signed financial statements prior to the independent auditor's opinion being certified.

A summary of each of the main subject areas within the report was given as follows;

- Audit of 2015/6 financial statements;
- Financial management and sustainability;
- Governance and transparency;
- Best value; and
- Outlook

No issues of substantive concerns were raised. Members noted that once the financial statements had been certified the Annual Audit report would be issued in its final form.

Consideration was also given to two separate reports;

- ISA260 report in relation to the audit of Charitable Trusts administered by Argyll and Bute Council; and
- Audit Scotland's Argyll and Bute Council Asset Management report.

Decision

The Audit Committee noted the contents of the reports and the draft letters of representation under ISA 580.

(Reference: Reports by Audit Scotland dated 23 September 2016, submitted)

The Human Resources and Organisational Development Manager joined the meeting at this point.

12. REVIEW OF COMMUNITY PLANNING PARTNERSHIP GOVERNANCE

Audit Scotland reported in June 2014 that a recommendation for a review of governance arrangements for community planning was required as reported to the Audit Committee in September 2015. The Community Planning Partnership (CPP) has committed to review its governance on an annual basis to ensure it is compliant with any new legislation and to take account of feedback from its membership at strategic and local levels.

Discussion focussed on trust and communication between Area Community Planning Groups, Third Sector organisations, Community Councils and the Council.

Decision

Members of the Audit Committee noted;

- i) that the requirements of the Community Empowerment (Scotland) Act in relation to partners requiring to participate within community planning have been met;
- ii) the new management arrangements around the Single Outcome Agreement (SOA) delivery plans have been reviewed and strengthened; and
- iii) that the Community Planning Partnership will continue to review its governance, in light of the decisions made by Area Community Planning Groups and any further legislative requirements, and will report back to the Audit Committee in 12 months.

(Report by Executive Director - Community Services dated 29 August 2016, submitted)

13. PERFORMANCE MANAGEMENT REPORTING UPDATE 2016

The Audit Committee considered a report providing an update on progress of scrutiny of the Council's performance management processes and procedures as previously agreed by the Audit Committee in June 2013 as determined by the Committee's role to ensure that there are appropriate management systems in place.

The Committee was informed that consultation on the review of the Planning and Performance Management Framework has begun.

Decision

The Audit Committee noted the progress made against the agreed scrutiny process for the Council's performance management system and procedures.

(Report by Executive Director – Customer Service dated 23 September 2016, submitted)

14. AUDIT COMMITTEE WORKPLAN

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

Decision

The Committee noted the workplan and agreed to the addition of VAT Update report to be brought to December's meeting and the Local Scrutiny Plan will be presented to Members when it is issued by Audit Scotland next year.

(Reference: Report by Executive Director – Customer Services dated 23 September 2016, submitted)

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

02 DECEMBER 2016

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 3.
- 1.2 Core activities together with a progress update statement are shown below.
- **16/17 Audit Plan progress:** The Audit plan is currently on track.
 - **Individual Audits undertaken:** 9 audits have been completed during the period. Of these Audits, 3 are rated as High and 4 are rated as Substantial, 1 Reasonable and 1 No assurance.
 - **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.
 - **Performance indicators:** Current status is green / on track.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

02 DECEMBER 2016

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 3 against a number of areas;

- 16/17 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- Internal Audit Development Plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to:

- 1) Note the content of the report.
- 2) Approve the rescheduling of the Waste Management Audit

4. DETAIL

4.1 The 16/17 Audit Plan is currently on track. In addition to the reports submitted today there are an additional 3 audits currently in progress, being Common Good Property, Pool Cars and Risk Management.

4.2 There is one amendment to the 16/17 Audit plan which is as a result of service resourcing issues and competing workload commitments. This Audit will now take place in Quarter 1, 17/18 and has been factored into the draft 17/18 plan. As a substitute it is proposed that additional continuous monitoring activity will be undertaken.

4.3 Audits completed to November are detailed in Table 1.

Table 1: Summary of Audits performed in Quarter 3 2016/17

Audit Name	Level of Assurance	No. of Actions	High Actions
Procurement - PECOS	High	0	0
Off-Contract Purchasing	High	0	0
TOTAL – Roads Costing System	High	2	0
Debt Recovery & Write-off	Substantial	8	1
ICT (Grant Thornton)	Substantial	3	3
Children's Units	Substantial	8	1
TIF Tax Incremental Financing	Substantial	3	1
Property Maintenance	Reasonable	4	1
All Weather Pitch Facilities	No Assurance	7	7

4.4 Audits planned for the Quarter 4 16/17 are shown in the table below.

Quarter 4
Additional Support Needs
Service Planning
Sustainable Communities
Common Good Property

4.5 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. A follow up process is in place whereby management are advised of findings and where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Table 2 below summarises activity to date outlining issues arising and provides an overall level of assurance together with follow up detail.

Table 2: Continuous monitoring programme results:

Audit Unit	Areas Tested	Issues Arising	Overall Assurance Level	Follow up
Payroll and Overtime	<ul style="list-style-type: none"> Excessive & Regular Overtime Ghost Employees Duplicate Employees 	<ul style="list-style-type: none"> Excessive overtime payments None None 	Substantial	Demand /Activity levels have resulted in a requirement for overtime.
General Ledger	<ul style="list-style-type: none"> Creation and posting of journals demonstrate segregation of duties 	<ul style="list-style-type: none"> Sample of 20 journals tested, all were found to be uploaded and posted by separate individuals. 	Substantial	N/A
Council Tax	<ul style="list-style-type: none"> All discounts, benefits, exemptions and allowances are properly calculated, recorded and authorised before being input to the system. 	<ul style="list-style-type: none"> Sample of 50 discounts /exemptions, there was no supporting evidence available to support 2 of the discounts/ exemptions awarded. 	Substantial	Management have reminded staff to ensure supporting evidence is recorded appropriately.
Treasury	<ul style="list-style-type: none"> Borrowing & lending transactions (incl. segregation of duties, lending limits & access 	<ul style="list-style-type: none"> None 	Substantial	N/A

Audit Unit	Areas Tested	Issues Arising	Overall Assurance Level	Follow up
	to the system) <ul style="list-style-type: none"> Loans repayments & interest (incl. recording & payment of interest and any changes to standing data) 		Substantial	N/A
Creditors	<ul style="list-style-type: none"> Authorisation of batch invoice payments 	<ul style="list-style-type: none"> Sample of 40 invoice batches, 5 instances of non-compliance with the authorised signatory list were identified. 	Reasonable	Management to review limits and update authorised signatory list where appropriate.
NDR	<ul style="list-style-type: none"> All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll. Bills are correctly calculated (including discounts and reliefs etc) for all relevant properties. 	<ul style="list-style-type: none"> None None 	Substantial	N/A
School Fund Visit – Rockfield Primary School	<ul style="list-style-type: none"> Compliance with circular 1.10 	<ul style="list-style-type: none"> No formal elections are held. Elections are carried out informally at staff meetings. School do not currently document minutes of their school fund committee meetings. It was found that 	Substantial	<ul style="list-style-type: none"> Formal elections will be held at a meeting open to both staff and parents. Minutes of committee meetings will be documented Head Teacher

Audit Unit	Areas Tested	Issues Arising	Overall Assurance Level	Follow up
		<p>reconciliations are periodically checked and signed by the Head Teacher.</p> <ul style="list-style-type: none"> • School use a certification slip in the rare event of un-receipted expenditure, however this is only signed by the Treasurer/Head Teacher. • No inventories are maintained with regards to equipment purchased through the general fund. 		<p>will review and sign all reconciliations going forward.</p> <ul style="list-style-type: none"> • Going forward, all un-receipted expenditure slips will be signed by the Treasurer / Head Teacher and the person incurring the expenditure. • Inventories of equipment purchased through the general fund will be maintained.
School Fund Visit – St Columba’s Primary School	<ul style="list-style-type: none"> • Compliance with circular 1.10 	<ul style="list-style-type: none"> • No formal elections are held. Elections are carried out informally at staff meetings. • School do not currently document minutes of their school fund committee meetings. 		<ul style="list-style-type: none"> • Formal elections will be held at a meeting open to both staff and parents. • Minutes of committee meetings will be documented.

4.6 A follow up process for National/External reports is in place whereby management are advised of recommendations within reports and where appropriate, requested to take required actions. Table 3 below details the

National Reports issued during quarter 3 along with follow up detail.

Table 3: Issue of National Reports in Quarter 3:

National Report	Issued To	Detail	Management response/ Action taken
Audit Scotland – Social Work in Scotland	<ul style="list-style-type: none"> • Chief Executive • Chief Officer, Health & Social Care • Head of Strategic Finance • Head of Governance & Law 	Social work in Scotland is at a watershed and the public and service users must be more involved in shaping future provision. Current approaches to providing services will not be sustainable.	Report currently with management for consideration and will be subject to routine follow-up.
NAO – The Syrian Vulnerable Persons Resettlement Programme	<ul style="list-style-type: none"> • Chief Officer, Health & Social Care • Executive Director, Community Services • Business Improvement Manager, Community Services 	This report examines the achievements of the Syrian Vulnerable Persons Resettlement programme to date, the processes in place to deliver the programme, progress against the targets set, and the risks to future delivery of the programme and whether these are being addressed.	Report currently with management for consideration and will be subject to routine follow-up.
NAO - Children in need of help or protection	<ul style="list-style-type: none"> • Chief Officer, Health & Social Care • Head of Children & Families • Executive Director, Community Services • Acting Head of Education 	This report examines the department of Education's progress in improving the system to help and protect children.	For information only.

4.7 In addition to the Social Work in Scotland report mentioned in the table above we have previously issued National reports on Health and Social Care integration and Changing Models of Health and Social Care Integration. These reports make reference to risks in relation to governance and accountability. The partnership chief officer acknowledges these reports, and the issues contained within and, in an attempt to address some of these risks the partnership is currently undertaking an assurance mapping exercise. Internal Audit will review the outcome of this exercise together with some detailed follow up an update will be provided to the

March meeting of the Committee.

- 4.8 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified but the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. The Council is currently on track with NFI upload timetable and where matches have been released these are being reviewed.
- 4.9 This section highlights progress made against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. An additional action has been added in respect of self-assessment activity.

Table 4: 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: Strategic Finance service have recently been awarded Employer Accreditation (CIPFA)	On-going
Audit Plan Preparation	2017/18 Draft Plan submitted to December Audit Committee	Report submitted for discussion.	December 2016
SharePoint site	Roll – out stakeholder system view	Rescheduled to due available resource.	Rescheduled December 2016
PSIAS – Internal Self-Assessment	IA team to review process and guidance documentation in preparation for External review	On Track	February 2017

- 4.10 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2016 – 17 FQ 2 16/17		
TEAM RESOURCES		
PRDs IA Team G →	TARGET	Percentage of PRDs complete

	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	4	4	
Financial			
Revenue Finance	BUDGET	ACTUAL	G
YTD Position	£121,988	£110,112	→
Year End Outturn	£259,149	£259,149	
SF02 Assurance...that financial and management controls are operating effectively			
Audit risk assessment prepared by 31 January	Status	On Track	G
	Target	On Track	↑
Annual Audit Plan	Status	On Track	G
	Target	On Track	→
Annual audit plan approved by 31 March	Status	On Track	G
	Target	On Track	→
% of audit recommendations accepted	Actual	100%	G
	Target	100%	→
	Benchmark	100%	
% Recommendations followed up	Actual	100%	G
	Target	100%	→
	Benchmark		
Percentage qualified staff	Actual	50%	R
	Target	60%	→
	Benchmark		
% satisfaction rates from post audit surveys	Actual	90%	G
	Target	80%	↓
	Benchmark		
% customer satisfaction with audit reports	Actual	100%	G
	Target	80%	↑
	Benchmark		
Internal Audit Training days	Actual	24 days	R
	Target	30 days	↑
	Benchmark		

5. CONCLUSION

- 5.1 The 16/17 Audit Plan is currently on track. Our continuous monitoring programme has provided an overall substantial level of assurance. Planned sharepoint development work is currently on hold due to resource constraints.

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
02 December 2016**

For further information contact:

Kevin Anderson, Chief Internal Auditor (01369 708505)

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ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

02 DECEMBER 2016

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2016 - 2017

1. EXECUTIVE SUMMARY

- 1.1 There are 9 audits being reported to the Audit Committee.
- 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 identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

- 1.3 The attached reports contain the action plans which detail those findings where Internal Audit, in agreement with management, has classified the findings either high or medium. Findings classified as low have been removed.

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

- **Procurement (PECOS):** This audit has provided a high level of assurance. Improvements have been achieved since the previous audit in 2015/2016 with appropriate controls and procedures being put in place. There are still are marginal elements of residual risk in respect of non-compliance and deviation from agreed procedures, however, strengthened policies and procedures should assist to reduce the volume of these.
- **Off Contract Purchasing:** This audit provided a high level of assurance. There are processes and procedures in place for identifying, reporting & reducing off contract purchasing. A Procurement Manual 2016, Procurement Strategy 2015-2018, Sustainable Procurement Policy, Sustainable Procurement – Delivery Plan and Contract Standing Orders are in place and roles and responsibilities have been identified.
- **TOTAL Roads Costing System:** This audit has provided a high level of assurance. Policies, procedures and training manuals are available and there is sufficient documentation to evidence compliance with procedures. There were minor weaknesses identified in terms of documented roles and responsibilities and formal training procedures and records for D&I staff.
- **Debt Recovery & Write Off:** This audit has provided a substantial level of assurance. In general, documented policies and procedures are in place for the pursuance and write-off of debt; however an area of weakness was identified in relation to Social Work debts where the recovery process is not formally documented and which may lead to inconsistency in debt recovery practice.
- **Children's Units:** This audit provided a substantial level of assurance. It was evidenced that budget monitoring and the administration of imprest and client's funds were operating effectively and were compliant with the Council's Financial & Security Regulations in the units. However, there were minor weaknesses identified in relation to segregation of duties when ordering/receiving goods and failure to ensure inventories were maintained in 2 of the units.
- **Tax Incremental Financing:** This audit provided a substantial level of assurance. It was evidenced that adequate Governance arrangements are in place to monitor and deliver the TIF projects and that the project team is now sufficiently resourced. Issues were identified in terms of lack of an overarching programme chart, mitigation actions not completed for one risk register and capital cost projections outstanding for projects underway.
- **ICT –** This review was undertaken by our internal audit partners, Grant Thornton. The primary purpose of the IT needs assessment was to help identify and prioritise the key areas for inclusion in the Internal Audit Plan over the next three years.
- **Property Maintenance:** This audit provided a reasonable level of assurance. Detailed maintenance protocols and maintenance frameworks are in place however walkthrough testing of these identified some weakness in respect on contractor compliance and checking and authorisation controls. System reporting functionality is not fully utilised.

- **All Weather Pitches:** This audit provided a no assurance opinion. The review covered a period from 2000 to 2016 therefore some issues are of a historic nature. Significant matters and weaknesses were identified in basic controls which leave the system open to abuse, loss or error. Weaknesses include a failure adequately manage lease arrangements and failure to collect income due to the Council. There is a fragmented approach to the overall management of these facilities and roles and responsibilities were /are not clearly defined.

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 have agreed responses and timescales in the respective action plans.

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

02 December 2016

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



ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	PECOS
AUDIT DATE	SEPTEMBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Procurement and Commissioning - Procurement (PECOS) within Customer Services as part of the 2016/2017 Internal Audit programme.

The Professional Electronic Commerce Online System (PECOS) is an electronic purchasing system used throughout the Council. During financial year 15/16 approximately 26,000 orders were processed with a value of approximately £42.4 million. There are approximately 1000 users set up on the system across all service departments.

PECOS is a system that enables the Council to make their purchasing processes while generating efficiencies in respect of reduced paper based systems in relation to ordering and invoicing.

PECOS is a collaborative buying system used throughout the public sector in Scotland. It is a cloud based system that is hosted out with the Council's server environment; however, PECOS users can access the system from anywhere within the Council and also through the weblink from any non-Council PC as long as remote access has been granted.

PECOS is an application for ordering all goods and services needed to run day-to-day business. PECOS provides facilities to order via electronic catalogues or to order non-catalogue items, through approval routing, to receipting and financial settlement.

The PECOS system operates workflows which manage transactions and approvals, and supports interfaces into the Oracle system. Purchase information and general ledgers are updated via the interface routines. The system also produces reports providing management information such as spend analysis.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review the control environment of PECOS. This is a follow-up Audit of the report dated November 2015. Controls included:

- Authority – Roles and delegated responsibilities are documented in policies and procedures;
- Occurrence – Sufficient documentation exists to evidence compliance with policies, procedures;
- Completeness – All required documentation is accurately maintained;

- Measurement – Policies and procedures are in line with requirements;
- Timeliness – Policies and procedures are regularly reviewed and updated as necessary;
- Regularity – Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff

3. RISKS CONSIDERED

- The procurement system does not meet statutory, professional, best practice, requirements and standards.
- The system’s accuracy and effectiveness have not been assessed.
- The system, data and activities are not up to date.
- The system is not documented leading to a lack of awareness of processes and requirements.
- Authorities, roles and responsibilities have not been identified and assigned.

4. AUDIT OPINION

The level of assurance given for this report is High.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put

	some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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>
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5. FINDINGS

As part of this audit we reviewed the management actions identified in the Procurement – PECOS audit undertaken as part of the 2015/2016 audit plan. The 2015/2016 audit identified 3 high, 5 medium and 7 low recommendations. Further testing was undertaken of the findings and it was found that management action has contributed to an improvement in performance. There are still minor elements of non-compliance and deviation from agreed procedures however, these are deemed to be infrequent and strengthened policies, procedures, including staff training and information, should assist to reduce the volume of these. It was further noted that the Procurement and Commissioning team rely on departments following the policies and procedures.

The following findings were generated by the Audit:

- The previous audit identified that the authorised signatories list did not match the PECOS approval groups and that there were no standard templates of authorisation limits indicating approval levels. It was noted that work to complete the agreed action is ongoing with a target completion date of October 2016. This is a substantial piece of work and 2 out of 4 departments have completed the exercise.
- PECOS user application forms include an upper authorisation limit field; however it was found previously that this was not being used. Further testing was undertaken and of the user application forms tested, all were found to be compliant with this procedure.
- Audit findings noted a mixture of manual ordering and electronic ordering and agreed management action was to encourage further use of the system. It was noted that progress had been made in respect of the increased use of PECOS with an overall 10% increase on the same reporting period (based on value of invoice). It was noted that Improvement & HR are showing a downward trend, however upon further investigation it was found that figures are skewed as a result of one large value payment which was processed manually. Table below:

<u>Service</u>	Quarter 1		
	% on System 16/17	% on system 15/16	Movement from 15/16
Adult Care	37%	36%	↑ 1%
Children and Families	5%	4%	↑ 1%
Facility Services	61%	47%	↑ 14%
Community and Culture	67%	13%	↑ 54%
Customer and Support Services	71%	65%	↑ 6%
Education	34%	22%	↑ 12%
Governance and Law	21%	11%	↑ 10%
Improvement and HR	54%	62%	↓ -8%
Strategic Finance	22%	3%	↑ 19%
Economic Development	23%	12%	↑ 11%
Planning and Regulatory	48%	28%	↑ 20%
Roads and Amenity Services	79%	68%	↑ 10%
TOTAL	50%	40%	↑ 10%

- Weaknesses were previously found in housekeeping arrangements whereby employees who had left the employment of the council were still active users on PECOS. A new procedure has been introduced whereby a ‘leavers’ Cognos report is provided to Procurement and Commissioning staff to enable them to update their records. It was evidenced that records are now being updated regularly.
- PECOS was being used to facilitate minor utility payments made on a monthly basis. Testing found that payment of utility invoices were still being processed, however it was found that is not always appropriate or within the scope to direct all utility type supplier payments to the centralised billing processes. Exceptions include; domestic utility payments, works (fault fixing, connections, pipe re-directions, etc.).
- Previous audit findings identified that construction invoices had an incomplete audit trail. A standardised method of recording has been developed by the centralised procurement and commissioning team. Following the merger of the purchasing team

in April, changes were made to sub team processes to ensure consistency and to remove duplication of work and recording. Request forms are now stored elsewhere within the shared team server and are fully accessible and a full audit trail is available.

- It was previously found that there were a number of incidences where orders were entered onto the PECOS system retrospectively with insufficient description. Of the entries tested, orders that were entered onto the system retrospectively were now found to have sufficient descriptions to support the purchase made.
- It was noted previously that staff were re-using old order numbers for specific purposes. Further testing found that all orders had new individual order numbers and there was no evidence of re-use.
- It had been identified that PECOS is used as a form of contract monitoring in respect of a council-wide contract for multi-function devices (printer/copiers). The process is very complex and difficult to reconcile with a number of cancellations, updates and adjustments resulting in a less than clear audit trail. Following a review and feedback from other local authorities, it was determined that current processes were the deemed appropriate practice.
- An issue was highlighted in the previous audit report whereby the reconciliation process, which uses a match-all button, was being used in error. There is now a warning in place on PECOS advising staff to avoid using “match all function” and a process in place whereby matching takes place on a nightly basis.

6. CONCLUSION

This audit has provided a high level of assurance. Although improvements have been achieved since the previous audit in 2015/2016, further progress requires to be made to provide assurance that PECOS procedures are being adhered to. There are no recommendations for improvement identified as part of the audit.

Thanks are due to the Procurement and Commissioning 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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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	SYSTEM BASED AUDIT
AUDIT TITLE	PROCUREMENT AND COMMISSIONING – OFF CONTRACT PURCHASING
AUDIT DATE	OCTOBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Procurement and Commissioning – Off-contract Purchasing within Customer & Support Services as part of the 2016/2017 Internal Audit programme.

Procurement is the process followed when purchasing goods and services. This applies to all aspects of the purchasing process, from the identification of a need to purchase, to the end of the contract. All purchasing must take place in accordance with the Council's statutory duty to secure best value under the Local Government in (Scotland) Act 2003. The Council is required to develop their working practices to align with the requirements of the Public Procurement Reform (Scotland) Act 2014 which provides a national legislative framework for sustainable public procurement.

Off-contract purchases refer to the procurement of goods and services out with the approved suppliers list or contract frameworks. Purchases of goods and services made from sources other than approved suppliers and frameworks can potentially result in the ineffective use of resources and may result in legal challenge.

