
**PROGRESS REPORT on EXTERNAL AUDIT REPORTS TO COUNCIL FROM
1999/00 TO PRESENT**

1. SUMMARY

A progress review regarding the implementation of recommendations raised in both the PricewaterhouseCoopers (PwC) finalised Interim Management Letter 2000/2001 and Second Interim Management Letter 2000/2001 has been performed by Internal Audit and two exception reports produced. (See Appendix 1, 2 & 3).

2. RECOMMENDATIONS

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

3. DETAILS

3.1 Appendix 1 details the reports that have been received by the Council from PwC since the Final Report to Members 1999/2000. The list uses the following headings, title of report, the month it was received, whether management comments have been collected and the date when the implementation plan was sent back to PwC.

3.2 Appendix 2 details the 10 remaining action points still to be implemented from the original 22 action points detailed in the Finalised Interim Management Letter 2000/2001. Two of the ten remaining action points relate to an implementation date of the 31st October whilst the remaining 8 are still ongoing.

3.3 Appendix 3 details the 14 remaining action points still to be implemented from the original 41 action points identified by PwC in their Second Interim Management Letter 2000/2001 of July 2001. Sound progress has been made by the Information Technology Department to implement the external audit recommendations.

3.4 With regard to the above management letters, Internal Audit has accepted management assurances that implementation has taken place. No testing has been carried out to confirm their assurances. Testing to ensure implementation has taken place will be done in quarter 4. No testing has yet been performed on the Draft Audit Management Letter 2000/2001 as it is yet to be finalised.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit.

5. IMPLICATIONS

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

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Internal Audit Manager 8 October 2001.
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EXTERNAL AUDIT REPORTS

PwC Report Name	Month Received	Comments Obtained from Respondents Y/N	More Implementation Plan sent back
Systems Audit Management Letter 1999/2000	Aug-00	Y	Dec-00
Interim Audit Management Letter 1999/2000	Oct-00	Y	Mar-01
Final Audit Management Letter 1999/2000	Nov-00	Y	Jun-01
Interim Management Letter 2000/01	Feb-01	Y	Jul-01
Second Interim Management Letter 2000/01	Jul-01	Y	-
Interim Management Letter 2000/01 - Final	Sep-01	Y	-
Draft Audit Management Letter 2000/2001	Oct-01	Y	Not Yet Returned



ARGYLL & BUTE COUNCIL
INTERIM MANAGEMENT LETTER 2000/01
SEPTEMBER 2001

SECTION 2 - DETAILED RECOMMENDATIONS

Budgeting and monitoring

2.01

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>Information to Education Committee is insufficient</p> <p>Financial information and commentary on variances that have arisen is provided monthly to the Education Committee. This information is intended to enable Committee members to understand the reasons for the variances and also detail any necessary corrective action that is required. Our review highlighted a number of material variances in period 5, but the attached commentary only explains the total variance for the education department for the month. Further commentary dealing with the individual variances across the education headings would have been helpful.</p>	<p>Information supplied to Committees should be sufficiently detailed to allow an understanding of individual factors impacting variances.</p> <p>All variances should be explained and supported by an action plan detailing any corrective action to be taken.</p>	<p>A decision was taken to report information on Education for budget monitoring at a departmental total level. This decision was taken on the basis that a significant number of the variations had an impact on more than one service within the Education Department. Whilst general guidance and approach to departments on reporting of variances is the report on the main variances within each service in a department, adoption of this