The Council operates with a small procurement team, with the combination of Purchasing Officers working on corporate contracts (those that are for the purchase of goods, services and works that are common across the Council) and Purchasing Officers embedded within service departments, working on contracts that are largely specific to the activities of those services. A major part of the role of the Purchasing Officers is to provide advice and assistance to anyone in the Council who needs to make purchases in order to deliver the services for which they are responsible.

The Council has a number of contracts in place and departments are required to comply with the Council's procedures when procuring goods and services in order to secure value for money.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review arrangements for identifying, reporting & reducing off contract purchasing. Controls included:

Authority – Roles and delegated responsibilities are documented in policies and procedures;

- Occurrence – Sufficient documentation exists to evidence compliance with policies and procedures;
- Completeness – Documentation is fully maintained;
- Measurement – Policies and procedures are in line with requirements;
- Timeliness – Policies and procedures are regularly reviewed and updated as necessary;
- Regularity – Documentation is complete, accurate and not excessive and is compliant with the document retention policy. It is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Procedures are not documented;
- The procedures are not up to date;
- Authorities, roles and responsibilities have not been identified and assigned;
- Reporting arrangements are not in place.

4. AUDIT OPINION

The level of assurance given for this report is High.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been

	identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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>
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5. FINDINGS

The following findings were generated by the audit:

General

- Roles and responsibilities in respect of the purchasing process are documented and are readily available. It was evidenced that these were available on the HUB.
- It was found that procurement team department responsibilities have been allocated to individual staff; these are detailed in the procurement manual.
- Specific projects have been identified in terms of procurement and have been allocated to individual members of the Procurement & Commissioning team. These are detailed in the procurement manual.
- A Procurement Manual 2016, Procurement Strategy 2015-2018, Sustainable Procurement Policy, Sustainable Procurement – Delivery Plan and Contract Standing Orders were readily available either on the Council website or the HUB.

Identifying Off-contract purchasing

There are a number of steps taken to identify spending out with agreed contracts, including:

- There is a reporting process in place to identify off-contract purchasing. This consists of a combination of Professional Electronic Commerce Online System (PECOS) and general ledger (ORACLE) reporting. Reports are shared with managers within departments who are able to identify spend out with agreed contractors and discuss reasons for deviation. Monthly reports are produced to identify spend on PECOS, this also identifies spend with non-contracted suppliers. In addition to this, ORACLE discoverer reports are produced detailing procurement spend for each Head of Service. The reports are shared with managers within Departments who can identify spend out with agreed contractors. This allows them to highlight and discuss reasons for spend out with the agreed contracts.

- Quarterly reports are extracted from Spikes Cavell (part of the Scottish Procurement Information HUB) showing aggregated spend with contracted and non-contracted suppliers. This is circulated to Purchasing Officers and Category Management Officers within the procurement team in order that they can identify significant areas where efforts can be focussed to reduce off contract spend i.e. spend with suppliers which they are not known or spend categories for which there could be a contract gap. A contract register is provided for cross referencing. The outcome of this exercise is reported through service measures on Pyramid.
- Purchase Card transactions and retrospective PECOS orders are reviewed to identify the nature of spend. Any spend identified off-contract is discussed at quarterly meetings with Heads of Service. This allows identification of any gaps in contracts.
- A register of justification for non-competitive (direct awards put in place by departments) action is kept and a report is provided on a monthly basis to the Strategic Management Team (SMT) in order that significant spend areas, where a contract was not in place, are captured. Discussions are entered into with the relevant departments with a view to tendering for a contract if necessary.
- Each member of the procurement team is responsible for a particular service/category of spend and are therefore familiar with the contracts required and the nature of spend within departments. There are also dedicated central purchasing teams (D&I, Education, Corporate) who, whilst preventing non-contract spend, will aim to fill contract gaps based on their knowledge of the orders that are being placed.
- For other PECOS users making purchases, access to non-contracted suppliers must first be requested and reviewed by the procurement team to ensure that the requested purchase cannot be fulfilled within a current contract.

Reporting

It was evidenced that reporting procedures are in place in terms of highlighting contracted and off-contract spend. These include:

- Performance indicators on Pyramid detailing the Council's % of contracted spends. Argyll & Bute Council seek to maintain a figure of 90% or greater in order to contribute to efficiency. The final contracted spend percentage for 2015/16 annual report is 89% which was a slight increase on 88% reported for 14/15.
- Monthly reports are provided to Heads of Service identifying spend out with agreed contracts.
- A procurement bulletin with detailed monthly performance information is provided to Departmental Management Team (DMT) and SMT. This details information on Council procurement, including contracted spend.
- A Procurement, Commissioning and Creditors Annual Performance Report is provided to the Procurement Board. This report provides the Procurement Board with an overview of procurement activity and includes details of procurement spend with contracted suppliers. It was found that during the period 2011/12 through to 2015/16 the average procurement spend with contracted suppliers was 86%.
- It was found that the annual summary report of procurement spend is published on the Council website.
- It was evidenced that procurement reports are provided to the Policy & Resources (P&R) committee on an annual basis. In addition to this, high level performance reports are provided quarterly to the P&R committee as part of overall Customer Service performance monitoring.
- The Scottish Procurement Information HUB (Spotlight on Spend) allows Councils to identify how much they are spending on external goods and services from third party suppliers, identify who the key suppliers are, ascertain how many transactions were made with each supplier, highlight commonality across suppliers and spend categories. This information means that Councils can identify where collaborative opportunities may exist and where transactional efficiencies could be made. It was found that Argyll & Bute Council has published its spend data for the past 3 years the HUB Spotlight on Spend on a monthly basis.

Reducing Off-contract purchasing

It was found that procedures are in place with the aim of reducing off-contract purchasing including:

- The procurement manual outlines staff responsibilities in relation to considering whether purchasing requirements can be met through an existing Scottish, UK wide, sector led or local framework or contract.
- All current suppliers are registered on PECOS and staff are made aware of their responsibility, as far as possible, to use PECOS. Training in the use of PECOS is available through the Council's online training system (LEON).
- If a department wishes to add a supplier to PECOS there are procedures in place whereby a member of the purchasing team must approve and add the supplier.
- Monthly meetings between procurement and Heads of Service or 3rd tier managers provide an opportunity to identify new spend and assist to identify future demands where contracts require to be put in place.
- The Council is a member of the National Supplier Development Programme which aims to minimise any barriers for companies, particularly small businesses within the Council area, in winning contracts with the Council.

6. CONCLUSION

This audit has provided a High level of assurance as 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. There were no findings identified as part of the audit.

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



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	SYSTEM BASED AUDIT
AUDIT TITLE	TOTAL (Road Costing)
AUDIT DATE	OCTOBER 2017

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Total Roads Costing System as part of the 2016/2017 Internal Audit programme.

TOTAL is a management information system, provided by TotalMobile, which is used to record detail of the cost of the work for Roads & Street Lighting activity. This covers work carried out by the roads operational team and also covers some work by private contractors.

The system is used by Development & Infrastructure (D&I) staff for raising works orders, processing roads & lighting wages and internal fleet, processing journals and analysing information using reports & enquiries. TOTAL interfaces with the Councils' financial management system ORACLE.

System administration is the responsibility of the D&I Strategic Finance team and routine tasks are carried out by both the Consolidated Team and the D&I Strategic Finance team.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review the internal control environment of TOTAL (Roads Costing System).

Controls will include:

- Authority – Roles and delegated responsibilities are documented in policies and procedures; Access is controlled.
- Occurrence – Sufficient documentation exists to evidence compliance with policies, procedures;
- Completeness – All required documentation is accurately and fully maintained;
- Measurement – Evidence of secure control environment operating effectively including access, system back up, interface controls, system maintenance;
- Timeliness – Users lists are maintained regularly. Housekeeping is undertaken to ensure system efficiency and data controls.
- Regularity – Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- The system’s accuracy and effectiveness have not been assessed;
- The system, data and activities are not up to date;
- The system is not documented leading to a lack of awareness of processes and requirements;
- Authorities, roles and responsibilities have not been identified and assigned.

4. AUDIT OPINION

The level of assurance given for this report is High.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:

Roles and Responsibilities

- It was found that roles and responsibilities have been identified and are documented in terms of Strategic Finance staff;
- Although staff are familiar with the processes and procedures it was not evidenced that roles and responsibilities have been documented in terms of D&I staff.

Access

Access Controls are in place and the following was noted:

- Responsibility for TOTAL system administration, including access administration has been allocated to a Finance Officer within the D&I Strategic Finance team;
- Access to TOTAL is controlled by a user name and password. It was found that passwords require to be changed every 60 days and automatic reminders are sent to users. It was further found that the system prevents the use of any passwords that has been used in the previous three months;
- Levels of access are granted in accordance with the user's job role;
- Systems are in place to ensure that users' lists are maintained regularly in relation to notifying the system administrator when a system user changes jobs or leaves the Council. The Improvement & HR Team sends notification of leavers to the TOTAL System Administrator and this is further backed up by notification emails from IT;
- Quarterly checks of starters & leavers are undertaken by Strategic Finance to ensure that each user's access is still valid.

Control Environment

Controls exist in terms of the processing of information on TOTAL, including:

- Works orders are completed manually and authorised by an appropriate officer, these are checked for completeness by a member of the D&I administration team prior to inputting into TOTAL.
- It was noted that TOTAL records the name of the employee who created the works order, and when it was created. However, a works order can be amended in the system once it has been entered. TOTAL will record that an amendment has been made and by whom but does not record what the amendment is. Original signed works orders are available to review within the depots and archived on the email system, therefore an audit trail of the original exists.

- Interfaces controls are in place and records are reviewed by Strategic Finance. There is a log of who imported/exported the interface together with who then updated/posted it. All postings were authorised in line with responsibilities. A back up is saved for each interface.
- Reconciliation checks are in place whereby the creditors section advises the value expected through the payables interface and a discoverer report is then run to confirm this amount. The interface is further previewed in Total to confirm that all agree before the interface is brought into the system.
- Interfaces can't be exported twice once they have been run as data is secured and cannot be amended/rerun therefore eliminating the risk of duplication.

Policies and procedures

- Policies and procedures are formally documented which cover Strategic Finance and D&I processes which include routine tasks, interface and the wages process. Procedures were found to be up to date.
- It was evidenced that training manuals, covering the various TOTAL modules were available for review.
- Training is provided on an adhoc basis and consists of a mixture of support from Strategic Finance and peer support from D&I staff. It was not evidenced that training records are held.

Compliance with documented Policies and Procedures

- Testing and a walk through of various processes demonstrated compliance with procedures. Documentation is complete with records held on TOTAL, electronic records held on email archive and paper records held in depots.
- Standard templates are used to support the various processes documented within the policies and procedures.

System back up and Maintenance

- An annual support and maintenance contract with TotalMobile provides support for the system.
- It was found that there are procedures in place in terms of business continuity should the TOTAL system be down. This includes area teams covering workloads across areas and the availability of manual systems to undertake critical activities, for example payroll.
- There are two separate logs which are checked by IT to make sure the backups for Total application are successful; SQL database backups for total databases run automatically each day and server backup which details the status of the backup i.e. whether it completed, when it was completed or whether it was failed or was missed.

6. CONCLUSION

This audit has provided a High level of assurance as 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. There were 2 low actions which will be not reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to Development and Infrastructure staff, including Strategic Finance 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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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	DEBT RECOVERY AND WRITE OFF
AUDIT DATE	OCTOBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Debt Recovery and Write off Procedures within Customer Services as part of the 2016-17 Internal Audit programme.

Argyll and Bute Council has a legal duty to ensure cost effective billing, collection and recovery of all sums due, through raising charges for a wide range of services provided, as well as collecting local taxes. A corporate debt policy is in place providing general principles to be applied consistently within all Council Services in relation to debt recovery.

The Council's ability to deliver services, which meet the needs of its customers, depends heavily on its success in collecting revenues; however, ability to pay is a paramount concern when undertaking debt recovery. The approach to recovery must be sensitive to individual circumstances and take into account all debts owed to the council, namely; Council Tax, Housing Benefit overpayments, Non-Domestic Rates and Sundry Debtor Accounts.

The key objectives of the Corporate Debt Policy are as follows:

- to seek to address debt issues as early as possible with a strong emphasis on arrears prevention in order to minimise overall indebtedness and improve collection rates across all debt categories;
- to ensure that customers have a clear understanding of their responsibility to pay and the associated consequences of deliberate non-payment especially when they are able to pay;
- to operate in a fair and equal way when recovering debt;
- to work in partnership with customers and their representatives to agree realistic payments based on their circumstances;
- to ensure that all council staff and council appointed debt collection agents and sheriff officers work together efficiently and effectively and provide a single co-ordinated approach in dealing with council debtors;
- to support debtors in becoming reliable payers in the future through referral to appropriate advice agencies;
- to ensure that all debtor accounts are issued as accurately as possible and are updated for any relevant changes in circumstances in accordance with the timescales within the Council's Customer Charter;
- debtors are advised of all relevant benefit entitlements and assistance is provided in accessing these benefits.

Over the last 3 years, Argyll and Bute Council has written off the following value of debts:

SOURCE	2013-14 £000	2014-15 £000	2015-16 £000
Council Tax	463	466	326
Non-Domestic Rates	177	255	396
Sundry Debtors	163	240	149
Housing Benefit Overpayments	56	40	62
Totals	859	1,001	933

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess controls in place throughout the recovery and write-off process.

Internal audit reviewed policies and procedures in place to establish compliance with relevant legislation, site visits were undertaken and a sample of debts identified for recovery and write-off was selected for review to check that controls were in place and operating effectively.

3. RISKS CONSIDERED

- ORR – CS05 – Failure to ensure income from local taxes and sundry debtors is maximised and properly controlled.
- Audit Risk - Recovery and enforcement do not comply with legislation, regulations and the Council's policies and procedures.
- Audit Risk - Debt is not monitored
- Audit Risk - Recovery action is not correctly calculated and valued and is not cost effective.
- Audit Risk - Debt recovery action is not initiated and recorded promptly and is inefficient
- Audit Risk - Recovery action is not appropriate.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:

Corporate Debt Policy

The Corporate Debt Policy links to the Council's corporate priorities and outcomes and is governed by the Council's Financial and Security Regulations. It provides a framework to collect council debt from debtors effectively and efficiently but with due sensitivity to the circumstances of individuals. The Policy outlines roles and responsibilities of council officers and management that naturally provide for segregation of duties. It also emphasises the need for good customer service, communications, payment and recovery options.

The Policy, however, was not readily available within the Council's internet or intranet sites for reference and it is dated 2013 showing no evidence of review since creation. Internal Audit was advised that the policy is currently under review.

Sample Selection

A sample was selected for review from accounts that were written off during 2015-16:

No.	System
5	Council Tax Accounts
4	Non-Domestic Rates (NDR) Accounts
4	Housing/Council Tax Benefits overpayment accounts
20	Sundry Debtor Accounts
33	TOTAL

Council Tax & NDR

Council Tax follows the following recovery process:

- Bills for year are issued stating monthly instalments are due 1st April through to 1st January (option to pay on 15th of Month by Direct Debit)
- Reminder/Finals are sent for any instalments that are not paid in full by 15th of Month
- The full amount should be paid within 7 days of the reminder date
- Petition letters are prepared 7 days later for all accounts with payments outstanding and sent to Sheriff Officers
- Sheriff officers take up to 3 weeks to assess appropriateness to pursue debt
- Final list has 10% surcharge placed on each payers debt and file sent to Sheriff officers via electronic interface to pursue payment on behalf of the Council
- Arrangements can be made to pay Sheriff Officers or by arrestment of earnings, bank account or benefit. Payment may also be made to the Council
- Annual file sent to the Council from Sheriff Officers suggesting debts to be written off
- Head of Customer and Support Services reviews list and ensures evidence to support decision is present (e.g. death/sequestration certificate)
- Individuals Council Tax accounts updated
- General ledger accounts updated

NDR follows the undernoted recovery process:

- Annual Bills are issued early April stating amount due split over 2 instalment dates at end of June and December (option to pay by Direct Debit over 10 months from May until February)
- Where 1st instalment is not received by 30 June, reminders are sent July, August and September (legally 50% must be paid by 30 September)
- Final notice is sent mid-October
- Petition letters are prepared November for all accounts with payments outstanding and sent to Sheriff Officers
- Sheriff officers take up to 3 weeks to assess appropriateness to pursue debt
- Final list has 10% surcharge placed on each payers debt and file sent to Sheriff officers via electronic interface to pursue payment on behalf of the Council
- Arrangements can be made to pay Sheriff Officers or by arrestment of earnings, bank account or benefit. Payment may also be made to the Council
- Annual file sent to the Council from Sheriff Officers suggesting debts to be written off
- Head of Customer and Support Services reviews list and ensures evidence to support decision is present (e.g. death/sequestration certificate)
- NDR accounts updated
- General ledger accounts updated

Council Tax and NDR use CIVICA document management system to store all back-up documentation relevant to the debtor; this provides a full audit trail of notices, invoices, reminders and any general correspondence.

From the sample selected, all notices and reminders were issued in accordance with the policy and stipulated reminder and recovery timetables, however, there were no copies of the first and second reminders within the CIVICA system for NDR customers as they are auto generated by the NDR system and not captured for storage in the document management system.

Where provided, alternative contact details were stored on the systems to enhance communication with debtor.

From the sample selected, all accounts were found within the signed and authorised write off schedules and supporting information viewed on CIVICA.

Where recovery was still in progress it was evidenced from the sample selected that instalment schedules have been created to help debtors make payments. Sheriff Officers also advise the debtor of the availability of instalment plans.

Housing Benefit/ Council Tax Reduction (HB/CTR) Overpayments

HB/CTR follows the undernoted recovery process:

- Overpayment identified and HB/CTR system updated to reflect this
- Letter immediately issued to debtor to advise of overpayment and amount to be recovered from ongoing benefit where appropriate
- An invoice is sent to those no longer in receipt of benefit advising of the amount overpaid and how to make payments
- Reminder is sent one month later
- Final demand after a further 14 days
- On a 2 weekly basis, the HB/CTR Overpayments Officer runs a report from CIVICA Document Management System to identify all final demands sent. This identifies any new final demands issued to debtors that have defaulted on their monthly arrangement as well as those who do not yet have an arrangement in place.
- For default cases, the overpayments officer checks addresses and accesses DWP information system to establish if debtor is in receipt of other benefits from which to recover debt (DWP send payment file to Council of deductions taken)
- Overpayments Officer will search LOCTA website (tracing tool used by public services to provide up-to-date information on individuals and businesses) for employer information, where found, the debtor is advised that their employer will be contacted if no response is received to arrange instalment plan for payment.
- Employer is contacted with details of direct earnings attachment from which to deduct payments from the debtors salary if no response received within 2 weeks
- Where no employment information is found, the overpayments officer will continue to monitor the debtors account to determine current income status and refer to DWP or contact the debtor accordingly.
- Only once all contact means have been exhausted and several years have passed would a write off be recommended due to unable to recover

- An annual write off list is sent to Head of Customer and Support Services for approval with supporting documentation where possible of cases where recovery actions have been exhausted

As with Council Tax and NDR, Housing Benefit/Council Tax Benefit also use CIVICA to store all back-up documentation relevant to the debtor, this provides a full audit trail of notices, invoices, reminders and any general correspondence.

It was evidenced that reminders were issued in accordance with the policy and stipulated reminder and recovery timetables.

There is a good working relationship with the Department for Work and Pensions (DWP) who may deduct funds from the debtors benefit in order to repay HB/CTB overpayment. The overpayments officer searches the "LOCTA" website for employment details if the debtor is no longer in receipt of benefit. Where successful, these actions allow for prompt payment through deductions to the debtors benefits or earnings.

The reminder process restarts if the debtor defaults on an instalment plan, this will not be picked up by the overpayments officer until the final demand stage is reached again and is issued, and thereafter the whole recovery process starts over from the beginning.

Sundry Debtors (SD)

Sundry Debtors follow the undernoted recovery process:

- Invoices are raised within the SD system by departmental staff, requesting payment within 14 days
- First reminder sent 14 days after issue of invoice
- A final reminder is sent after another 14 days, stating that the debt will be passed to Legal Services if no payment is received within 7 days
- Some services have agreed alternative recovery processes depending on the nature of the debt e.g. Social Work/Commercial rent
- Where payment is not received 21 days following issue of final reminder, debts are automatically passed to Legal Services via a daily system report
- Legal Services follow standard process (below)

The SD system shows a full audit trail of debtor transactions including when notices and reminders are sent, when the debt was written off in the system and by whom, however, there is no field to explain why a debt was written off. The system includes a field to facilitate input of notes to provide additional information where necessary; however, there is a general lack of use of this field.

It was found from the sample selected that the time lapse between final reminder stage and debts being passed to legal ranged from 21 days to 4 years. We are advised that this is now an automatic process where debts are passed to legal services 21 days after final reminder. This transfer of information happens automatically from the SD System on a daily basis. Our sample verified that this is the case. Prior to 2013/4 this was a manual process with no set timescale for passing to legal.

The final reminder states “If this sum is not received within the next 14 days this account will be passed to the Legal Department for the commencement of court proceedings.” However, the Debtors manual states that the account will be referred to legal 7 days after the final reminder is issued. Although no account within the sample was passed to legal services prior to 21 days following final reminder, these documents do not promote consistent practice. (Standard process is 21 days; however, manual has not been updated to reflect this).

The Sundry Debtors Manual was issued in 2013 with no evidence of review or update.

From the sample selected, Internal Audit found that:

- 3 debtors’ accounts were not passed to legal services prior to being written off and there were no system notes available to explain this. These were all Social Work (SW) debtors and it is understood that an informal arrangement is in place in terms of recovery activity. This arrangement includes the provision of aged debt analysis that is passed to relevant service managers, however, this is not formally documented and may be subject to inconsistency resulting in potential non-recovery.
- One account was written off without any recovery action noted on system. As this account was for rental debt, it was set up as ‘issue only’ so no automatic reminders were issued. Rental debt is dealt with by the department and follows its own reminder process using an access database. If no payment is received following reminders, debt will be passed to legal and follows the standard process.

- One debt was written off stating that the charge was included within another invoice which had already been paid. However, there was no evidence held within the relevant systems to support this comment from the department. As this was an invoice raised in error, it should have been cleared by a credit note and not written off. The department was unaware of this situation and felt that the debt remained outstanding. There were no extra notes placed on the system beyond the standard processing notes to advise of position.
- There is a general lack of use of the notes field within the Sundry Debtors system.

Legal Services

Legal Services follow the undernoted recovery process:

- Standard letter issued to debtor upon receipt of list of outstanding debts where debtor is requested to contact Council within 14 days to arrange payment (in full or by instalment plan)
- Final reminder issued after 14 days
- Pre-Sue report is requested from the Sheriff Officers 14 days following issue of final reminder
- Sheriff Officer response received and debt is either referred to Head of Service for write off or referred to Legal Services for Court action as appropriate
- Write off list is approved and debts written off on debtors account
- General Ledger updated

Legal services use IKEN data management system to record activities undertaken in the pursuance of debt. This system provided documentation to support work undertaken, however, it was noted that one debt was added to the write off list at the request of management following a telephone conversation. There was no record of this request recorded within either the IKEN or debtors system.

The write-off schedules hold short descriptions as to why accounts have been written-off; e.g. "Prescribed" or "Account written off following discussion with issuing department". Management has deemed these descriptions to be sufficient as the full details are available within the Debtors and IKEN systems for further reference.

Bad Debt Provision

There is a sound basis to the calculation of the value for the Bad Debts Provision as published in the Council's Annual Accounts. This is calculated using Aged Debt reports that are reviewed and percentages are agreed and applied to the balances according to the age of the debt e.g. over 3 years is 100%, 1 – 2 years is 60% reducing to 0% within one month. BDP for Sundry Debtors calculations were found to be accurate and figures were correctly reflected on the Council's Annual Accounts for 2015-16.

6. CONCLUSION

This audit has provided a substantial level of assurance. Internal Control, governance and management of risk is sound; however, there are minor areas of weakness which put some system objectives at risk. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 4 actions that will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Council's debt recovery 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. Service Management Recovery Action		High/ Medium		
Social Work debtor accounts do not follow standard recovery protocol.	Failure to progress and document recovery action may lead to inconsistent treatment of debtors resulting in loss of income and reputational damage.	High	Discuss and agree a recovery protocol for Social Work debtor accounts.	Revenue & Benefits Manager 31 March 2017
2. Corporate Debt Policy Review		High/ Medium		
Corporate Debt Policy not reviewed since 2013.	Failure to update guidance may lead to obsolete practice resulting in ineffective service delivery.	Medium	Corporate Debt Policy will be reviewed and updated as necessary.	Revenue & Benefits Manger and NDR/Sundry Debt Administrator 31 March 2017
3. Sundry Debtors Manual		High/ Medium		
Sundry Debtors Manual not reviewed since 2013.	Failure to update guidance may lead to obsolete practice resulting in ineffective service delivery	Medium	Sundry Debtors Manual will be reviewed and updated as necessary	Revenue & Benefits Manger and NDR/Sundry Debt Administrator 31 December 2016

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
4. Default in Instalment Plan		High/ Medium		
HB/CTR recovery instalment plan not reviewed until final reminder stage	Failure to monitor recovery progress/ payment defaults may lead to increased bad debt levels.	Medium	Management to consider alternative means of identifying defaults on payment instalments.	Revenue and Benefits Manager and Benefits Performance and Development Manager 31 December 2016



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	ARGYLL & BUTE HEALTH & SOCIAL CARE PARTNERSHIP
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF CHILDREN'S UNITS
AUDIT DATE	OCTOBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Children's Units within the Health and Social Care Partnership as part of the 2016-17 Internal Audit programme.

Residential care homes offer young people a safe place to live away from their families. Residents live alongside a number of other young people in the home and are cared for by staff who stay but do not live on site. Most young people who live in a residential establishment will have been assessed as needing to be cared for away from home by the local authority. Young people are placed in residential care on the recommendation of a Children's Hearing Panel, or on an emergency (short-term) basis to guarantee their safety.

These establishments provide accommodation and support to all residents and are inspected by the Care Inspectorate to ensure they meet national standards.

Argyll and Bute Council operates 3 Children's Homes, all of which have received a grade of "Very Good" from the Care Inspectorate:

- Dunclutha Children's Unit is located in Dunoon although it may service children from any area within Argyll and Bute. It has a capacity for 6 young people and currently serves as home for 4 between the ages of 14 and 16. The unit is run by a house manager supported by 2 Senior social care workers, 7 full-time, 3 part-time and a pool of 5 bank social care workers, there is also catering and domestic staff. The 2016-17 budget allocation for Dunclutha Children's unit is £528k.
- Shellach View Children's Unit is located in Oban although it may service children from any area within Argyll and Bute. It has a capacity for 6 young people and currently serves as home for 2 between the ages of 12 and 17. The unit is run by a house manager supported by 2 Senior social care workers, 5 full-time, 5 part-time and a pool of 6 bank social care workers, there is also catering and domestic staff. The 2016-17 budget allocation for Shellach View Children's unit is £483k.
- East King Street Children's Unit is located in Helensburgh although it may service children from any area within Argyll and Bute. It has a capacity for 6 young people and currently serves as home for 5 between the ages of 12 and 17. The unit is run by a house manager supported by 2 Senior social care workers, 6 full-time, 2 part-time and a pool of 15 bank social care workers, there is also catering and domestic staff. The 2016-17 budget allocation for East King Street Children's unit is £471k.

Children's Units are included within the Quality and Financial Plan of the Health and Social Care Partnership. The 2016-17 plan was approved at the Integration Joint Board Meeting held in March 2016. Unit Development Plans include management of resources as governed by the Council's Financial and Security Regulations. All officers have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of resources is legal, is properly authorised, provides value for money and achieves best value.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess controls in place to manage Council resources and provide assurance of compliance with the Council's Financial and Security Regulations.

Internal audit reviewed policies and procedures in place and undertook visits to the units to assess evidence of compliance with the Financial and Security Regulations including: budget monitoring and control; administration of client funds, allowances and birthday money; purchasing practices; and inventory control.

Controls included:

Authority –	Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
Occurrence –	Sufficient documentation exists to evidence compliance with the Financial and Security Regulations
Completeness –	Policies and procedures are aligned to the Financial and Security Regulations and all required documentation is accurately and fully maintained
Measurement –	Policies and procedures are in line with requirements of Financial and Security Regulations
Timeliness –	Policies and procedures are regularly reviewed and updated as necessary
Regularity –	Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

Audit Risk – Non-compliance with the Council's Financial and Security Regulations

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:

Imprests

Paragraphs 7.30 – 7.36 of the Council's Financial and Security Regulations covers the imprest process. All imprest accounts should be maintained in accordance with guidance issued by the Head of Customer and Support Services in consultation with the Head of Strategic Finance. This guidance sets out in detail the responsibilities of the imprest holder and the general administration of the imprest account including requests to increase or decrease the imprest level, closing an imprest account and completion and submission of claim forms. In undertaking this audit, internal audit reviewed controls in place to test compliance with this guidance.

Internal audit found that the imprest process in each of the 3 units was operating effectively and was compliant with the guidance issued.

- Imprests were found to be required by all 3 children's units for the purpose of defraying petty cash and other expenses including pocket money and recreation/clothing allowances for young people.
- Bank accounts were held by all 3 children's units for the purpose of reimbursement of imprest, all accounts were found to hold a credit balance at the time of review, however, it was found that there are no bank statements received by Dunclutha as the account is operated via a passbook.

- All items of expenditure claimed through the imprest accounts were supported by authorisation vouchers and receipts where possible.
- All 3 units were familiar with the standard imprest guidance provided by the Head of Customer and Support Services although only one of the 3 units had a copy of the guidance available at the time of the visit.
- All 3 units had arrangements in place for continuity of imprest availability in the imprest holders absence, however, imprest claim values were generally in excess of the agreed authorisation limits of the deputes in 2 of the 3 units.
- Each of the 3 Units have allocated budget for Birthday and Christmas allowances for the young people. All Birthday and Christmas expenditure is claimed back via the standard imprest procedure and receipts are retained as evidence of the expenditure.

Administration of Client funds

Paragraph 5.23 of the Council's Financial and Security Regulations states that "Any person who, by virtue of employment with the Council, is responsible for the custody or management of cash or property belonging to a third party will, in so doing, employ standards of stewardship no less than those laid down in these Regulations and elsewhere for cash and property belonging to the Council."

It was found in each of the 3 units that appropriate controls are in place and records are kept in relation to administration of client funds.

- Children's Units provide young people with pocket money on a weekly basis; the value is dependent upon their age. All payments to young people were found to be accurately recorded with both the officer and the young person's signature recorded as evidence of issue.
- All young people are encouraged to open individual bank accounts and are encouraged to save from their pocket money, Education Maintenance Allowance (EMA) or earnings of older residents. The unit also offers a facility to hold savings in the office safe for young people; this is fully documented with lodgings/withdrawals signed for by both unit staff and young person.

Purchasing Practices

Paragraphs 7.7 – 7.12 of the Council's Financial and Security Regulations covers procurement including manual and electronic orders and use of purchase cards. The Financial and Security Regulations state that "All procurement of works, goods, and services will be in terms of the Contract Standing Orders, the Council's Procurement Strategy and guidance provided by the Executive Director - Customer Services". This guidance was broadly followed.

It was found in each of the 3 units that controls are in place although some weaknesses were identified:

- PECOS (Professional Electronic Commerce Online System)
 - It was found that staff in 2 of the 3 units are using PECOS to order goods. East King Street made good use of PECOS, Shellach View made very limited use of the system and continue to raise manual orders with suppliers who are available on PECOS and Dunclutha have no access to the PECOS system.
 - Of the 2 units that utilise the PECOS system, staff in only one unit has undertaken formal online training. Although no significant weaknesses have been identified in the use of PECOS, consideration should be given to organising training across the units to ensure use of PECOS is optimised.
- Purchase Cards
 - Managers within each of the 3 units have been allocated purchase cards. The cards were retained safely and securely within each unit, however, internal audit were advised that cards are made available for use by other senior members of staff in the absence of the unit manager. This contravenes instructions provided by Creditors section upon provision of the Purchase Card where users are advised not to share.
 - All 3 units have experienced issues in the use of their purchase cards where transactions are frequently blocked and require to be released by Creditors via liaison with bank. Internal Audit have been advised that continued liaison between Children's units and creditors will reduce the impact of the issue through time.

- Manual Orders

- There were no controls in place to ensure that the same person cannot be responsible for ordering, receiving and payment of goods in any of the 3 Units. Good practice dictates that adequate segregation of duties should be in place to prevent erroneous or inappropriate practice.

Inventory Control

Paragraph 5.2 of the Council's Financial and Security Regulations states that "Inventories will be maintained on a continuous basis by all Services and these will contain an accurate description of furniture, fittings and equipment, plant and machinery. The extent to which property of the Council will be recorded and the form in which inventories will be kept will be determined by the appropriate Executive Director in consultation with the Head of Strategic Finance."

Controls are operating effectively at Shellach View, however, there are no controls in place to ensure inventories are kept and maintained at Dunclutha and East King Street.

- Inventories of Council property were not maintained within Dunclutha and East King Street Units.

Budget Monitoring and Control & Virement

Paragraphs 3.11 – 3.18 of the Council's Financial and Security Regulations covers Budget Monitoring and Control and Virement. Budget monitoring guidance is available on the shared drive for Strategic Finance Staff. There is also an e-learning module available within the Council's LEON learning system. The Council's financial ledger system is made up of cost centre and account codes with a designated budget holder, finance contact and operational contact for each cost centre where appropriate. All Cost centres are assigned an engagement frequency in line with its risk rating and logs are required to be completed following meetings between budget holders and finance contact.

Virement is the process of transferring budget between cost centres, services or department or between capital projects. The Financial and Security Regulations outline the levels of authorisation required to exercise a virement.

- Each unit has designated cost centres with budget responsibility assigned to Locality Managers and unit managers as operational contacts, all 3 units have the same Finance Contact.
- For all 3 units, budget monitoring takes place with the designated contact within the required frequency of every 2 months. This was evidence through review of engagement logs and minutes of meetings
- It was noted that for this financial year there was one virement of budget between cost centres over £25k. As per the financial and security regulations this virement must be approved by the Executive Director. It was noted that appropriate authorisation was received for this virement. This approval contained the Chief Officer's electronic signature, however, it was received via an email from the Chief Officers PA. To provide a secure audit trail authorisation via electronic signature should come directly from the Chief Officer's inbox.

6. CONCLUSION

This audit has provided a Substantial level of assurance as internal control, governance and the management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk. There were 9 findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 7 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Children's Units 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: High or Medium	Agreed Action	Responsible person agreed implementation date
1. Shared Purchase Cards				
Purchase cards are made available for use by other senior members of staff in the absence of the unit manager	Failure to ensure Purchase Cards are used in accordance with instructions may lead to loss, damage or inappropriate use resulting in financial loss or challenge	High	Unit managers will cease practice of sharing card. Where appropriate, senior members of staff will be issued with their own Purchase Cards.	Locality Manager, Dunoon 31 December 2016
2. Authorisation Limits				
In 2 of the 3 units the imprest claim values were generally in excess of the agreed authorisation limits of the staff nominated to cover for imprest holders during absence.	Failure to have adequate authorisation levels in place may lead to imprest claims not being processed in a timely basis.	Medium	Consideration will be given to a review of the authorisation limits to ensure that staff deputising for imprest holder have sufficient authorisation to sign off claims.	Locality Manager, Oban 31 January 2017

Findings	Risk Impact	Rating: High or Medium	Agreed Action	Responsible person agreed implementation date
3. PECOS				
Only 2 of the 3 units currently use PECOS and staff in only one of these units has received formal online training.	Failure to utilise PECOS system may lead to loss of efficiencies gained through collaborative purchasing arrangements.	Medium	Consideration will be given to organising training to ensure greater utilisation of PECOS across the 3 units.	Business Improvement Officer 28 February 2017
4. Segregation of Duties				
There were no controls in place to ensure that the same person cannot be responsible for ordering, receiving and payment of goods in any of the Units.	Failure to ensure adequate segregation of duties may lead to erroneous, inappropriate behaviour resulting in financial loss or challenge.	Medium	Process will be reviewed to ensure adequate segregation of duties	Unit Manager, Shellach View 28 February 2017
5. Inventories				
2 of the 3 units did not maintain inventories of Council property, the remaining unit maintained a detailed inventory.	Failure to maintain accurate and complete record of Council owned property may lead to poor asset management.	Medium	Consideration will be given to ensure consistent practice in the use of inventories and to the level of detail as to which these should be maintained.	Unit Manager, Dunclutha 28 February 2017

Findings	Risk Impact	Rating: High or Medium	Agreed Action	Responsible person agreed implementation date
6. Electronic Authorisation				
The virement approval document was electronically signed by an appropriate officer, however, this was received via email from an unauthorised member of staff	Failure to ensure that records are transferred securely may result in erroneous or inappropriate practices	Medium	To provide a secure audit trail authorisation via electronic signature should come directly from the inbox of the appropriate officer.	Locality Manager, Helensburgh 31 March 2017



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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	TAX INCREMENTAL FINANCING
AUDIT DATE	NOVEMBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Tax Incremental Financing as part of the 2016/17 Internal Audit programme.

Tax Incremental Financing (TIF) was introduced by the Scottish Government and the Scottish Futures Trust to allow Councils to borrow capital to fund infrastructure to enable economic growth. This investment allows Councils to borrow funds based on the strength of estimated future revenues raised on additional non-domestic rates and will be geared to specific projects that will allow support employment developments and encourage employment generation.

An initial proposal for developing a TIF business case for the Oban Lorn area was submitted to the Scottish government in August 2013 as part of the pilot TIF programme identification case. The Argyll and Bute proposal was chosen to progress as one of 6 pilot projects and proceeded to the next stage to develop a supporting business case.

The full business case for the TIF project, named Lorn Arc TIF, outlines the proposal package for the delivery of a capital spend of £18.9m on infrastructure improvements which in partnership with external funders will lead to circa £41m of investment in local infrastructure. The package is aimed at improving access to the Scottish Association for Marine Science/European Marine Science Park, measures to improve port and marine facilities within the Oban area and other business related infrastructure which will support the delivery of the Local Area Development plan.

The Lorn Arc TIF initiative has been geared to align closely with delivery of the Council's outcomes 1 and 2 of the Local Outcome Improvement Plan (LOIP) namely that the economy is diverse and thriving and we have infrastructure that supports sustainable growth.

There are currently 7 projects in progress at various stages of development within the Lorn Arc programme.

2. AUDIT SCOPE AND OBJECTIVES

- Review Governance arrangements
- Review monitoring procedures and reporting arrangements
- Review financial management arrangements including modelling, budgeting and general controls
- Identify and mitigate against known risks.

Controls included:

- Authority – Roles and delegated responsibilities are documented in policies and procedures
- Occurrence – Sufficient documentation exists to evidence procedures
- Completeness – Policies and procedures are aligned to contractual agreements in place
- Measurement – Risk registers are in place and regularly updated and mitigation actions are in place
- Timeliness – Policies and procedures are regularly reviewed and updated as necessary
- Regularity – Documentation is complete, accurate, not excessive and is compliant with data retention policy. It is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Reputational risk to the Council in not delivering programme
- Inappropriate governance arrangements.
- Insufficient external funding
- Insufficient capacity/skills for dealing with number of projects
- Delivery timeline
- Inadequate monitoring of projects;
- Failure to report progress and performance.

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. A sound system of control is in place designed to achieve the system objectives and the controls are

	being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:

Scope 1: Review Governance arrangements

- It was evidenced that the Council received approval to proceed with the Lorn Arc TIF from the Scottish Government in May 2014. The approval letter stated “After due consideration, The Scottish Ministers approve the project set out in the Business Case as a ‘TIF project’”.
- A Project Initiation Document (PID) is evidenced as being in place and amongst other things sets out the arrangements for governance and management of risks, issues and dependencies:
- The PID specifies both the internal and external governance reporting committees namely:
 - Policy and Resources Committee - Internal
 - Oban Lorn and Isles Area Committee -Internal
 - Lorn Arc Programme Board -Internal
 - Lorn Arc TIF Executive -External

The PID clearly defines the roles and responsibilities of the various committee’s including their delegated responsibility for decision making, the frequency of meetings and the membership required of both the Lorn Arc Program Board and the Lorn Arc TIF executive. A review of the relevant minutes confirms appropriate representation and compliance with the agreed timetable.

- Roles and responsibilities in relation to delivery of the programme have been clearly set out within the PID, as also have the roles and responsibilities of Argyll and Bute Council, the Scottish Futures Trust and the Scottish Government.
- The PID was approved by Argyll and Bute Council in January 2015 and included the following significant areas:
 - Approval to borrow under the TIF regime for Lorn Arc programme capital costs
 - Approval of the governance arrangements for the Lorn Arc programme, including the roles of the Policy and

- Resources Committee and Oban, Lorn and the Isles Area Committee
 - Approval of a 6 year revenue budget for the Lorn Arc programme team/office utilising the balance on the General Fund earmarked to support the Single Outcome Agreement (SOA)
 - Approval of the process for individual project start-ups, including the borrowing required for feasibility work and Full Business Cases for each project
 - Approval to delegate delivery of the projects to the Executive Director of Development and Infrastructure, in conjunction with the Head of Strategic Finance and the Head of Customer and Support Services, following Policy and Resources Committee approval of the individual Full Business Cases
 - Approval to nominate the Executive Director of Development and Infrastructure to be the Council's nominated representative on the TIF Executive
- The PID sets out the primary tasks of the Councils internal committees relating to governance namely to:
 - Monitor performance of the Lorn Arc programme
 - Consider resource allocation to ensure delivery of the Lorn Arc programme
 - Consider resource requests for start-up costs to enable preparation of Full Business Case (FBC) for each identified TIF Asset project
 - Consider detailed FBCs for the 7 specific TIF Asset projects

A review of the monitoring procedures as outlined within the PID is set out below in relation to scope 2 of the audit report.

- Resource allocation/issues have been addressed by each of the committees tasked with overseeing of the TIF projects and it was noted from the latest Policy and Resources (P&R) committee papers dated October 2016 that a full complement of staff is now in place. A review of previous committee minutes noted that project resources have been an ongoing issue and that this could have an impact on project completion dates. A comparison of project start dates between the original schedule as laid out in the PID and the latest start dates as presented to the P&R committee in March 2016 shows that that all 7 projects have been delayed by circa 18 months.
- The original PID initially referred to 9 projects being considered under the Lorn Arc TIF heading but subsequently this has been reduced to 7 as a result of the removal of 2 Barcaldine projects. It was evidenced that the removal of these 2 projects was approved by the P&R committee.

- Current status of the 7 projects includes 3 projects at start up stage and 1 project at FBC stage. Appropriate authorisation has been given by the P&R committee to reach these stages. A review of the FBC showed that documentation was complete and adhered to Prince 2 project principles.
- The Scottish Government award letter outlines key dates for the TIF project, one of which is December 2020 whereby all TIF projects should be practically complete unless otherwise agreed with the Scottish Government. It was noted from the project risk register that there is a high risk that all projects will not be completed by December 2020.
- A review of the PID documentation showed that it was broadly in line with Prince 2 management principles, which have been adopted by the Council in regard to large capital projects, although it was noted that there was no evidence of a programme chart (Gantt chart) showing each project's timeline having been prepared.

Scope 2: Review monitoring procedures and reporting arrangements

- It was evidenced that the PID sets out the monitoring arrangements in place for each of the committees, their roles and responsibilities and their reporting frequencies. An extract from the PID is as follows:

<u>Committee</u>	<u>Roles and responsibilities relating to Lorn Arc</u>	<u>Nature and frequency of reporting</u>
Policy and Resources Committee	Delegated policy and financial decision making powers. To agree resource / funding allocation to enable TIF Asset projects to be taken to Full Business Case through committee reports. To agree Full Business Cases for each subsidiary TIF Asset project. To agree draw down of funding for each TIF Asset project.	Update report required on quarterly basis TIF Asset project start-up cost request reports. TIF Asset project Full Business Case reports and associated delivery funding. TIF Asset Exception Reports

OLI Area Committee	<p>Power of influence to make recommendations to the Policy and Resources Committee.</p> <p>To be informed about what is happening/planned and to give member/local feedback.</p> <p>Public Place for giving out information to all sectors in addition to wider and targeted communications plan.</p> <p>To be given more detailed information about what is happening / planned in relation to the overall programme and specific TIF Asset projects as they emerge. By nature most of these would be exempt items due to private partner interests.</p>	<p>Reports to make recommendations to the Policy and Resources Committee</p> <p>Update report - frequency on quarterly basis</p> <p>TIF Asset project start-up cost request reports.</p> <p>TIF Asset project Full Business Case reports and associated delivery funding.</p> <p>TIF Asset Exception Reports</p> <p>TIF Asset project completion reports.</p>
Lorn Arc Programme Board	<p>Provide Steerage to program managers and report back to Committees as required.</p>	<p>Members to include Director of Development and Infrastructure, Head of Service for Customer Services, Head of Finance representatives.</p>
Lorn Arc TIF Executive	<p>To perform a monitoring and evaluation role.</p>	<p>Members to include Scottish Government, Scottish Futures trust and Argyll and Bute Council representatives.</p>

- A review of the documentation forwarded to both the P&R Committee and the OLI Area committee shows that both committees have been furnished with reports as stipulated within the PID. The reports were found to be comprehensive giving a summary of ongoing issues for each of the 7 projects included within the TIF programme. However, there was no evidence of a project programme detailing the start/end dates of each project as recommended within the PID

- The PID states that “a Programme Manager will be responsible for the day-to-day financial management of the Lorn Arc TIF programme, and the subsidiary TIF Asset projects, ensuring that it produces the required outcomes, to the required standard of quality and within the specified constraints of time and cost. The Programme Manager will be responsible for monitoring progress, controlling the budget, ensuring the necessary resources are secured to deliver the TIF Asset projects they are directly responsible for and will act as the primary point within the Council for the Programme.”

It was evidenced that a Programme Manager has been appointed and is undertaking the required reporting protocols. An example of which is outlined below;

- Update reports on each of the projects
 - Monitoring of revenue budget through liaison with Strategic Finance
 - Monitoring of capital budget through liaison with Strategic Finance
 - Employment of resources for delivery of programme
- Highlight reports should be submitted by the Programme Manager specifically for presentation at the Programme Board meetings. The reports should “highlight progress made versus plan, changed risks, deviation from plan, resources required and financial and budgetary matters.” The highlight reports reviewed cover the following areas and were found to include the required criteria. These reports cover both individual projects as well as an overarching programme report.
 - Key areas completed in period
 - Key areas outstanding
 - Revised delivery date for projects
 - Key areas to completed in next reporting period
 - Project delivery date
 - Risk register
 - Project cost spend to date
 - Revenue budget
 - Affordability model (with narrative explanations)
 - It was evidenced that update reports have been prepared and forwarded to each of the relevant committees for both revenue costs and capital costs; highlighting approved funds spent to date and outstanding balances. There was no evidence of a projection of final capital costs for projects currently underway.

- It was noted that the P&R committee agreed revised reporting tolerance levels i.e. the projects in February 2016 namely;
 - Project schedule +/- 2 months on agreed completion
 - Project budget +/- 5% on agreed budget subject to a minimum of £50,000

The governance arrangements state “If the timescales or cost of the programme is likely to exceed the agreed tolerance levels, the Programme Manager will produce an exception report which will be sent to the Programme Board to inform them.”

Scope 3: Review financial management arrangements including modelling, budgeting and general controls

- As stated above, the TIF investment allows Argyll and Bute Council to borrow funds of £18.9m based on the strength of future revenues raised on additional non-domestic rates (NDR) along with other revenues such as uplifts in leases, council tax and berthing dues across the entire Lorn Arc TIF Programme Area. Within the overall Lorn Arc programme sit the 7 specific projects. Each of these projects will have its own FBC which should include financial modelling both discretely for the project itself and on how this impacts on the wider programme. It was evidenced that financial modelling has been prepared to ascertain the affordability of each of the projects based on expected NDR and other revenue streams by project and also more importantly on how this impacts on the wider programme. The modelling includes the following criteria;
 - Expected NDR income till 2040
 - Sensitivity analysis on NDR fluctuations over period
 - Sensitivity on interest rate changes
 - Sensitivity on inflation changes
 - Sensitivities on project delay
 - Project cost sensitivity

Recent Committee minutes state that Commercial agents have been appointed to challenge the Economic model presented in the original 2013 Lorn Arc Programme FBC. Specifically the OLI Area Lorn Arc update report of October 2016 stated that “the TIF financial model was unlikely to generate the required increase in NDR to pay off the intended borrowing of £18.9m over 25 years.” It was noted that the Commercial agents report was completed in October 2016 and is currently under review by Council Officers to ascertain the impact on the financial model in regard to affordability of all projects.

- Project management cost centres have been created which cover the costs of the Lorn Arc Programme team. These cost centres are subject to periodic budget monitoring review in line with Strategic Finance reporting requirements. It was evidenced that the Programme Manager has presented budget monitoring reports at the appropriate Programme Board meeting.
- It was evidenced that a TIF asset capital cost centre has been created within the ledger for each of the 3 projects currently underway. These cost centres are subject to periodic budget monitoring review in line with Strategic Finance reporting requirements.

Scope 4: Risks have been identified and mitigated against

- It was evidenced that a risk register has been prepared for each of the projects currently underway and that an overarching TIF Programme register has also been prepared.
- Active risk management is in place for each of the risks identified within the various risk registers; although it was noted that mitigating actions are in place along with a designated risk lead for only 3 of the 4 risk registers. In addition, it was evidenced that scoring assessments have been carried out for each risk identified and the minutes from Programme Board meetings show that risks have been re-evaluated.
- Examples of risks detailed in the overall programme risk register are;

<u>Potential Risk</u>	<u>Risk</u>	<u>Mitigation Actions</u>
Construction cost projections increase leading to underestimate in the Financial Model	High	Regularly revisit costings.
That the financial regime for Local Authorities does not remain sufficiently stable to deliver the programme	Medium	Keep LA funding regime and Council finances under review
Insufficient capacity /skills for dealing with this number of projects simultaneously	Low	Appointed programme/ project managers have skills and proven experience in the delivery of multiple

		project programmes. Approved PID outlines the internal and external resources required, provision for these in the approved revenue budget.
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It was noted from a review of the risk registers that high risks were centred on the complexity of the funding model, delivery of the programme by 2020 and the increase in constructions costs and lack of private investment. It was evidenced that the risk registers are regularly monitored by Members, the TIF Executive and the Lorn Arc Programme Board.

6. CONCLUSION

This audit has provided a Substantial level of assurance as Internal Control, Governance and Management of risk is sound; however there are minor areas of weakness which put some system objectives at risk. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 3 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the project 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. Program Chart		High/ Medium or Low		
No evidence of programme chart showing each projects timeline having been prepared.	Failure to adequately plan leads to potential project overrun resulting in loss.	High	Overarching programme chart will be prepared	Programme Manager 31 December 2016
2. Cost projections				
There was no evidence of a projection of final capital costs for projects currently underway.	Failure to provide ongoing capital cost projections for projects underway may lead to potential cost overruns.	Medium	Capital projection to be carried out	Programme Manager 31 December 2016
3. Risk Registers				
No mitigation actions in place in respect of 1 of the risk registers.	Failure to provide mitigation actions against risks may result in risks being realised leading to loss.	Medium	Mitigation to be inserted into risk register	Programme Manager 31 December 2016



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Argyll and Bute Council

IT internal audit indicative three year needs assessment (2016/17 – 2018/19) – DRAFT report

Distribution		Timetable	
For action	Gerry Wilson (ICT and Digital Manager)	Fieldwork completed	
	Kevin Anderson (Internal audit)	Draft report issued	
For information		Management comments	
		Final report issued	

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It is the responsibility solely of Argyll and Bute Council's management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

1 Executive Summary

1.1 Background

IT skills and experience are essential to the service delivery and operation of Argyll and Bute council. Under the Internal Audit Framework Contract with the Council, the Council's Head of Internal Audit has asked Grant Thornton to undertake an IT needs assessment to inform future IT audit plans. The primary purpose of the IT needs assessment was to help identify and prioritise the key areas for inclusion in the Internal Audit Plan over the next three years.

The IT needs assessment involved a review of previous audit activity (which is summarised in Appendix A), meetings with key staff and review of relevant documentation. The information obtained during this initial exercise was documented and risk assessed to identify those areas of greatest concern to Argyll and Bute Council.

1.2 Scope

The IT needs assessment looked at the following areas:

- Asset Management
- IT Service Management
- Change Management
- Database Security
- Data Warehousing
- Application Security
- Implementation Audit

- ICT Maturity
- Disaster Recovery
- Service Level agreements
- Capacity and Performance
- System Development
- Application Effectiveness
- Data Protection Act

1.3 Overall conclusion

From the 14 areas looked at we identified three areas of high risk and two areas of medium risk. In order to meet with Argyll and Bute's budgetary requirements we propose that reviews for 2016/17 cover the following areas:

- Contracts and agreements in place with third party providers of IT, including: tendering, service provision, KPIs, change management, roles and responsibilities

- Application Security, including passwords and use of privileged accounts

Given the range and scope of IT systems in use at the Council consideration should also be given to undertaking a General IT Controls audit which could cover access security, licenses, back-ups, patch management, batch jobs and change management. This could be conducted in the first, and third years, of the audit plan.

The table on the following page details the key findings from our review, while Appendix B outlines a suggested IT audit plan over the next three years.

1.4 Acknowledgement

We would like to take this opportunity to thank the staff involved for their co-operation during this IT needs assessment.

2 Detailed Findings

1.	Low risk	Asset Management
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Finding	To be included in 2016/ 17 audit plan?
<p>An asset tagging system is in place. Assets are tagged when they come in to / arrive at the council.</p> <p>Annual reconciliations are undertaken between the asset tag listing and the physical assets.</p>	<p>No</p> <p><u>Reason:</u> Well established process.</p>

2.	Medium risk	IT Service Management
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Finding and Implication	To be included in 2016/ 17 audit plan?
<p>A new Service Desk system, TopDesk, is in the process of being rolled out. This is expected to be fully functional by March 2017. The service desk can be contacted 24 hours a day by email, or between 8am and 6pm during the week. Monthly KPIs and target resolution times are reported upon.</p>	<p>No</p> <p><u>Reason:</u> While the new system introduces risks it is not planned to be fully implemented until 2017. As such it could be included in the 2017/18 audit plan.</p>

3.	High risk	Change Management
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Finding and Implication	To be included in 2016/ 17 audit plan?
Third party involvement with the provision of IT services, particularly around HR and payroll, was considered to require improvement. In particular the change management process, separation of roles and responsibilities, provision of training on the use of the systems as well as monitoring of internal training undertaken, and provision of upgrades was considered inadequate.	Yes <u>Reason:</u> With third party involvement over a number of key IT systems a review covering the change management and systems development processes, along with the split of responsibilities and any SLAs in place, is proposed for 2016 / 17. Additionally a review, specifically focusing on the Change Management process at the Council is proposed for 2017/18

4.	Low Risk	Database Security
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Finding and Implication	To be included in 2016/ 17 audit plan?
Annual external health checks are in place to scan databases for vulnerabilities, as well as internal quarterly database scans.	No <u>Reason:</u> Regular scanning and well understood process.

5.	Low Risk	Database Warehouse
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Finding and Implication	To be included in 2016/ 17 audit plan?
N/A – no data warehousing	No <u>Reason:</u> N/A

6.	Medium Risk	Application Security
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Finding and Implication	To be included in 2016/ 17 audit plan?
<p>Password controls are in place for applications, servers and desktops. There is no single sign on in place at the moment - Desktop and Server password settings are controlled by the IT team, while application passwords are the responsibility of the system owner. User accounts are not provided with enhanced privileges, instead shared privileged accounts are used to access these privileges.</p>	<p>Yes</p> <p><u>Reason:</u> Possibility for increased risk due to shared privileged accounts depending on how these are logged and monitored.</p>

7.	Low Risk	Implementation Audit
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Finding and Implication	To be included in 2016/ 17 audit plan?
<p>Processes are in place for both replacement of applications and servers This includes testing outside of the live environment and backups.</p>	<p>No</p> <p><u>Reason:</u> Well understood and defined process</p>

8.	Low Risk	ICT Maturity
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Finding and Implication	To be included in 2016/ 17 audit plan?
<p>IT is considered to be heavily embedded at the Council. Systems and applications are purchased on the open market, with suppliers responsible for maintaining them and the council responsible for hosting them</p>	<p>No</p> <p><u>Reason:</u> Well understood and defined systems in place</p>

9.	Low Risk	Disaster Recover
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Finding and Implication	To be included in 2016/ 17 audit plan?
IT operations can be operated from two physically separate sites. Additionally there are two physically separate data centres. Data is copied between these sites and tape backups are stored off site. Annual disaster recovery exercises are undertaken.	No <u>Reason:</u> Well understood and defined process

10.	High Risk	Service Level Agreements
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Finding and Implication	To be included in 2016/ 17 audit plan?
Service Level Agreements (SLAs) are in place with third party providers, but there have been issues with some services provided. Additionally there are not SLAs in place internally between departments.	Yes <u>Reason:</u> With third party involvement over a number of key IT systems a review covering the change management and systems development processes, along with the split of responsibilities and any SLAs in place, is proposed for 2016 / 17.

11.	Low Risk	Capacity and Performance
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Finding and Implication	To be included in 2016/ 17 audit plan?
Network capacity is provided by Vodafone with bandwidth analysis having been conducted in 2015. Capacity allows for at least 5 new servers to be added each year. A new network contract is in the process of being agreed with Swan.	No <u>Reason:</u> Well understood internally; Internally tested in last year

12.	High Risk	Systems Development
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Finding and Implication	To be included in 2016/ 17 audit plan?
Limited risk identification is undertaken by the council for new system development as reliance is placed on the third party providers for this. Nevertheless there have been issues in the last year in regards to HR/payroll and VAT.	<p>Yes</p> <p><u>Reason:</u> With third party involvement over a number of key IT systems a review covering the change management and systems development processes, along with the split of responsibilities and any SLAs in place, is proposed for 2016 / 17.</p>

13.	Low Risk	Application Effectiveness
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Finding and Implication	To be included in 2016/ 17 audit plan?
Key applications are assessed and included within an annual Group Asset Management Plan (GAMP). An annau IT health check also identifies out of date systems, or systems which have not been utilised recently. There is an internal process in place for raising concerns relating to applications which would allow the ICT Steering Board to consider if applications are in line with legislative requirements and up to date.	<p>No</p> <p><u>Reason:</u> Well understood process; Annually checked</p>

14.	Low Risk	Data Protection Act
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Finding and Implication	To be included in 2016/ 17 audit plan?
While the IT team enforce controls around access (such as limits to the use of USB devices, encrypted hard drives and mobile phones) day to day responsibility for compliance with the Data Protection Act does not lie with the IT team	<p>No</p> <p><u>Reason:</u> Well understood process; Controls are in place</p>

3 Appendix A

3.1 The below table shows all internal audits undertaken in the last three years by Argyll and Bute Council which related to IT

Audit Title	Scope	Date
Review of CareFirst	Assessment of the CareFirst system, which is a web based case management system utilised in the Social Work Department	March 2014
Review of Electronic Signatures and authorisation methods	Review of the use, processes and policies in place	September 2015
Information Communications Technology Review	Assessment of compliance with the public service network code of connection (PSN CoCo)	May 2015
Performance Management Review	Review of the integrity of data used for performance information	Nov 2015
Review of records management plan and information security	Assessment of the councils compliance with the public records (Scotland) Act, and the council's management of public records against the data protection act	Jan 2015
Review of Roads Costing System	To ascertain whether the Roads Costing system application incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made	Jan 2013
Review of Uniform System	To ascertain whether the Uniform system application incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made	March 2014

4 Appendix B

4.1 Suggested IT audit plan over three year period

	Year 1	Year 2	Year 3
IT Audit Name	16/17	17/18	18/19
General IT Controls (GITC) , including application security	Yes	-	-
Third party providers	Yes	-	-
IT Service Management	-	Yes	-
Change Management	-	Yes	-
General IT Controls	-	-	Yes
Follow up review of actions and recommendations raised	-	-	Yes



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	PROPERTY MAINTENANCE
AUDIT DATE	SEPTEMBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Property Maintenance within Customer Services as part of the 2016/17 Internal Audit programme.

Argyll and Bute Councils' Property Portfolio comprises of approximately 645 buildings/sites. These buildings/sites are assets which require to be maintained so that they may function effectively and efficiently in supporting the delivery of services. Any deterioration in a building's physical condition, due to a lack of maintenance, can adversely affect service delivery, and also create legal, health & safety and reputational issues for the Council.

Property Maintenance includes routine and emergency property repairs, planned repairs, and statutory repairs as well as planned and client funded work requests to council buildings through the use of internal and external contractors. Repairs are recorded on the Councils property management system "Concerto".

Property Services operate a help desk for emergency repairs that, if not attended to as a matter of urgency, could result in a health & safety or security risk, could cause significant damage to any property and/or may affect business continuity. Examples of this are burst pipes, broken glass or electrical failures. All emergency repairs are designated a code based on both the types of work and the response time required.

Property Services operate an online service request system for planned works or improvements to Council buildings that are not of an urgent nature and are client funded.

The Central Repairs budget is £2.1 M for 2016/17.

2. AUDIT SCOPE AND OBJECTIVES

The main objectives of the audit were:

- To review maintenance protocols and contract frameworks in place
- To carry out a walkthrough test of a sample of repair requests to assess adequacy of controls

- To assess performance information in respect of monitoring ,measuring and reporting

Controls will include:

- Authority – Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
- Occurrence – Sufficient documentation exists to evidence compliance with policies and procedures
- Completeness – Policies and procedures in place and all required documentation is accurately and fully maintained
- Measurement – Information data and statistics are appropriately collated
- Timeliness – Appropriate arrangements are in place to assure actions are timeous
- Regularity – Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Resources are insufficient to meet demand
- Controls are not being adhered to
- Reputational damage to Council
- Repairs are not prioritised appropriately leading to inefficient resource allocations
- Repairs are not monitored, measured or reported effectively

4. AUDIT OPINION

The level of assurance given for this report is Reasonable.

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. A sound

	system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:

Per Scope: To review maintenance protocols and contract frameworks in place

- Property Maintenance have prepared a Building Maintenance protocol. The key objectives outlined in the protocol are to :
 - Specify minimum requirements for the management of maintenance;
 - Ensure that building assets are adequately maintained as resources permit;
 - Ensure that the buildings are managed in line with regulatory, statutory, and legislative compliance;
 - Ensure that the risks to the Council are effectively managed;
 - Ensure that health, safety and security objectives are met;
 - Ensure effective maintenance at operational level;
 - Ensure that the Council has necessary information for the monitoring, maintenance, condition and performance of buildings assets at an organisational level; and
 - Ensure that there is adequate information at operational level, to undertake maintenance including the ability to review new policies and strategies.

Property Services management have advised that the protocol has been agreed by SMT on 17th October 2016.

- Services are commissioned via external contractors. Term maintenance contracts are in place and are split on a geographical basis. It was noted that at present approx. 80% of these contracts, based on value, reside with one contractor.
- A review of two of the contractors maintenance framework was carried out namely for Mid Argyll and for Tiree. The frameworks reviewed were found to be adequate covering key areas such as:
 - General conditions of contract

- Agreed schedule of rates
 - List of properties covered in contract
 - Key Performance indicators (KPI's) required from contractor
 - Timescales in regard to areas including job priorities & invoicing
 - Management and monitoring of contractor by Property Maintenance
 - Requirement of contractor to have adequate resource to meet contract obligations
 - Asbestos requirements when on site
 - Contractor default where contractor fails to meet contractual obligations
 - Variations
 - Contract termination
- Testing was undertaken in respect of contractor compliance with the requirements set out in the framework and the following observations were made:
 - As per the framework the contractors had agreed that invoicing to the Council would be within 21 days of a job being completed. Testing showed that the contractors failed to achieve this target for 50% jobs reviewed.
 - The framework agreement states that the contractors must sign in as evidence of arrival and departure from the establishment and should provide photographic evidence from the sign in book. There was no evidence that the contractors had forwarded photographs to Property Services and checks carried out by Property Services showed that the contractors had failed to sign in/out in 49% of orders checked.
 - The framework covers the KPI's which contractors are required to provide on a monthly basis. A review of the information provided by the main contractor found that the detail is not being provided as per the specific framework requirements.

- The framework agreement states that 4 days prior to the Contractor/Property Services monthly meeting all agreed information should be emailed by the contractor to the Council's representative. Consultation with the Councils representative showed that the contractors had failed on all occasions to meet this deadline.

Property services acknowledge the issues as outlined above and minutes of meetings with Contractors shows that all issues relating to the poor performance of the contractor have been discussed and ultimately escalated within the contractor's organisation with a view to mitigating risks as far as possible.

Per Scope: To carry out a walkthrough test of a sample of repair requests to assess adequacy of controls

- Property Maintenance have in place both operational procedures and process mapping which sets out the tasks, checking and controls at each stage of the process; from being advised of a repair through to the final payment to the contractor. A sample of 26 orders was chosen at random from the Concerto Property Management system covering the period up until March 2016 and walkthrough testing was carried out to assess the adequacy of the controls in place.
- The following financial controls were tested :
 - Job was properly authorised
 - Job have been assigned a priority category
 - Completed contractor job sheet has been completed and agrees back to invoice
 - Invoice from contractor agrees to contractual schedule of rates
 - Invoice has been approved as per agreed approval limits
 - Job has been physically checked by a council official as having been completed as per job order

The following findings were noted:

<u>Check carried out</u>	<u>No. of transactions checked</u>	<u>Error rate volume</u>	<u>Error %</u>
Job was properly authorised	26	2	8%
Job have been assigned a priority category	26	0	0%
Completed contractor job sheet has been completed and agrees back to invoice	26	15	58%
Invoice from contractor agrees to contractual schedule of rates	26	7	27%
Invoice has been approved as per agreed approval limits	26	0	0%
One in 10 Jobs has been physically checked by a council official as having been completed as per job order	26	None checked	100%

- A further sample of 10 orders was taken, covering jobs undertaken in the period May – September 2016, as Property Services had indicated that following an internal review in April 2016 it was deemed necessary to introduce enhanced controls to reduce errors similar to those highlighted by the original sample. The results of the second sample are as follows:

<u>Check carried out covering period from 23rd May to September 2016</u>	<u>No. of transactions checked</u>	<u>Error Rate volume</u>	<u>Error %</u>
Job was properly authorised	10	0	0%
Job have been assigned a priority category	10	0	0%
Contractor job sheet has been completed and agrees back to invoice	10	2	20%
Invoice from contractor agrees to contractual schedule of rates	10	1	10%
Invoice has been approved as per agreed approval limits	10	0	0%
One in 10 Jobs has been physically checked by a council official as having been completed as per job order	10 (of which one was physically checked)	0	0%

The second sample indicate that controls introduced have resulted in an improvement from the previous sample such as checking of contractor invoice against agreed rates and job sheets. It should be noted that the sample above in regard to physical checking of completed jobs reflects the risk based approach adopted by Property services.

- It was noted that the operational procedures and process mapping have not been updated to reflect the additional controls introduced in May 2016.

Per Scope: To assess performance information in respect of monitoring, measuring and reporting

- The contractual framework states that Property Services staff will hold a monthly meeting with contractors where performance information, as laid out in the framework, will be presented. It was evidenced that the monthly meetings are held and attended by Property staff. The review found that the information presented by the contractor was found to be incomplete and difficult to interpret. It was evidenced from correspondence that Property Services have raised these issues with the contractor; however recent minutes indicate that these issues are still ongoing.
- Property Services prepare a formal monthly report which is presented at the Facility Services Management Team meeting and details spend to date, spend by department and categorises commitment into emergency, planned and statutory. The report was found to be timely and accurate.
- Performance information is provided via the score system and includes a number of performance measures.

	Actual	Target	Benchmark
Proportion of Council buildings within satisfactory condition	86.6%	80.0%	
Proportion of current buildings suitable for current use	69.1%	65%	
Maintain the completion of statutory testing	On Track	On Track	N/A

It was noted that the measures recorded in the score card are high level targets and does not include information regarding achievement of priority targets or any performance measures in respect of maintenance activity.

- The service plan states that Property Services “undertake quarterly satisfaction surveys on the maintenance programme for schools”. It was evidenced that Property Maintenance have carried out the surveys and a review of the latest survey showed that 95.9% of schools were fairly/very satisfied with performance. The survey covered the following areas:
 - Initial contact
 - Emergency Repairs
 - Planned Maintenance
 - Statutory Maintenance

The survey issued was found to be timely, consistent and transparent.

- A review of the Concerto standard reports indicated that a number of reports are available which would provide management information. Examples of such reports are:
 - Incomplete works orders
 - Orders unapproved more than 3 days
 - Orders invoiced and paid but not authorised on Concerto
 - Comparison of target date for job completion against actual date of completion

There was limited evidence that this functionality is actively used within the service

General

- It was noted that the Central Repairs Budget has decreased from £2.5m for 2015/16 to £2.1m in 2016/17 and is projected to fall to £1.9m in 2017/18 with no corresponding decline in the number of properties within the Council property portfolio.

- Management are proposing to produce an interface between Concerto and Oracle such that invoices will be authorised for payment within Concerto with invoice details being transferred into the Oracle financial system and paid accordingly. Controls within the Concerto system should be reviewed to minimise the risk of loss or error through human error.
- It was evidenced that before repairs are carried out on any Council property a check is made on current/planned works already scheduled for that property to ensure that there is no duplication of works carried out.
- It was noted that Concerto has a dashboard facility which could highlight key performance data on a real time basis to users when they log on but this facility has yet to be fully developed. For example, this dashboard could highlight how many orders are outstanding or the number of orders over priority limit.

6. CONCLUSION

This audit has provided a Reasonable level of assurance as, although not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk. These areas have been acknowledged by Property Services who are working on a programme of continuous improvement. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 4 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Property Maintenance 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. Compliance with Framework				
Contractors are not adhering to framework	Failure of maintenance contractors to comply with agreed framework may lead to loss and/or misreporting resulting in ineffective decision making/ineffective use of resources.	High	On-going discussion with contractor taking place to address compliance issues and issues escalated to Contractor senior. In addition we will look to strengthen mechanisms for cost recoveries in future contracts in the event of noncompliance prior to contracts being re let in 2017.	Property Maintenance Manager/Procurement Officer. 31 March 2017
2. Additional controls				
Additional controls have been implemented however they are not formally documented.	Failure to document additional control process procedures may lead to inefficient and ineffective operations resulting in loss or error.	Medium	Controls processes will be updated and documented.	Property Maintenance Manager 31 December 2016

3. Concerto				
System functionality is not being fully utilised.	Failure to maximise use of available software may lead to ineffective use of resources resulting in missed opportunities.	Medium	Concerto system is currently under development leading towards its full implementation and as part of this process Chrystal reporting function will be reviewed.	Property Maintenance Manager 31 March 2017
4. Performance measures				
Performance measures do not provide information in respect of maintenance activity.	Failure to report performance information may lead to ineffective decision making.	Medium	Property Maintenance reporting has been reviewed and is deemed to be adequate.	Complete



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
DESCRIPTION	SPECIAL INVESTIGATION
TITLE	ALL-WEATHER PITCH FACILITIES
DATE	OCTOBER 2016

2016/2017



1. EXECUTIVE SUMMARY

At its meeting of June 7th, the Bute and Cowal Area Committee requested an Internal Audit review of management arrangements in respect of Dunoon 5 Aside Cages. Matters of a similar nature were also raised at the Helensburgh and Lomond area committee. At its meeting of 30th June 2016 the Council noted that the Chief Executive had referred the issue of the management of the cages to Internal Audit as part of their investigation into the management of all these facilities in Argyll and Bute.

This review covers the period from 2000 to 2016 therefore some of the matters identified are historic in nature. Our approach included discussions and interviews with officers and stakeholders together with a detailed file review of available documentation and records. Unfortunately due to the length of the period covered and staff turnover during the period it was not possible to interview all relevant officers.

Sixteen all-weather facilities have been identified as being in place throughout the Council area and these are subject to a range of operating, management and maintenance arrangements.

The report identifies a number of weaknesses in respect of the overall management of a number of these facilities. The weaknesses have been categorised into; Lease Management, Financial Management, Maintenance Arrangements, Facility Management, Communication, Engagement and Operating Models. Appendix A provides a summary of these issues together with the potential risk impact and agreed management action / commentary.

Assurance levels vary from High in relation to the NPDO schools, to limited for the non NPDO school related pitches to no assurance for the 4 stand-alone sites. However an overall “No assurance” opinion is being provided, internal control and management of risk is poor with significant residual risk and /or significant non-compliance with basic controls. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

2. SCOPE

The scope of the investigation will be limited to the undernoted activity;

- Identification of sports facilities owned, operated or leased by the Council
- Review of operating arrangements including lease / asset transfer to Community Groups or organisations
- Review of funding mechanisms including arrangements for compliance with any grant award criteria
- Review of financial management arrangements including operating income & expenditure and any residual balances

- Review of condition survey status
- Review of repair, refurbishment and / or replacement programme

3. CONTROL OBJECTIVES

Controls reviewed included:

- Authority – Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
- Occurrence – Sufficient documentation exists to evidence compliance with policies, procedures and relevant legislation
- Completeness – Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained
- Measurement – Policies and procedures are in line with requirements of relevant legislation
- Timeliness – Policies and procedures are regularly reviewed and updated as necessary
- Regularity – Documentation is complete, accurate, and not excessive and is compliant with the document retention policy. It is stored securely and made available only to appropriate members of staff.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
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Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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<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>
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4. FINDINGS

The following findings were generated by the audit:

Identification of sports facilities owned, operated or leased by the Council

There are a number of non-grass facilities throughout the Council area. These are shown in the list below. They are recorded on the Council's asset register either as an individual entry or as part of the wider School Land/Building entry.

- Dunoon Grammar School
- Rothesay Joint Campus
- Hermitage Academy
- Lochgilphead Joint Campus
- Oban High School
- Aqualibrium Campbeltown

- Tobermory Kenny Macintyre Memorial Pitch
- Lochnell School Pitch
- Park Primary School Pitch
- Innellan School Pitch
- Parklands School Pitch
- Tiree High School Pitch

- The Dunoon Cages, Black Park
- Bendarroch
- Kirkmichael
- Tarbert Community Project

Operating, Management and Maintenance Arrangements

Various operating, management and maintenance arrangements are in place in respect of these facilities and for the purpose of this review they have been grouped into categories;

- NDPO: Facilities available at our schools which were built under the NPDO initiative.
- Community Services/Schools: Facilities available at school locations and where applicable bookings managed via the Community lets process.
- Other: Individual arrangements.

NPDO: Facilities are used by Schools when the school is in session. Out-with School use, facilities are available for booking via Community and Culture service. At its meeting of 5 February 2015 the Policy and Resources committee considered and agreed a charging policy in respect of these 4 pitches plus the facilities at Campbeltown (Aqualibrium) and Oban High School.

Maintenance arrangements fall under the NPDO contract whereby facilities must be available for use throughout the term of the contract with the exception of programmed maintenance. Where facilities are not available contractual penalties are applied. In respect of the Aqualibrium and Oban High School facilities, maintenance arrangements are in place with Amenity services. In summary adequate control arrangements are in place in respect of these facilities.

Community Services /Schools: There a number of pitches that are known as School pitches. These are Innellan, Tobermory, Tiree, Park Primary, Lochnell and Parklands. These are primarily used by the host School and are not formally available for Community let with exception of Tiree. The construction of Lochnell pitch was part funded via a sport Scotland award (£33k) and Tobermory was part funded by New Opportunities monies (£69k). In respect of all of these pitches, there is no formal repair and maintenance programme in place and during the audit it was evidenced that clarification is required as to who is responsible for the maintenance, inspection and overall management of these facilities. Where maintenance has been undertaken this has been on an ad-hoc reactive request basis.

Others: These are stand-alone facilities and not directly linked to a school and which have individual operating /maintenance arrangements. These are: Tarbert Community Sports Project, Dunoon Cages, Bendarroch and Kirkmichael. Detail is shown below for each for these facilities.

Tarbert Community Sports Project:

The pitch was funded primarily from monies from the Big Lottery fund with £124k awarded in 2006. There are currently no charging, management or formal maintenance arrangements in place. The facility is used regularly by the local School and a number of local groups and individuals however it is operated on a first come first serve basis or on known local user time. Representatives from the local football club and other user clubs have on occasion undertaken basic maintenance and cleansing activity. The Council are currently undertaking a £88k programme of remedial and refurbishment work which commenced 12 September 2016.

Dunoon Cages, Black Park:

The project for a new all-weather pitch for Dunoon, in its present form, was conceived around 1999 by a small group of individuals in Dunoon who sought to provide a high quality all-weather facility in the area. The selected site was at Ash Park Dunoon. The original initiative was led by the Dunoon Youth Football League. However, it was ultimately taken forward via an independent community group. As a result Cowal Community Sport Project (CCSP) was formed to set up and operate as a community business and manage the facility.

The Council submitted an application to Sportscotland in the early part of 2000 on the basis that the new facility would be leased to the community business (CCSP). At that time the concept was that CCSP would pay a nominal rent and that CCSP would operate as a non-profit making community business.

The original estimated cost for the project was £132k and the application for support from Sportscotland was based on this estimate. However, when tenders were subsequently opened the lowest tender was some £30k higher than the original estimate. The application to Sportscotland was successful and a grant of £99k was awarded August 2000.

In addition to the grant application to Sportscotland, funding was allocated from the Council's Repairs and Renewals fund (Spend to Save). This is a self-financing fund where funds awarded to qualifying organisations are repaid over an agreed period. The aim was to provide short term finance to enable new projects to commence, with the repaid funds providing the opportunity for other organisations to benefit in a similar way. An award of £25k was allocated to CCSP which was to be repaid

initially over a period of 4 years. This was later extended to a 7 year repayment period by the Strategic Policy Committee of Argyll & Bute Council on 18th October 2001. Internal Audit have confirmed that no payments for this or any similar amount were made directly to the group, instead it was taken as a contribution on behalf of CCSP towards the funding of the project. Although the necessary internal transactional entries were processed in respect of allocating the monies to the project budget Internal Audit have been unable to evidence that any agreements were drawn up and signed which detailed liability and repayment schedule although it is accepted by both CCSP and the Council that this was the intention.

As part of the project process a business plan was prepared which, amongst other things, included repaying the Spend to Save award. The Council failed to put any arrangements in place for the collection of these repayments and neither did the group offer. There is no evidence of any correspondence discussing the repayment of outstanding monies in respect of the loan repayments. Internal Audit have confirmed with Strategic Finance that there is no outstanding debtor on its books in respect of the Spend to Save award and clearing entries were made in the interim period. The detail of these transactions is not readily available.

A lease agreement was drawn up but was not formally signed until August 2004, some 3 years into the operation of the project, at which time the Council entered into a 25 year lease agreement for the period July 2001 through to 2026.

The lease included details of the annual rental payment (£860) due to be paid however, again, there was an internal failure to put arrangements in place to collect these monies and neither did the group offer payment.

The lease also states “the tenants accepts the premise as being in good and tenantable condition” and “at all times during the currency of the lease will and to the reasonable satisfaction of the landlords repair and maintain (and if necessary to reinstate and renew) the Premises and every part thereof and all additions thereto and the fixtures and fittings”.

This lease agreement was also submitted to Sportscotland and accepted in respect of clause 18 of their standard terms and conditions which states “You (the awardee) will be responsible for the repair, maintenance and eventual replacement or renewal of the facilities provided with the help of the award. Before the project commences you must provide us with written confirmation that you will undertake a programme of maintenance and repair to safeguard the asset.”

This responsibility for maintenance, repair and eventual replacement was known to the group who, in their business plan, provided for a £10k per annum contribution to a sinking fund. The Council did retain a landlord responsibility for inspection of

the facilities to ensure the asset was being maintained appropriately however there is no evidence of any inspection activity or reporting of such haven taken place.

The Council and the CCSP complied with Sportscotland’s post completion monitoring activity with all appropriate returns being completed and submitted. Sportscotland have advised that their general terms and conditions for awards less than 100k are applicable for a period of 10 years post completion.

A summary of the project costs and funding is shown below. The total approximate cost of the project was in the region of £155k.

Costs (£)		Funding (£)	
Base Works	28,000	Sportscotland	99,000
Fencing	38,000	A&BC – Spend to Save	25,000
Synthetic Surfacing	52,000	A&BC – Capital Funding	11,000
Floodlighting	12,000	CCSP Contribution	10,000
General Items	25,000	AIE Match Funding	10,000
Total Project Cost	155,000	Total Funding	155,000

The Council agreed to a business development grant of £5k as a contribution towards start-up costs. These monies were paid to the group and credited to their bank account. The monies were to be repaid if the group was successful in attracting additional external funding however as no formal application was made for additional external funding, repayment was not required.

As this facility was leased to CCSP, income collection was the direct responsibility of the group. The original business plan provided for approximately £30k income per annum. This target was never achieved with highest income recovery of £20k

achieved in 2007. A high level review of annual income levels against business plan forecasts demonstrate the forecasts were ambitious and that annual income over the period was approximately 35% of original target. CCSP have intimated that the creation of additional synthetic facilities at the then new Dunoon Grammar School impacted on user numbers and therefore income levels. A review of CCSP annual accounts show that the organisation ran at a deficit for 7 out of the 11 years between 2004 and 2015.

Internal Audit are aware that CCSP's day to day finance operations, for a short period, included the practice of offsetting whereby expenditure was directly deducted from income and the net balance recorded in bank accounts. Whilst this is not good accounting practice the amounts involved are thought to be immaterial. Internal Audit have evaluated the potential risk of fraud or misappropriation and based on information available conclude this to be very low risk with no evidence of any act of criminality.

Audited Financial Statements have been prepared and submitted to Companies house for each and every year since the incorporation of the CCSP group. CCSP are currently making arrangement to wind down the Community Business. As at March 2015 CCSP had net assets of £144. (One hundred and forty-four pounds).

Dunoon Cages - Dunoon 5's:

CCSP intimated their intention to withdraw from the lease agreement late 2013 and subsequently the Council approached Dunoon 5's to see if any there was any interest in operating the facility. As a result of these discussions the Council entered a minute of agreement with Dunoon 5's to take over the operation of the Dunoon Cages in 2014. This agreement covered the period 1st September 2014 to 31st August 2015.

A sum of £7,500 was paid to Dunoon 5's to fulfil their obligations under the agreement which amongst other things, included the responsibility to "*maintain the cages to the satisfaction of the Council*". The agreement also states "*the Council shall carry out monthly health and safety inspections of the Cages and shall advise Dunoon 5's in writing, within 5 working days of the inspection, or any works that they consider are necessary to bring the condition of the cages up to an acceptable standard for use by the general public*".

There is no evidence of any monthly health and safety and/or maintenance inspection activity having taking place. Neither has the Council written to the group requesting any remedial repairs. Quarterly meetings have taken place between the appointed representative from Dunoon 5's and the Council and a number of issues have been discussed, primarily lighting issues. To date, there has been limited progress in addressing these issues.

In respect of the responsibility to maintain the cages, Dunoon 5's understood this to be basic care and maintenance activity. Out-with the life condition of the surface, there are currently issues with lighting whereby 10 out of 16 lights are inoperative impacting on the availability of pitches and which have been reported to the Council. It is not clear from the wording in the minute of agreement where this responsibility for repair lies and a lack of clarity exists in respect of obligations of Dunoon 5's and the Council. Dunoon 5's are currently operating the facility on a month to month basis on the same terms and understanding as the now expired minute of agreement.

Bendarroch Park: Garelochhead

Funding (£125k) was awarded in January 2004 from the Big Lottery Fund under its New Opportunities Fund. Monies were used to construct a floodlit, synthetic grass multi-use games area at Bendarroch Park, Garelochhead. The aim of the project was to allow approximately 1,000 people from local schools and the communities of Garelochhead, Cove, Rosneath, Rhu and West Helensburgh to participate in a range of activities such as football, hockey, netball and volleyball. In addition to lottery funding, funding (£23k) was also received from SportsScotland in respect of changing facilities at same location.

At the outset of the project it was proposed that management of the facility would be undertaken by a Local Community Group with assistance from the Council. A steering group was formed with representatives from the Council, Garelochhead Community Council, Garelochhead residents association and other community groups to oversee the project during its design and construction phase. On completion it was planned that a properly constituted management board would supervise and run the facility however it would appear that this planned arrangement did not come to fruition. There is no documentary evidence, e.g. signed lease or minute of agreement, to suggest that any formal arrangement was put in place post construction.

Current arrangements in place are such that local schools can use the facility during school hours without charge. There is also an arrangement in place whereby "local time" slots, generally between 5pm and 6pm are available, again these are without charge. All other available slots are chargeable and can be booked through Council contact centre. An arrangement is in place whereby a Local Community Group, Centre 81, undertakes key holder responsibility. There is no formal maintenance or cleansing arrangements in place although the Council did commission remedial works in respect of damage as a result of vandalism during 2012/13. Any income received from bookings is coded to a council cost centre. Surplus balances at the year-end are transferred into an earmarked reserve. Total recorded income for the period 2005 to March 2016 is approximately £8,000 with annual income levels ranging from £2,600 in 2005/06 to £43 in 2015/16. A review of year entries shows that where annual income levels are particularly low these amounts have not been transferred to the earmarked reserve due to materiality concept being applied. The current balance in the earmarked reserve is £4,257.

Kirkmichael:

This facility was developed by the Council and is included on the Council’s asset register. Upon completion of the development a management arrangement was put in place between the Kirkmichael Sport and Recreation Association (KRSA) and the Council which was aimed at ensuring that all management, maintenance and replacement responsibility would lie with KRSA. This was in the form of a 30 year lease. Unfortunately the organisation ceased to exist a number of years ago thus by default responsibility for the facility fell back to the Council. Currently there are no management, maintenance and operating arrangements in place. There is no record of any income or booking arrangements being in place since the KRSA ceased to exist. This project was primarily funded from Council resources.

Compliance with Grant Award Criteria:

With regards to projects where external funding was levered, the Council has satisfied the awarding body terms and conditions during the application process and providing appropriate evidence where required. The Council have also satisfied any post completion evaluation protocols. However, in respect of Sportscotland criteria, it could be reasonably argued that there are weaknesses in respect of the Council’s adherence to their clause which states there should be a “programme of maintenance and repair in order to safeguard the asset”.

Sportscotland standard terms and conditions are applicable for 10 years post project completion.

Condition Survey / Repair replacement programme:

Various maintenance and repair arrangements are in place in respect of the Council’s all-weather pitches.

NPDO pitches form part of the overall facilities management contract and are subject to routine repair and maintenance. At the end of the contract, it is expected that these will be handed over to the Council with an agreed useful life.

With the exception of Tarbert Community Project, which is currently subject to repair and refurbishment activity, there are no routine repair or replacement programmes in place for the remaining facilities. However condition surveys have recently taken place for a number of these facilities and management are sighted on repair and improvement requirements across a number of facilities. The

Council has earmarked a sum of monies for potential refurbishment and replacement where necessary. Papers have been recently taken to Council outlining options for progressing with a refurbishment programme.

Operating Models:

Operating models for all-weather facilities vary across the Council's geographical areas. There is a need to ensure that existing facilities are used efficiently and effectively. Consideration should be given to future delivery model(s) giving cognisance to viability and sustainability of current facilities together with an assessment of the social impact and contribution to outcomes. Any delivery model should be built on identified need and /or existing available capacity in locality. Options for operating models should also make clear any associated risks and liability commitment both current and future.

To summarise, appraisal criteria should, as a minimum, include reference or make clear arrangements in respect of:

- Sustainability
- Risk – options should seek to reduce or minimise risk to the Council
- Lifecycle maintenance and refurbishment programme
- Usage agreement, charging and booking model
- Management model or delivery vehicle, e.g. In-house, 3rd Sector, Arm's Length Organisation

5. CONCLUSION

The review has identified a number of weaknesses which require remedial management action. In respect of the NPDO category of pitches management of risk is of high assurance with sound control arrangements in place. However in respect of the remainder of the facilities internal control, governance and management of risk is, in some instances poor with significant residual risks and / or non-compliance with basic controls leaving the Council and / or system exposed to error, loss or abuse. Where facilities have been subject of a grant award / application the Council has satisfied application criteria and post evaluation monitoring requirements. An

action plan has been prepared which outlines the weaknesses identified and potential risk implications. The actions plan also includes management response / agreed actions.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating (High/Medium or Low)	Agreed Action	Responsible person agreed implementation date
1. Operating Model				
Consideration should be given to future delivery model(s).	Failure to assess and agree appropriate delivery models adversely impacts on initiative success and value for money.	High	A formal options appraisal is carried out with regard to the operational and management model for each site severally and together. The appraisal should have regard to the list of principles identified in the Internal Audit report and be reported for decision to the EDI Committee.	Head of Roads and Amenity Services. 30 April 2017
2. Lease Management				
The Council did not actively manage Lease/ Minute of agreements in respect of stipulated terms and conditions.	Failure to adequately manage lease agreements result in potential loss and reputational damage	High	Subject to the outcome of the options appraisal above, as required site leases be prepared and management agreements for each site be established	Operations Manager Roads and Amenity. 30 April 2017, following formal options appraisal.

			<p>setting out the roles and responsibilities of each party.</p> <p>As required arrangements for an annual review of the agreements and accounts be agreed.</p>	
3. Financial Management				
<p>Arrangements were not put in place to recover monies due to the Council, namely rental income and Spend to Save repayments.</p>	<p>Failure to collect income due results in financial loss and impacts on organisations ability to deliver services.</p>	High	<p>Subject to the outcome of the options appraisal and lease/ management agreements, the annual review of the agreements will include confirmation of receipt of all due payments from 3rd parties</p>	<p>Operations Manager Roads and Amenity.</p> <p>30 April 2017, following formal options appraisal.</p>
<p>There was no evidence of a formal agreement being in place in respect of Spend to Save loan</p>	<p>Failure to issue Loan agreement papers may lead to dispute re liability resulting in non-payment of monies due.</p>	High	<p>Ensure all future loans that are formally approved by council /committee are included within the terms of any lease/</p>	<p>Head of Strategic Finance.</p> <p>31 December 2016</p>

			management agreement and where appropriate relevant documentation is prepared.	
There is an inconsistent approach to the application of Hire charges.	Failure to ensure equitable charges and access for all customers leads to inequality and reputational damage.	High	Subject to the outcome of the options appraisal above, any lease/ management agreement must clearly specify consistent terms for when charging applies (n.b. actual charges may vary dependent on the decisions of the managing organisation).	Operations Manager Roads and Amenity. 30 April 2017, following formal options appraisal.
4. Maintenance Arrangements				
For non-NPDO facilities maintenance arrangements are not clearly defined and there is no evidence of an agreed programme being in place.	Failure to adequately maintain facilities may lead to disrepair resulting in increased liability risk / cost.	High	Development of a clear, costed maintenance regime for each site. Agreement on the costs of maintenance	Operations Manager Roads and Amenity. 30 April 2017

			to be incorporated in the financial section of the management agreement for each site.	
5. Facility Management				
There is a fragmented approach in respect of overall management of all-weather facilities.	Failure to have a defined management plan leads to inconsistency adversely impacting service delivery resulting in reputational damage.	High	Following agreement on the appropriate lease/ management option for each site, the approach should be included within an overarching pitch strategy for the area.	Head of Communities and Culture. 31 December 2017
6. Communication				
There are weaknesses in internal communication which is exacerbated by a lack of clearly defined roles and responsibilities.	Failure to clearly define roles and responsibilities may lead to ineffective performance resulting in non-compliance with legal / and or service requirements and standards.	High	Subject to the outcome of the options appraisal above, the lease/ management agreements should include a section which clearly defines roles and responsibilities	Operations Manager Roads and Amenity. 30 April 2017, following formal options appraisal.

7. Engagement				
Engagement with key stakeholders post construction phase is deemed poor.	Failure to engage with stakeholders adversely impacts success of project or initiative.	High	Subject to delivery model, any lease / service level agreement will define contact and engagement protocols which will be monitored and reported on accordingly	Operations Manager Roads and Amenity. April 2017, following formal options appraisal.



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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
02 DECEMBER 2016**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2016 – 2017.

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 31 October 2016.
- 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 31 October 2016, 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 31 October 2016, 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

2. RECOMMENDATIONS

- 2.1 The audit committee note the content of this report.

3. CONCLUSION

- 3.1 Of the recommendations due for completion by 31 October 2016, 36 have been completed. Internal Audit is satisfied with the status of the remaining 4 recommendations being delayed but rescheduled. Good progress is being made on the recommendations due after 31 October 2016 with 7 completed early and the remaining 14 showing on course. Further programmed testing of post follow-up actions will be undertaken via the continuous monitoring programme.

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:	Failure to implement agreed actions leads to financial, physical and reputational loss and adversely impacts organisational objectives.
4.7	Customer Service:	None

Kevin Anderson
Chief Internal Auditor
02 December 2016

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

APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 AUGUST 2016 – 31 OCTOBER 2016

SERVICE	Complete	Delayed but rescheduled	Total
ADULT CARE	12	0	12
CHILDREN & FAMILIES	3	1	4
COMMUNITY & CULTURE	1	0	1
CUSTOMER & SUPPORT SERVICES	2	1	3
ECONOMIC DEVELOPMENT	3	0	3
EDUCATION	3	1	4
EXECUTIVE DIRECTOR CUSTOMER SERVICES	2	0	2
GOVERNANCE & LAW	1	0	1
IMPROVEMENT & HR	1	0	1
ROADS & AMENITY SERVICES	4	1	5
STRATEGIC FINANCE	4	0	4
TOTAL	36	4	40

RECOMMENDATIONS DUE AFTER 31 OCTOBER 2016

SERVICE	Complete	On Course	Total
CUSTOMER & SUPPORT SERVICES	0	1	1
ECONOMIC DEVELOPMENT	2	0	2
EDUCATION	4	3	7
IMPROVEMENT & HR	0	2	2
ROADS & AMENITY SERVICES	1	3	4
STRATEGIC FINANCE	0	5	5
TOTAL	7	14	21

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Recommendations Overdue 31 October 2016

ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
DEPARTMENT COMMUNITY SERVICES SERVICE EDUCATION REPORT NAME <u>LOOKED AFTER CHILDREN - EQUALITY OF EDUCATION</u>					
3	It was not evidenced that Education hold a central register of Named Persons for Secondary Schools. LOW	A central register of Named Persons in Secondary Schools will be created and published by the Education Service in compliance with new statutory duty.	31 August 2016 31 August 2017	Due to the Scottish Government delaying the legislation on the Named Persons scheme until 2017 the action won't now be completed until August 2017.	Delayed but rescheduled Education Manager – Inclusion and Equality
DEPARTMENT CUSTOMER SERVICES SERVICE CUSTOMER & SUPPORT SERVICES REPORT NAME <u>REVIEW OF PROCUREMENT - PECOS 2015/16</u>					
1	The Authorised Signatories list does not match the PECOS approval groups. There are no standard templates of authorisation limits indicating approval levels. HIGH	An authorisation limit template will be developed & issued to management for completion, thereafter, passed to both Creditors and Procurement for implementation and subsequent update of approval groups and individual limits. The user limits will be used to set limits within the approval groups on PECOS.	31 July 2016 31 October 2016 30 November 2016	Evidence has been requested from Departments that their lists have been updated. Evidence is outstanding from one department.	Delayed but rescheduled Procurement & Commissioning Manager
DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES SERVICE ROADS & AMENITY SERVICES REPORT NAME <u>REVIEW OF DISPOSAL OF EQUIPMENT <£10K - 2015/16</u>					
6	Lighting Stores Staff are unaware of any procedures for removal of obsolete stock and therefore stock is retained indefinitely. MEDIUM	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	30 September 2016 31 December 2016	The action has had to be reassigned to an alternative member of staff who can assist with street lighting matters. Fleet, Waste and Infrastructure Manager overseeing.	Delayed but rescheduled Head of Roads & Amenity Services

ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
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DEPARTMENT	IJB SERVICE UNITS
SERVICE	CHILDREN & FAMILIES
REPORT NAME	<u>CRIMINAL JUSTICE - NATIONAL OUTCOMES & STANDARDS 2016/17</u>

1	There is no documented procedure in terms of the governance and reporting processes. MEDIUM	Single document to be produced (and annually reviewed) that describes the processes supporting the CJ performance and reporting arrangements.	30 September 2016 31 December 2016	Criminal Justice are working on a new performance reporting programme for 2017/20 which will provide the template for the process document. This is part of a wider strategic plan and is tied into timescales hence the delay.	Delayed but rescheduled Business Support Manager
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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
02 DECEMBER 2016

DRAFT ANNUAL AUDIT PLAN 2017/18

1. SUMMARY

- 1.1 This report introduces the draft Annual Audit Plan for financial year 2017/18.

2. RECOMMENDATIONS

- 2.1 To note proposed content and feedback any comments to the Chief Internal Auditor.

3. DETAILS

- 3.1 The Committee agreed that a draft audit plan would be submitted to the December meeting of the Audit Committee to allow members to review proposals and feedback any comments to the Chief Internal Auditor prior to approving the finalised plan at the March meeting of the committee.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) stipulate that the Council's internal audit plan must be risk based and focused on governance, risk and controls to allow the Chief Internal Auditor to provide an annual opinion on the Council's internal control framework, based on the work undertake during the year. This annual opinion informs the Annual Governance Statement.
- 3.3 The draft Annual Audit Plan is shown in Appendix 1. The audits detailed in the audit plan have been selected using a risk based assessment of our audit universe which is all of the auditable areas within the Council.
- 3.4 Factors used in the risk assessment process included the potential impact on the Council's corporate outcomes, financial materiality, links to strategic risks, key changes within the operating environment, a review of complaints register and assurance received from other sources.
- 3.5 Consideration was also given to the requirement to provide an annual assurance statement, volume of transactions and impact on the Council's framework for internal control.

The Audit plan is broken down into 4 main areas which are;

- Cross-cutting reviews
- Service department reviews
- Verification reviews
- Continuous monitoring programme

- 3.6 Cross cutting reviews include auditable areas which are non-specific to an individual department or service activity and which are of a corporate or organisational wide focus
- 3.7 Service department reviews include auditable units within the Audit Universe which are specific to an individual department
- 3.8 Internal Audit undertake a number of verification reviews throughout the year. These reviews are primarily focused on testing and verifying areas such as grant claims, performance indicator submissions and compliance with sector regulation or licensing.
- 3.9 Our continuous monitoring programme includes a number of auditable units which were historically subject to individual annual audits. These areas are now tested on a regular recurring basis with control weaknesses reported by exception.
- 3.10 An indicative outline scope is given for each of Auditable units. Full terms of reference will be discussed and agreed with relevant Head of Service.
- 3.11 The plan is based on an estimated available 970 Audit days with suitable contingency factored in. The plans remains fully flexible, to accommodate changes in the Council's risk profile and /or emerging risks.

4. CONCLUSION

- 4.1 The draft annual audit plan is risk based and is aligned to the Council's long term outcomes, corporate objectives and strategic risk register. The plan now incorporates continuous monitoring and verification activity sections.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None
5.6	Risk	None
5.7	Customer Service	None

For further information please contact Internal Audit (01369 708505)

Kevin Anderson
Chief Internal Auditor
02 December 2016

Appendices:

- 1. Draft Audit Plan 17/18**

Appendix1. Audit Plan

DRAFT AUDIT PLAN 2017/18			Planned days	High Level Scope
Department / Service Area	Sub Service	Topic		
CROSS CUTTING				
Council	Organisational Culture		30	Providing Assurance over organisational Culture and Behaviours
	Fees and Charges		30	Review / application of Fees and Charges
	Risk Management		20	Review of Risk Management arrangements including Assurance Mapping
	Performance Management		20	Arrangements for Performance reporting
Chief Executives /Departmental	Strategic Finance	VAT / Earmarked Reserves	20	Arrangement for compliance with HMRC VAT rules. Review of Earmarked Reserves
Total Cross Cutting			120	
CUSTOMER SERVICES				
Customer and Support Services	Procurement	Catering Services	20	Arrangements of procurement of supplies and services
Customer and Support Services	ICT	Service Levels Agreements	20	Review of External and Internal Service Level agreements
Customer and Support Services	ICT	Systems Development	20	User Testing Risk Identification protocols
Governance and Law	Governance	Records Management Plan	20	Compliance with legislative requirements and key control review
Improvement and HR	Organisational Development	Improvement Planning and follow up	20	Arrangements for Improvement planning and follow up
Total Customer Services			100	
HEALTH AND SOCIAL CARE PARTNERSHIP – Former Council Service Areas				
Adult Services	Income Maximisation	Charging Orders	20	Compliance with legislation and policies
Adult Services	Older People Services	Compliance with National Minimum wage requirements	20	Monitoring compliance reporting arrangements
Adult Services	Mental Health	Client Accounts, Cash and Banking	20	Control Environment
Total Health and Social Care Partnership			60	

Appendix1. Audit Plan

COMMUNITY SERVICES				
Community and Culture	Housing	Strategic Housing Fund	20	Policies and procedures
Community and Culture	Leisure	Leisure Management booking system	20	System control and functionality. Interface protocols
Education	Early Years	Statute and Council Policy	20	Policies and Procedures
	Management Information Systems	SEEMIS	20	Access and Control. Functionality and Support
	Psychological Services	Statute and Council Policy	20	Policies and Procedures
	School Support	Communication and Information	20	Review of Education Management Circulars
Total Community Services			120	
DEVELOPMENT AND INFRASTRUCTURE SERVICES				
Fleet, Waste and Infrastructure	Piers and Harbours	Management Arrangements	20	Compliance with relevant legislation /safety code. Review governance arrangements
Fleet, Waste and Infrastructure	Waste Management	Sustainability of Waste Delivery Model	20	Review Reporting protocols including financial management and modelling arrangements
Planning and Regulatory Services	Trading Standards	Statute and Council Policy	20	Administration and controls surrounding the application of statute and Council policy
Roads Management and Maintenance	Street Lighting	Street Lighting	20	Policies and Procedures and systems of work
Marine and Airports	Airports	Operating Manual	10	Evidence Compliance with Aerodrome Operating Manual
Amenity Services	Crematoriums	Compliance with National Guidance	20	Compliance and Internal Control environment
Economic Development	Economic Growth	Rural Resettlement Fund	10	Financial Management protocols and controls
Total Development and Infrastructure			120	
Continuous Monitoring Programme	Arrangements of prevention /detection of Fraud. Anti-Fraud Strategy. Serious Organised Crime.		20	Policy review Participation in NFI
	Budgeting	Cipfa Matrix Testing	20	Internal Control Environment

Appendix1. Audit Plan

	General Ledger	Cipfa Matrix Testing	20	Internal Control Environment
	Creditors	Cipfa Matrix Testing	20	Internal Control Environment
	Debtors	Cipfa Matrix Testing	20	Internal Control Environment
	Payroll	Cipfa Matrix Testing	30	Internal Control Environment
	Treasury Management	Cipfa Matrix Testing	20	Internal Control Environment
	Council Tax and NDR	Cipfa Matrix Testing	20	Internal Control Environment
	Establishment Visits	School Funds Imprest Accounts	30	Internal Control Environment
	Follow –up	Sample Testing	30	Compliance
Total Continuous Monitoring			230	
Verification Activity /Short Audits	Leader & Flag	File and Claim review	10	Evidence Compliance with award Criteria
	LGBF	Accuracy of Submission	10	Accuracy of submission
	Gifts and Hospitality	Recording and Reporting Arrangements	15	Compliance with Policy & Internal control environment
	Travel and Subsistence	System and Manual Claims	15	Authorisation and Controls
	Stores and Stock Control	Stores and Stock Control	15	Access, Security and record keeping
	Project verification	Grant claims	15	Verification & sign off
Total Verification			80	
Internal Audit Management			100	Planning & reporting Risk Management Service Support and Advice Project Support and Advice
Contingency			40	Investigations & Ad hoc requests
Total Available Audit Days			970	

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****02 DECEMBER 2016**

RISK MANAGEMENT OVERVIEW

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides an update in relation to the undernoted risk management areas of activity.
- Strategic Risk Register
 - Operational Risk Registers
 - CIPFA Benchmarking
 - Annual Assurance Statement review
 - Annual review of Policy, Strategy and Guidance.
 - Risk Management Action Plan
- 1.2 Overall Argyll and Bute's risk management activity is assessed as "embedded and integrated" which is defined as "A framework of risk management processes in place and used to support service delivery".
- 1.3 Risk Management processes and protocols are in place and continue to mature. Previous targeted work in respect of contributing to the development of an IJB risk management strategy was completed during the year. Further work is required in respect of developing shared risk arrangements. This will be undertaken upon completion of risk assurance mapping activity.
- 1.4 Operational Risk information is evidenced as being reviewed and updated. A number of red risks are showing within individual registers, however, mitigating plans and actions are in place to address these. A revised service planning process is due to be implemented which may impact on our current operational risk management approach. The committee should take assurance that regardless of any changes, the revised process will allow for risks which are relevant to service delivery to be identified, assessed and mitigated against.
- 1.5 Risk Assurance Statements, Risk Profile data and CIPFA Benchmarking analysis demonstrate consistency of approach in respect of risk management activity.
- 1.6 Strategic Risk Register will be reviewed in line with the Budget Setting timetable.
- 1.7 An updated risk management action plan will be in place for 2017/18 which outlines a number of key actions.
- 1.8 Audit Committee is requested to note the continued progress in respect of integrating and embedding risk management.

RISK MANAGEMENT OVERVIEW

2.0 INTRODUCTION

- 2.1 This report sets out a summary of the progress and key issues / developments in relation to risk management and key related activities.

3.0 RECOMMENDATIONS

- 3.1 Members are requested to note the content of the report and further note the continued progress in respect of integrating and embedding risk management.

4.0 DETAIL

Strategic Risk Register (SRR)

- 4.1 The SRR is continuously monitored; however, it is subject to a bi-annual review in August and February in line with Service Planning and Budget Setting processes.

The process for reviewing the SRR is outlined below:

- Designated risk owner to update on an ongoing basis in consultation with appropriate chief officers, service managers and policy leads.
 - 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 Risk owners were requested to review risk information, liaise with policy leads and provide commentary and/or detail of any amendments to the Risk officer. The Strategic Risk Register has been updated accordingly.
- 4.3 The Strategic Risk Register was reviewed and agreed by Policy and Resources committee at its August meeting. During the forth-coming year it is planned to undertake a challenge activity in respect of the mitigating actions and their impact.
- 4.4 The SRR shows that there are 2 risks on the SRR which are scoring above indicative tolerance levels. These are Risk number 1, Population and Economic Decline and risk number 7 Health and Social Care Integration where current scoring exceeds indicative tolerance levels. These risks together with mitigating actions require active management as per the Council's agreed risk management policy and interventions include prioritisation or redirection of resources, prioritisation of mitigations and defined action plans. This is not saying that further intervention is required; it is reflecting current active management in respect of these risks.

Cascading, reporting and reviewing arrangements are supported by a detailed guidance document and an agreed review timetable.

The strategic risk register is shown in appendix 1.

Operational Risks

- 4.5 ORRs are currently subject to a detailed review as part of the 2016/2017 service planning exercise. Risk owners are and will remain responsible for ensuring that risk information is current and as such are reviewed on a live basis with regular scorecard reporting and updates to SMT.
- 4.6 We currently operate demand and supply approach to operational risk identification.
- 4.7 Demand risks represent the key challenges facing the Council. These are driven /imposed externally through others having demands, expectations or obligations for the Council to meet and are directly linked to service outcomes.
- 4.8 Supply risks 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.
- 4.9 It is envisaged that the principles of this approach will remain however as the Council develops it's service planning approach, which will involve a redesign and perhaps a consolidation of existing outcomes, our risk management approach may require to be adjusted. Our aim will be to ensure operational risks are linked to planned activity and outcomes, with the opportunity to introduce Topical risks where required. During 15/16 services did not identify any additional topical risk areas.
- 4.10 Services have currently identified in excess of 350 individual risks, approximately 20% being demand (outcome) related, 80% being supply type risk.
- 4.11 Previously a high proportion (70%) of our red risks was identified within people focused service areas such as Education, Children and Families and Adult Services. This number has reduced in numerical terms however this it should be noted that this does not represent a reduction in the category and is a consequence of Children and Families and Adult Services no longer being included in our figures as these service areas are now subject to Health and Social Care Partnership Risk management protocols. I am satisfied that the approach agreed by the IJB allows for the identification and mitigation of risks. This approach is likely to be further refined as the partnership matures.

Red risk profile ranges from 0% within lower risk services such as Governance and Law to 27% with Education services.

Table 1: Number of Red Risk as a % of number of service risks identified.

Service	No of Risks	Red No & %
Strategic Finance	21	2 (10%)
Community and Culture	52	1 (2%)
Education	51	14 (27%)
Customer and Support	45	0
Facility Services	40	2 (5%)
Governance & Law	59	0
Improvement & HR	51	1 (2%)
Economic Development	37	2 (5%)
Planning & Regulatory	70	0
Roads and Amenity	62	4 (6%)

4.12 The overall operational risk profile has remained constant during 15/16 with minimal change to average scoring and risk content. A review of the individual ORRs shows that although overall profile has remained constant, updates are being made; however, these do not necessarily impact on the overall risk score /profile. It was evidenced that mitigation plans and actions have been updated and remain current. Risk owners have confirmed via annual risk assurance statements that risks are relevant to their service and further confirmed that mitigation plans and actions have been identified. Risk profile averages for 15/16 and 16/17 (to date) are shown in Table below.

Department	Average Demand Risk Profile 14/15	Average Demand Risk Profile 15/16	Average Supply Risk Profile 14/15	Average Supply Risk Profile 15/16
Chief Executives	Amber 8	Amber 9	Amber 8	Amber 8
Community Services	Amber 9	Amber 10	Amber 9	Amber 9
Customer Service	Amber 6	Amber 6	Amber 6	Amber 6
Development & Infrastructure	Amber 8	Amber 8	Amber 7	Amber 7

Risk Management Benchmarking

4.13 The Council is a member of the CIPFA Risk Management Benchmarking Club. The results of the 2015 exercise highlights continued improvement with an overall rating of Embedded and Integrated. The exercise identified that share resources is an area which requires improvement, recommended actions arising from this exercise are incorporated into the Risk Management Action plan.

Risk Management Action Plan

4.14 An improvement plan (Risk Management Action Plan) is maintained. This includes the key issues identified from the risk CIPFA benchmarking report and any areas targeted for improvement and further development. The Risk Management Action Plan is shown at Appendix 2.

Annual Risk Assurance Statements

4.15 Annual Risk Assurance statements are completed as part of our Risk Management Policy. The risk assurance statements are based on the following:

- Senior managers promote the importance of risk management.
- Risk management is embedded within the service.
- Risk management is applied to all key business activities within the service.
- Mitigating plans and actions are considered in respect of identified risks.
- Risk registers are regularly updated.

Heads of Service are requested to indicate whether they fell into one of three categories, non –compliance, partial compliance or full compliance for each of the statements. Heads of Service are further requested to evidence their selection and where appropriate give further detail of actions to be taken.

There are zero instances of non-compliance and it was evidenced that risk management is embedded within service activity although some improvements are required in order to ensure full compliance.

Annual Review of Policy Strategy and Guidance.

- 4.16 Risk Management protocols stipulate than an annual review of our Risk Management Policy, Strategy and Guidance is required.

Both Risk Management Policy and Strategy documents have been reviewed and are deemed current and fit for purpose. The Policy and guidance will be updated to reflect any changes arising from the revised service planning process. An independent review of the Council's risk management arrangements is also included in the annual audit plan and provides a level of assurance that arrangements are operating satisfactory. Management will ensure agreed actions are acted upon.

5.0 CONCLUSION

- 5.1 Overall risk management activity is assessed as "embedded and integrated" which is defined as "*A framework of risk management processes in place and used to support service delivery*". Risk Management processes and protocols continue to improve and development work is on-going. A risk management action plan is in place for 2016/17.

6.0 IMPLICATIONS

- 6.1 Policy – Policy will be updated to reflect revised service planning process.
- 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

KIRSTY FLANAGAN
02 December 2016

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

APPENDICES

1. Strategic Risk Register
2. Risk Management Action Plan 16/17

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APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
			1.	Population and economic decline	<p>Projected population decline and potential economic decline and failure to identify relevant factors causing the decline and the need to develop and strategies and action plans to address that decline in an effective manner.</p> <p>Sustained economic decline and population loss, particularly amongst our economically active generations results in a circle of decline with reduced employment, lower earnings, failing businesses and poor perception of the area.</p> <p>Population decline reduces Government funding and reduces scope for efficiencies and economies of scale. Combined population and economic decline may increase the need and costs for services</p>				5	4	20			

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
2. Condition and suitability of overall Council infrastructure and asset base.	Infrastructure and asset base does not meet current and future requirements. Infrastructure and asset base is not being used or managed efficiently or effectively.	Infrastructure and asset base do not support overall Council objectives. Infrastructure and asset base do not support delivery of service outcomes. Infrastructure and asset base is allowed to deteriorate resulting in cost, lost opportunities and wasted resource.	4	4	16	The Council has an infrastructure and asset base that is maintained, safe, efficient and fit for purpose and which supports development of the area and achievement of objectives and service delivery	Corporate Plan and Service Plans. (actions) Revised Capital planning and monitoring process reflecting best value 2 audit recommendations. Asset Management planning process. Project prioritisation process Business case prepared with regard to asset sustainability, service development and	Where applicable, adoption of recommendations arising from Audit Scotland's report "Major Capital investment in Councils". Continuous development of the Asset Management/ Capital Planning pack. Asset Management work plan for 2016/17.	3	4	12	12	M	Head of Facility Services.

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
							strategic change.							
3. External – built environment non-council assets and infrastructure	Our built environment is not maintained to an adequate standard and does not support investment or regeneration aspirations. Built environment deteriorates to levels where intervention is required.	We do not have a built environment which supports sustainable growth. Communities and public sector partners fail to make the best use of our natural and built environment.	3	4	12	We have an environment which supports sustainable growth. Communities and public sector partners make the best use of our natural and built environment with clear plans for development and investment	Rothsay Townscape Heritage (TH) Campbeltown and Inveraray Conservation Area Regeneration Scheme. CARS – Building Standards Area Teams	Physical Regeneration programmes focused on enhancing and maintaining the built environment including THI and CARS Individual buildings restoration and reuse. i.e. Campbeltown Cinema, Dunoon Pier, Pavilion. St Peters seminary, NVA Cardross. Helensburgh Waterfront.	3	4	12	12	M	Executive Director of Development and Infrastructure

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
			4. Welfare reform	Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis.	<p>Increase in demand or costs for Council services.</p> <p>Financial crisis and hardship for individuals.</p> <p>Adverse impact on local economic development.</p> <p>Adverse impact on communities.</p> <p>Potential widening of inequalities gap.</p>				5	4	20			

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
5.	Political leadership	<p>Political instability resulting in a lack of collective strategic leadership by councillors.</p> <p>Loss of Strategic direction.</p> <p>Deterioration in performance.</p> <p>Negative impact on reputation.</p>	4	5	20	<p>Improved Strategic focus.</p> <p>Performance level maintained and improved.</p>	<p>Administration in place with working majority.</p> <p>Revised political management arrangements agreed at Council on 23 January 2014.</p> <p>Action plan to address issues set out in Audit Scotland statutory report approved by Council 23 Jan 14. On-going Members seminar programme and support from Improvement Service secured in order to take</p>	<p>On-going Members seminar programme and support from Improvement Service secured in order to take forward aspects of elected member development.</p> <p>Mentoring and support for policy leads.</p> <p>Priorities agreed by Council.</p>	3	4	12	12	M	Chief Executive

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
6. Finance – Income and funding	<p>A major reduction in income /funding as result of a reduction in grant funding.</p> <p>This may arise from global or local economic circumstances, government policy on public sector budgets and funding or data that determines grant funding formula.</p>	<p>Lack of income /funding to support Council objectives.</p> <p>Requirement to reduce service provision or budget allocations.</p> <p>Reduced income may impact on performance levels.</p>	4	4	16	The Councils finances are managed effectively.	<p>Effective framework for medium term financial planning that takes account of medium term funding projections.</p> <p>Monitoring of grant funding formula.</p> <p>Research opportunities for maintaining or enhancing government funding to the Council.</p>	<p>Actions to improve current income streams and attract new income streams.</p> <p>Targeted Investment in specific areas /initiatives</p> <p>Contributing to Local Authority Spending review</p> <p>Development of longer-term financial strategy outlining a range of possibilities.</p> <p>Discussions with Scottish Government re future funding.</p>	3	4	12	12	M	Head of Strategic Finance

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner	
			Li	Im	Sc				Li	Im	Sc				
			7.	Health and social care integration	<p>Implementation of health and social care integration is not managed effectively.</p> <p>Unable to proceed with health and social care integration on a managed basis and/or in accordance with timescales.</p> <p>Integration has a negative impact on health and social care service delivery.</p>				4	5	20				Planned and managed implementation of health and social care.
8.	Reputation	<p>The Council fails to maximise its profile at national level.</p> <p>Trust and Integrity of the Council is undermined leading to</p>	<p>Reputation declines.</p> <p>Negative impact on morale.</p> <p>Poor reputation undermines action being taken to target</p>	4	4	16	The reputation of the Council is protected and enhanced.	<p>Community Engagement Strategy.</p> <p>Improved Communications Strategy.</p> <p>Planning and performance</p>	<p>Action plan to improve customer services.</p> <p>Develop internal communication protocols</p> <p>Increase options for communication</p>	3	4	12	12	M	Head of Improvement and HR

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
				<p>diminishing reputation resulting in negative external scrutiny.</p> <p>Council fails to maintain its general reputation with residents, the Community and the wider Local Government</p>	<p>population and economic growth.</p> <p>Increased risk of audit and inspection activity.</p>									
9. Demographic change	<p>The Council fails to recognise, plan and deliver services in a way that takes account of demographic trends.</p>	<p>Services not configured to meet user/citizen requirements</p> <p>This will impact on the Council's ability to attract and retain staff and the model of care we provide for Social work services.</p>	4	4	16	<p>Performance of key priority services and other key areas identified by the public maintained or improved</p>	<p>Monitoring of population trends.</p> <p>Corporate and service plans.</p> <p>Planning and performance management framework (PPMF).</p> <p>Community Engagement Strategy.</p> <p>Workforce planning.</p>	<p>Continued workforce planning.</p> <p>Corporate and service planning.</p>	3	4	12	12	L	Head of Improvement and HR

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STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
			10. Finance - expenditure	Expenditure is estimated to exceed available resource and the Council is facing a considerable funding gap in the medium term. Expenditure continues to rise against an increasing demand for services.	Resources need to be diverted. Reduced levels of performance. Expenditure exceeds available resource Services are unable to make required efficiencies				3	4	12			

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STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
11. Partnership governance	Inadequate Partnership Governance Arrangements. Risk that partnership arrangements are poorly defined and constituted leading to an inability to deliver outcomes and objectives or being democratically deficient	Lack of Accountability. Lack of democratic input to key decisions. Partnership viewed as having failed and not achieving objectives. Wasted resources and effort. Reputational damage.	4	3	12	Effective and efficient Partnership which is both accountable and democratic and focused on delivering outcomes.	Single Outcome Agreement Clear line of sight from SOA to individual partner contributions CPP governance arrangements and partnership agreement. Area community planning groups	Review Single Outcome Agreement Delivery Plans	3	3	9	9	L	Head of Community and Culture.

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
12. Engagement and alignment of service delivery.	The Council fails to understand service user needs and align service delivery to meet these.	Gaps between community needs and Council services. Also impacts on reputation.	3	4	12	The Council understands local needs and aligns service deliver accordingly.	Community Engagement Strategy. Customer service board and action plans. Scorecard analysis Operation & development of: Panels & Forums - Young Peoples Panel - Youth Website - Citizens Panel etc	Planning for Our Future consultation exercise Upskilling workforce Facilitating cultural change Community Empowerment Act	2	4	8	8	L	Executive Director Customer Services. All Heads of Service

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
13. Leadership and management	<p>A lack of Strategic Leadership and Direction will have a negative impact on the ability of the Council to set out strategic objectives and then align service delivery and resources to ensure these objectives are achieved.</p> <p>May also impact on development of the community planning partnership.</p> <p>Risk that organisation is not focussed on</p>	<p>No clear strategic direction/set of objectives.</p> <p>Objectives not achieved as services and resources are not fully aligned to objectives.</p> <p>Opportunities missed to demonstrate community leadership.</p> <p>Confidence in, and reputation of, the Council harmed.</p> <p>Fail to adapt to changing environmental, social and economic</p>	3	4	12	<p>The Council has a clear strategic direction and service and resources are aligned to ensure Council objectives are achieved.</p>	<p>Corporate Plan sets out overall Council objectives.</p> <p>Community Plan/SOA sets out CPP objectives with clear links to Council contributions Corporate Improvement Plan.</p> <p>PPMF and service planning and performance monitoring to ensure service outcomes and activity is aligned with Council and Government objectives and performance is meeting targets.</p> <p>Community engagement and</p>	<p>Delivery Plans for Single outcome agreement.</p> <p>Communication Strategy – Internal Communications</p>	2	4	8	8	L	Chief Executive

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
				outcomes /objectives resulting in poor decision making and inadequate governance arrangements	conditions. Fail to meet service needs of citizens.									
14. Civil contingency and business continuity	The arrangements in place for civil contingencies and business continuity are not effective.	Ineffective management of major emergencies affecting Council services and communities in Argyll and Bute in response to a major emergency. Incident and recovery phase of an emergency lead to greater inconvenience and hardship and a longer timescale for return to normal. Council unable to effectively deliver its own services as a result of an emergency.	2	4	8	Effective plans and procedures in place to respond to a major event affecting Council services and/or the general public.	On-going training programme in place and continual update of Emergency Plans and procedures. Peer Review of major exercise undertaken to provide external validation of planning process. West of Scotland local resilience partnership EMST regular meetings Regular testing of procedures Training Programme for key	Emergency Planning Test events. Regular Critical Activity Recovery Plan (CARP) updates. Further roll out of community resilience partnership programme. Possible amalgamation of ABC LRP group with WDC group increasing the number of professional staff available to support this work.	2	3	6	6	L	Head of Governanc e and Law

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
						<p>staff undertaken to develop skills and experience.</p> <p>Annual report on activity to be presented to DMT /SMT annually.</p> <p>Strong Partnership working as demonstrated during live incident at Clachan.</p> <p>Community resilience plans.</p>								
15. Management of services and resources	<p>Services and resources are not effectively managed.</p> <p>Services fail to achieve agreed performance levels and as a result are not contributing fully to Council objectives</p> <p>Resources are</p>	<p>Poor performance.</p> <p>Increased costs.</p> <p>Negative publicity.</p> <p>Unable to demonstrate best value.</p>	3	3	9	<p>Performance targets achieved.</p> <p>Performance improves over time and compared to others.</p> <p>Improved use and management of resources.</p>	<p>PPMF and service planning</p> <p>Regular performance monitoring and review.</p> <p>Performance scorecards and Pyramid.</p> <p>Corporate Improvement Plan and monitoring of</p>	<p>Continued roll out and development of Argyll and Bute Manager Programme</p> <p>Further development and continued implementation of Attendance Management Policy</p>	2	3	6	6	L	Executive Directors

APPENDIX 1

STRATEGIC RISK REGISTER – AUGUST 2016 REVIEW

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Current Mitigations	Planned Mitigations	Residual Risk			T O L	A P P	Risk Owner
			Li	Im	Sc				Li	Im	Sc			
				<p>poorly managed with result that agreed outcomes and objectives are not fully achieved.</p> <p>Unable to achieve continuous improvement and improve effectiveness and efficiency.</p>										

Li = Likelihood
 Im = Impact
 Sc = Score

TOL = Tolerance
 APP = Appetite

Risk Assessment Matrix			
Likelihood		Impact	
Score	Description	Score	Description
1	Remote – Very unlikely to ever happen.	1	None – minimal impact on objectives, budget, people and time
2	Unlikely – Not expected but possible.	2	Minor – 1%/10% budget, first aid, minor impact objectives, 1wk/3 months delay.
3	Moderate – May happen occasionally.	3	Moderate – 10%/30% budget, medical treatment required objectives partially achievable, 3/12 months delay.
4	Likely – Will probably occur at some time.	4	Major – 30%/70% budget, permanent harm, significant impact on service delivery, 1/2 years delay.
5	Almost certain – Will undoubtedly happen and possibly frequently	5	Catastrophic – Over 70% budget, death, unable to fulfil obligations, over 2 years delay.

A combined score of 15 or more is classed as a red risk. HIGH

A combined score of between 6 and 14 is classed as an amber risk. MEDIUM

A combined score of less than 5 or less is classed as a green risk. LOW

APPENDIX 2

Risk Management Action Plan 16/17

Theme	Outcome	Action Required	Timescale	Responsible Officer(s)	Current Status
Policy & Strategy	Mitigation have desired impact	Undertake Mitigation challenge exercise	30 September 2017	Kirsty Flanagan	On Track
Partnership, shared risk & resources	Improved Accountability	Develop shared risk register. Liaison with NHS	31 March 2017	Kirsty Flanagan	On Track
Outcomes and Delivery	Resource allocations address priorities and key risks	Review Budget Planning processes to ensure cognisance of identified priorities and key risks	31 January 2017	Kirsty Flanagan	On Track
Information	Improved Management Oversight	Review Risk Registers against guidance.	31 March 2017	Kirsty Flanagan	On Track

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****2 DECEMBER 2016**

VAT RISK REVIEW

1. EXECUTIVE SUMMARY

- 1.1 The Council asked tax consultants KPMG to carry out a VAT Risk Review to identify any areas of potential risk in the Council's VAT accounting processes. This report outlines any issues identified by KPMG and the procedures that have been put in place, or are in the process of being put in place, in order to reduce the level of risk.
- 1.2 The subsequent report identified 6 areas of high risk, 12 medium risks and 6 low risks. An action plan has been prepared and work is progressing to complete the actions to reduce the Council's exposure to VAT risk.
- 1.3 The recommendation is that the report is noted.

VAT RISK REVIEW

2. INTRODUCTION

- 2.1 The Council asked tax consultants KPMG to carry out a VAT Risk Review to identify any areas of potential risk in the Council's VAT accounting processes. This report outlines any issues identified by KPMG and the procedures that have been put in place, or are in the process of being put in place, in order to reduce the level of risk.

3. RECOMMENDATIONS

- 3.1 The VAT risk review report is noted.

4. DETAIL

- 4.1 The Council asked tax consultants KPMG to carry out a VAT Risk Review to identify any areas of potential risk in the Council's VAT accounting processes. Those areas identified, if not addressed, could expose the Council to misdeclarations of tax and penalties, or jeopardise the Council's risk profile.

- 4.2 Where HMRC consider an error to be 'careless' they may impose a 30% penalty on the under declared or over claimed VAT. The purpose of the review by KPMG was to highlight any errors that may cause penalties of this nature and therefore allow them to be corrected.

In addition, during the review KPMG would also highlight any areas where they consider that there is an opportunity for the Council to obtain a VAT benefit.

- 4.3 A consultant from KPMG carried out a site visit during which they reviewed the following areas:

- Accounts Receivable – Debtors
- Accounts Receivable – Cash Receipting
- Accounts Payable - Creditors
- VAT Return and Accounting
- Partial Exemption

- 4.4 On completion of the site visit KPMG then produced a report of their findings which set out the areas of risk identified, the impact of each risk, and actions that should be taken to reduce/eliminate the risks.

This report included a traffic light summary which can be seen in Appendix 1. This summary shows there were 6 areas of high risk, 12 medium risks and 6 low risks.

- 4.5 In light of the findings from this report an action plan was created and steps taken to reduce/eliminate the risks identified where possible. The 24 areas of risk identified in KPMG's report have been turned into a 30 point action plan. This action plan and progress to date can be seen in Appendix 2.

Progress in addressing the action points has been made with 12 of the 30 action point already complete. Those which aren't completed yet are on track to be complete by agreed timescale.

Once all tasks are complete it will be reviewed again to ensure all possible action has been taken to eliminate/reduce the risks identified.

5. CONCLUSION

- 5.1 The completion of the VAT Risk Review by KPMG, and subsequent action taken, has reduced Argyll & Bute Councils exposure to misdeclarations of tax and penalties. It has also assisted in ensuring a low risk profile is maintained and has made the departments more aware of the processes involved surrounding VAT.

6. IMPLICATIONS

- | | | |
|-----|--------------------|--|
| 6.1 | Policy – | None. |
| 6.2 | Financial - | Correct values of VAT claimed therefore reduced risk of penalties. |
| 6.3 | Legal - | None. |
| 6.4 | HR - | None. |
| 6.5 | Equalities - | None. |
| 6.6 | Risk - | None. |
| 6.7 | Customer Service - | None. |

Kirsty Flanagan, Head of Strategic Finance

Dick Walsh Council Leader and Policy Lead for Strategic Finance

For further information please contact Peter Cupples, Finance Manager – Corporate Support 01546-604183.

Appendix 1 – Extract from KPMG Report

Appendix 2 – Progress Report

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KEY: We have categorised our findings from this review in a “traffic light” priority style report, with high priority areas identified in red; medium priority areas in amber; and lower priority areas in green.

Issue	Observation	Impact	KPMG Recommendation
Accounts Receivable / Debtors			
VAT liability	VAT is not fixed on Debtors system and staff have the ability to choose any VAT rate code.	Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.	<p>We recommend that where possible charge codes are created by the Council, which will contain a pre-selected VAT code, in order to ensure that the correct VAT treatment is applied to supplies.</p> <p>Where this is not possible, we recommend that all finance staff undergo VAT training to minimise the risk of incorrect VAT codes being used. In addition, the provision of relevant VAT guidance to finance staff will also reduce the risk regarding mistakes being made regarding VAT liability.</p>
	There are over 900 charge codes available to users on the Debtors system.	Lack of control on available codes.	<p>We recommend that periodic reviews of the charge codes available on the system is undertaken to ensure that codes are properly managed and controlled. For example, a quarterly review of any new/amended codes and a regular review of all codes with regards to the VAT treatment applied to ensure that this is still correct.</p> <p>In addition, we recommend that any discontinued codes are removed or blocked from the system regularly.</p>
	Inconsistent and incorrect VAT treatment of various supplies.	Potential error regarding declaration of output tax by the Council.	<p>We have provided a sample of codes that we have reviewed, from various reports provided, where we have identified potentially incorrect VAT treatments at Appendix I. This includes various fees and charges from the 2016/17 charges sheet.</p> <p>In addition to the above review, we recommend that any consideration/discussions of VAT liabilities should be documented and reviewed by a suitably qualified member of the Council finance team. This should be included within the VAT return review process or as a periodic sample review.</p> <p>A potential declaration may be required to HMRC to cover the last 4 years for any items which have been treated incorrectly for VAT purposes, resulting in either an under/over declaration of VAT by the Council. We would be happy to assist with this further.</p>
Bad debt relief	Aged debt reviews are carried out quarterly.	Output tax adjustments not being processed regularly.	We recommend that reviews of bad debts are undertaken more regularly to ensure that relevant output tax adjustments (i.e. bad debt relief claims) are carried out by the Council on a regular basis, which will improve cash flow.

KEY: We have categorised our findings from this review in a “traffic light” priority style report, with high priority areas identified in red; medium priority areas in amber; and lower priority areas in green.

Issue	Observation	Impact	KPMG Recommendation
Accounts Receivable / Debtors (contd.)			
VAT only invoices	The system is unable to recognise VAT only invoices. The VAT element is treated as net and then coded as zero-rated or exempt.	Supplies are treated incorrectly for VAT purposes and distorts the values of supplies. Reliance on these being identified during preparation of the VAT return.	We recommend that an additional VAT only code is added to ensure that supplies are recorded appropriately and that these types of invoices are automatically included within the VAT return. We also recommend a review of these transactions to ensure the appropriateness of “VAT” only.
Lack of VAT awareness	Finance staff have insufficient levels of VAT technical awareness and knowledge.	Staff unaware of VAT requirements and rules which could result in VAT errors being made and not detected.	We recommend that relevant finance staff should be required to undergo VAT training to ensure that there is an increased level of VAT awareness within the team. We recommend that VAT training is also offered to additional users, e.g. legal, contracts etc. In addition, we recommend that a VAT guidance manual is prepared and circulated amongst staff which can be used in everyday tasks.
Accounts Receivable / Cash Receipting			
VAT liability	Inconsistent and incorrect VAT treatment of various supplies.	Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.	We have provided a sample of codes that we have reviewed, where we have identified potentially incorrect VAT treatments at Appendix II.
Webpay system	Staff have the ability to change the VAT rate applicable to codes.	Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.	We recommend that where possible, the ability to fix VAT codes to codes on the Webpay system is restricted and/or fixed. If this is not possible, we recommend that a control is put in place to monitor the level of codes being used and that these are regularly checked from a VAT perspective, to ensure that the correct VAT treatment is being applied. The check should be carried out by an independent person from the original user and by someone with appropriate VAT knowledge.

Issue	Observation	Impact	KPMG Recommendation
Accounts Receivable / Cash Receipting (contd.)			
E-returns templates	Staff have the ability to free type on these templates, of which the Council have over 100 different templates, and can therefore choose the incorrect VAT treatment.	<p>Incorrect VAT treatment may be applied which could result in under/over declaration of VAT.</p> <p>No control is in place to prevent items being treated incorrectly for VAT purposes, resulting in potential under/over declaration of output tax by the Council.</p>	<p>We recommend that the templates used are updated in order to block the ability of free typing by staff.</p> <p>Where it is not possible to block the ability of free-typing, we recommend that a control is put in place to monitor the level of codes being used and that these are regularly checked from a VAT perspective, to ensure that the correct VAT treatment is being applied. The check should be carried out by an independent person from the original user and by someone with appropriate VAT knowledge.</p>
Key man risk	Ken Wong is the only member of staff that can add new codes to the system or amend existing codes (i.e. if there is a change in the VAT rate).	In Ken's absence, there is no-one with sufficient knowledge to add/amend codes.	We recommend that other individuals are provided training and access in order to be able to add/amend new codes when required.
Lack of VAT awareness	Finance staff have insufficient levels of VAT technical awareness and knowledge.	Staff unaware of VAT requirements and rules which could result in VAT errors being made and not being detected.	<p>We recommend that relevant finance staff should be required to undergo VAT training to ensure that there is an increased level of VAT awareness within the team. We recommend that VAT training is also offered to additional users, e.g. legal, contracts etc.</p> <p>In addition, we recommend that a VAT guidance manual is prepared and circulated amongst staff which can be used in everyday tasks.</p>
Accounts Payable / Creditors			
Input VAT evidence	Invoices received from suppliers are not reviewed from a VAT perspective (i.e. VAT invoicing requirements, VRN validity checks, sense check of VAT liability applied, VAT values).	The Council may not hold valid VAT invoices which would prevent input tax recovery and could result in assessment, interest and penalty.	<p>We recommend that an aide memoire, which details HMRC's requirements for a valid VAT invoice, is produced which can be used by Council finance staff as a checklist when receiving supplier invoices.</p> <p>As discussed, we would be happy to assist with the preparation of an aide memoire to cover the VAT invoicing rules.</p> <p>We also recommend that during the invoice review process, an additional check of the VRN using the Europa VIES tool is undertaken by finance staff and that this is recorded within the supplier information.</p> <p>The tool can be accessed at http://ec.europa.eu/taxation_customs/vies/ and this allows validation of any EU VRN by choosing the relevant member state and providing the 9 digit VRN.</p>

Issue	Observation	Impact	KPMG Recommendation
Accounts Payable / Creditors (contd.)			
Overseas transactions – Foreign VAT	Certain overseas suppliers (e.g. French supplier KAPLA) are charging foreign VAT on supplies to the Council.	Council is potentially over recovering input VAT that is not proper UK VAT.	<p>We recommend that the Council forwards on any foreign VAT invoices to Strategic Finance in the first instance, in order for these to be reviewed and if necessary considered within the KPMG VAT Helpline service.</p> <p>Foreign VAT should not be included within the Council's UK VAT return. If this foreign VAT has been charged correctly, the Council can recover this VAT via the EU VAT refund mechanism with HMRC (subject to conditions).</p>
Overseas transactions – Reverse charge	Reverse charge procedures are not carried out by the Council in respect of services received from overseas suppliers.	Council is potentially under declaring both input and output VAT	<p>We recommend that the Council forwards on any foreign VAT invoices to Strategic Finance in the first instance, in order for these to be reviewed and if necessary considered within the KPMG VAT Helpline service.</p> <p>Following this, the Council should contact its supplier to advise that the reverse charge procedure in the UK is applicable to the services provided and if necessary, the invoice should be updated to reflect this.</p> <p>The Council will be required to account for both input and output tax on the supplies involved under the reverse charge procedure.</p>
Unitary charge payments	Invoices for unitary charge payments (such as Brake Bros) are being manually altered by delivery drivers on production of goods (typically with perishable goods).	VAT recovered on the basis of invalid invoices.	<p>Any amendments to the value of unitary charge payments must be supported by correct paperwork, i.e. Credit or Debit note.</p> <p>We recommend that the Council arrange with its suppliers for valid VAT invoices to be issued, following delivery of the goods, to ensure that the correct VAT value is accounted for by the Council and to mitigate any payment issues regarding values between the parties.</p>
Outstanding invoices	Bad debt relief position is not reviewed regularly.	Input tax adjustments may not be processed timeously.	We recommend that reviews of bad debts are undertaken regularly to ensure that relevant input tax adjustments (i.e. on Council debts that are more than 6 months old) are carried out by the Council.
Proforma invoices	The Council does not recover input VAT based on proforma invoices which is correct. However, the Council does not then request proper tax invoices.	The Council is under recovering VAT that it is entitled to recover, subject to the normal VAT recovery rules and valid VAT evidence.	We recommend that the Council request copies of valid VAT invoices for any supplies it receives based on proforma invoices. Once the Council retains valid VAT evidence of the supplies and the input VAT it has incurred, subject to the normal VAT recovery rules, the Council should be able to recover this input VAT.

Issue	Observation	Impact	KPMG Recommendation
Accounts Payable / Creditors (contd.)			
VAT only invoices	The system is unable to recognise VAT only invoices. The VAT element is treated as net and then coded as zero-rated or exempt.	Supplies are treated incorrectly for VAT purposes and distorts the values of supplies. Reliance on these supplies being identified during preparation of the VAT return.	We recommend that an additional VAT only code is added to the system to ensure that supplies are recorded appropriately and that these types of invoices are automatically included within the VAT return. We also recommend a review of these transactions to ensure the appropriateness of "VAT" only.
Lack of VAT awareness	Finance staff have insufficient levels of VAT technical awareness and knowledge.	Staff unaware of VAT requirements and rules which could result in VAT errors being made and not being detected.	We recommend that relevant finance staff should be required to undergo VAT training to ensure that there is an increased level of VAT awareness within the team. We recommend that VAT training is also offered to additional users, e.g. accounts payable, legal, contracts etc. In addition, we recommend that a VAT guidance manual is prepared and circulated amongst staff which can be used in everyday tasks.
Accounts Payable / Employee expenses			
VAT recovery	The Council will reclaim input VAT on employee expense claims without VAT evidence.	Over recovery of VAT by the Council.	We recommend that the Council only reclaims input tax on employee expenses where it has a valid VAT receipt as evidence. Where the Council employee is unable to provide a valid VAT invoice, other alternative evidence may be sufficient (credit card statements, ticket machine receipt, authenticated receipts etc.). We would be happy to undertake a more detailed review of employee expenses and assist with any disclosures that may be required to HMRC. In addition, we recommend that the Creditors team are provided with guidance regarding VAT recovery on employee expenses. We would be happy to provide the Council with an aide memoire regarding the general types of employees expenses incurred and the appropriate VAT treatment and recovery for the Council.
VAT Return Accounting / Partial Exemption			
Data reports	Some reports if not saved correctly or run properly can delete required data from the VAT return.	Potential under declaration of supplies by the Council.	We recommend that the Council considers reporting options to limit the risk of losing required data. In addition, we recommend that an independent review of the values involved is undertaken in order to ensure that all data has been accounted for and there is no risk of potential under declaration of income or expenditure to HMRC.

Issue	Observation	Impact	KPMG Recommendation
VAT Return Accounting / Partial Exemption (contd.)			
Outside the scope income	No checks or trend analysis is performed on the levels of outside the scope income received each month.	Potential risk that income has been treated incorrectly resulting in under declaration by the Council.	<p>We recommend that a “VAT sense check” is undertaken during the VAT return process, which will include reviews of samples of high level/unusual transactions, including the level of outside the scope income.</p> <p>Compliance would be further enhanced by adding a trend analysis review against prior VAT returns. This review should be documented and retained in order to be independently reviewed within the final VAT return review process.</p>
Manual VAT return process	We identified a number of manual processes in the preparation of the VAT returns.	The manual nature of the amendments made within the VAT return process increases the risk of errors in the course of the preparation of the return.	<p>We recommend that greater use is made of the functionality of the accounting system to reduce the manual processes within the VAT return process.</p> <p>It is our understanding that steps being taken to automate a suite of reports which will significantly reduce the level of manual input required during the VAT return process.</p> <p>Once new reports are established, we recommend an independent review of these to ensure accuracy and compliance.</p>
Land & Property	The Council has not opted to tax its non-residential properties, with the result that its income generated from the rental (and sale) of non-residential property is VAT exempt.	The Council’s level of VAT exempt income is increasing annually and as a result is pushing the Council towards breaching the 5% partial exemption de-minimis.	<p>We recommend that further consideration is given by the Council as to whether it will be beneficial to opt to tax its non-residential property portfolio, and therefore increase its taxable income (rental or sales).</p> <p>We have provided further comment on this area in our report at page 17 and provided a sample of properties for consideration in Appendix III.</p>

	Observation	Risk	Action Required	Responsible Person	Planned Completion Date	Actual/ Forecast Completion Date	Status/ Assessment	Comment/ Explanation
	Debtors							
1	VAT is not fixed on Debtors system therefore staff has the ability to choose any VAT rate code.	High	Create new charge codes which contain a pre-selected VAT Code where these are required	Fergus Walker	31/03/17	31/03/17	On track	Debtors team to provide report to departments showing invoice descriptions etc for identification of possible new charge codes.
		High	Identify where it is not possible to use charge codes and provide VAT training in this area	Peter Cupples	31/03/17	31/03/17	On track	Strategic finance to provide training with desk aids to all staff with debtors access on typical charges per department and the relevant VAT codes.
2	Charging codes, there are over 900 available on system.	High	Produce a quarterly report of new/amended codes	Fergus Walker	9/1/17	9/1/17	On track	Report to be run at end of December on all new codes created from 1 Sep to 31 Dec 2016 and thereafter run on a quarterly basis
		High	Undertake regular reviews of all codes with regards to VAT treatment	Peter Cupples	31/07/16	31/07/16	Complete	Departments to liaise with departmental finance contact to check the VAT codes attached are correct and the outcome to be fed back to Debtors.
		High	Discontinued codes are removed from the system	Fergus Walker	31/05/17	31/05/17	On track	Debtors to test effect of removal of codes to see if this is viable
3	Inconsistent and incorrect VAT treatment leading to misdeclarations.	High	Periodic sample reviews	Sandra Coles	30/06/16	30/06/16	Complete	Samples of sundry debtor accounts are being reviewed monthly.
4	Aged debt reviews are carried out quarterly but adjustments are not processed regularly.	Med	Write-offs are processed on a quarterly basis already. Details of quarterly write-offs to be provided to Strategic Finance	Fergus Walker/ Donnie Kelly	30/11/16	30/11/16	On track	Debtors Team to notify Strategic Finance of written-off debt following approval by the Director of Customer Services.

5	The system is unable to recognise VAT only invoices therefore supplies are treated incorrectly and distorts the value of supplies.	Med	Additional VAT only code is added to the system.	Fergus Walker	31/12/16	31/12/16	On track	Awaiting ledger code from Strategic Finance
Webpay System								
6	Staff have the ability to change the VAT rate applicable to codes therefore incorrect VAT treatment may be applied resulting in under/over declarations of VAT	Med	VAT codes are already set up for all income codes on Webpay system, but these codes can be overridden.	Fergus Walker	31/03/17	31/03/17	complete	This functionality cannot be removed. Unable to report on lines where VAT code overridden. No further action possible
		Med	Make regular checks of VAT treatment	Fergus Walker/Peter Cupples	31/03/17	31/03/17	On track	Cash team to provide report to Strategic Finance quarterly on income received via Webpay and the VAT treatment. Strategic Finance to review report and document changes required.
E>Returns Templates								
7	Free type templates allow for possibility of incorrect VAT treatment to be applied resulting in under/over declarations of VAT	Med	Templates are updated regularly in order to minimise the need to free type entries. It is not practical to remove this facility. Cannot report just on free type entries. Further staff training to be delivered.	Fergus Walker/Peter Cupples	31/03/17	31/03/17	On track	. Strategic Finance to train staff on the VAT treatment of income.
		Med	Put controls in place to monitor codes used and make regular checks of VAT treatment	Fergus Walker/Peter Cupples	31/03/17	31/03/17	On track	Report of all VAT treatment to be produced regularly and passed to Strategic Finance for review.
Cash Receipting								
8	Inconsistent and incorrect VAT treatment leading to misdeclarations.	High	Carry out Periodic Sample Reviews	Sandra Coles	31/12/16	31/12/16	On track	Cash receipting to provide regular report to Strategic Finance
9	There is the only one member of staff who can add	Low	Other staff members have been identified and trained to cover any absences.	Fergus Walker	n/a	n/a	n/a	No action required

	new/amend/delete codes.							
	Creditors							
10	Invoices are not reviewed/checked from a VAT perspective and Council may not hold a valid VAT invoice which would prevent input tax recovery. <ul style="list-style-type: none"> Valid VAT invoice VAT liability VAT values VAT Registration Numbers validity 	High	Guidance note produced as to what constitutes a valid VAT invoice.	Sandra Coles	31/12/16	18/11/16	Complete	Legal definition to be obtained of VAT Invoice/receipt and circulated. Guidance note issued to MB for circulation 18/11/16.
		High	Vat Registration Numbers are checked using Europa VIES tool when setting up new suppliers on the payables systems	Malcolm Bannatyne	31/12/16	31/12/16	On track	Strategic finance e-mailed Link to MB 17/11/16.
11	Overseas transactions	Med	Foreign VAT invoices should be sent to Corporate Support for review and consideration by KPMG Helpline	Malcolm Bannatyne	28/04/16	28/04/16	Complete	Creditors to e-mail copy of foreign invoice to Corporate Support when they process one.
			European suppliers should be made aware of the Councils VAT registration number when a purchase is made.	Lynsey MacLennan	31/03/16	31/03/16	Complete	Supplier Liaison Officer advises that when a new supplier request is received for an overseas supplier to be added to PECOS they will be advised of our VAT Registration Number as a matter of course and as a prompt for this an additional field will be added to the form to prompt whoever is entering the supplier details to PECOS. The contact email address provided on the supplier profile received will be used for this communication.

12	Invoices for unitary charge payments are being manually altered by delivery drivers on production of goods and therefore VAT is being recovered on the basis on an invalid invoice.	Med	Amendments made to the value of a unitary charge payment must be supported by correct paperwork. The Council should arrange with suppliers for a valid VAT invoice to be issued	Margaret Moncur	31/12/16	31/12/16	On track	Amended invoices will be requested from the supplier.
13	The Council does not recover input VAT based on proforma invoices which is correct however the Council does not then request proper tax invoice/receipts.	Med	Request VAT invoices.	Malcolm Bannatyne	31/12/16	31/12/16	On track	Creditors staff will liaise with departments to seek VAT invoices
14	The system is unable to recognise VAT only invoice. The VAT element is treated as net and then coded as zero rated or exempt and therefore supplies are treated incorrectly for VAT purposes and distorts the values of supplies.	Med	An additional VAT only ledger code is added to the system to allow these items to be identified and excluded from supplies.	Malcolm Bannatyne/ Sandra Coles	18/11/16	18/11/16	Complete	Code now in use so these can be identified and adjusted on VAT return
15	The council reclaims input VAT on employee expense claims without VAT evidence.	Med	Only claim VAT where a valid receipt is provided as evidence	My View Team/Malcolm Bannatyne	31/03/17	31/03/17	On track	Creditors staff awaiting training from My view team with regard to receipts being submitted with claim and when operational problem should be resolved.
		Med	Provide staff with guidance regards VAT recovery on employee expenses	Malcolm Bannatyne	31/03/17	31/03/17	On track	To Follow on from above
<u>VAT Return</u>								

16	Some reports if not saved correctly or run properly can delete required data from VAT return	High	Consider reporting options to limit loss of data	Sandra Coles	30/09/16	30/09/16	Complete	Process has been reviewed to minimise the risk.
		High	Independent review of values to insure that all data has been accounted for	Peter Cupples	31/08/16	30/08/16	Complete	Review carried out each month.
17	No checks or trend analysis is performed on the levels of outside scope income received each month	High	Carry out trend analysis review against prior VAT returns	Sandra Coles	31/10/16	31/10/16	Complete	
18	The manual nature of the amendments made within the VAT return process increases the risk of errors.	Med	Make greater use of the functionality of the accounting system to reduce manual processes.	Sandra Coles	31/03/17	31/03/17	On Track	
	Partial Exemption							
19	Land & Property - The Councils VAT exempt income is increasing annually and as a result is pushing the Council towards breaching the 5% PE de-minimis.	Med	Consider opt to tax options	Peter Cupples	31/10/16	31/10/16	Complete	The partial exemption calculation was reviewed and no decision is required for 2016-17. Will be reviewed again in January 2017.
	General							
20	Staff have insufficient levels of VAT awareness and knowledge	Med	Provide staff training	Peter Cupples	31/03/17	31/03/17	On Track	
		Med	Provide a VAT Manual	Sandra Coles	31/03/17	31/03/17	On Track	

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ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
02 DECEMBER 2016

AUDIT COMMITTEE DEVELOPMENT PLAN

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update on progress and planned activity in respect of the Audit Committee Development Plan.
- 1.2 The Audit Committee Development Plan is a working document and previously incorporated action points identified during the informal effectiveness sessions. However these sessions have not taken place recently due to a change in Committee membership and a number of vacancies arising.
- 1.3 I am pleased to note that all Committee vacancies have now been filled and I welcome new members to the Committee. With members' agreement it is proposed that effectiveness sessions are reconvened as these are a useful tool in developing the skills and expertise of Committee members and to support understanding of the role of the Audit Committee.
- 1.4 Without prejudicing the outcome of the current political management review and upcoming local elections, it is proposed that the first session be scheduled for June 2017 which will ensure that activity is aligned to members' requirements and avoids any potential duplication and supports the direction of travel of the committee.
- 1.5 Although not an exhaustive list, areas for discussion at the next effectiveness session include;
- The role of the Audit Committee
 - Role of Internal and External Audit
 - Members skills and expertise
 - Members training and needs
 - Style of Operation
 - Reporting requirements
- 1.6 In respect of the current plan two action points are currently off-track, being Sharepoint overview and the development of a review forum. This is due to resourcing issues and prioritisation of workload. It is acknowledged that the plan may be further reset as per discussions at the June effectiveness session.

2. RECOMMENDATIONS

- 2.1 Members note the content of this report and proposed action plan.

3. CONCLUSION

- 3.1 The Audit Committee development plan is a working document and is underpinned by effectiveness session activity. Recent changes to membership of the Committee mean that it may be prudent to reset the action plan.

4. IMPLICATIONS

- 4.1 Policy – None
- 4.2 Financial – None
- 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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Appendix 1- Audit Committee Development Plan

Appendix 1 – Audit Committee Development Plan

No.	Issue arising	Proposed action	Lead responsibility	By (date):	Comment
Role of Audit Committee					
1.	Overview of Role of Audit Committee	Overview of Key areas of Governance, Risk and Control Role of Internal and External Audit and Role of Members	Chair of the AC, but facilitated by Vice Chair /Grant Thornton	June 2017	On Track
Audit Committee Effectiveness					
2.	Using CIPFA practical guidance for Audit Committees	Hold effectiveness sessions during 16/17 and 17/18. Identify Members Skills and Expertise and any training requirements or support requirements.	Chair of the AC, but facilitated by Vice Chair /Grant Thornton	June 2017	On Track
3.	Increasing the impact of the Audit Committee and the understanding of the role the committee plays in the internal control framework.	Annual Report to the Council November 2016	Chair of the AC	November 2016	Complete
4.	To aid Committee effectiveness and manage business members agreed that a review forum be introduced.	Develop review protocol and timetable.	Chief Internal Auditor	March 2017	Off Track
Delivering impact					
5.	Sharepoint Overview	Deliver sharepoint overview session for members	Chief Internal Auditor	Rescheduled June 2017	Off Track
6.	Ensuring that the Audit Committee can comment on the scope and coverage of internal audit to meet their assurance requirements	IA to prepare indicative 2017-18 annual audit plan for December Audit Committee meeting to ensure that Audit Committee members have the opportunity to comment on the plan.	Chief Internal Auditor	December 2016	On Track

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Audit Committee Work Plan 2016 - 2017

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 2 December 2016					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	9 November 2016	
	Internal Audit Reports to Audit Committee 2016 - 2017	Chief Internal Auditor	Quarterly	9 November 2016	
	External & Internal Audit Report Follow – Up 2016 – 2017	Chief Internal Auditor	Quarterly	9 November 2016	
	Draft Annual Audit Plan 2017 - 2018	Chief Internal Auditor	Annual	9 November 2016	
	Risk Management Overview	Head of Strategic Finance	Annual	9 November 2016	
	VAT Update Report	Head of Strategic Finance	Annual	9 November 2016	
	Audit Committee Development Plan	Vice-Chair Audit Committee	Quarterly	9 November 2016	
Friday 24 March 2017					
	Financial Statements Timetable 2016 – 17	Head of Strategic Finance	Annual	1 March 2017	
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	1 March 2017	
	Internal Audit Reports to	Chief Internal Auditor	Quarterly	1 March 2017	

Audit Committee Work Plan 2016 - 2017

	Audit Committee 2016 - 17				
	External & Internal Audit Report Follow Up 2016 – 2017	Chief Internal Auditor	Quarterly	1 March 2017	
	Annual Audit Plan 2015/16	Chief Internal Auditor	Annual	1 March 2017	
	External Audit Plan 2017 – 18	External Auditors	Annual	1 March 2017	
	Audit Committee Development: Action Plan	Vice-Chair Audit Committee	Quarterly	1 March 2017	
Future Reports – dates to be determined					
	Review of Community Planning Partnership Governance	Executive Director - Community Services	Annual	September 2017	
	Local Scrutiny Plan	External Audit	Annual	June 2017	
	Risk Assurance Mapping	Grant Thornton Audit Partners	Annual	9 November 2016	
	Risk Management	Grant Thornton Audit Partners	Annual	9 November 2016	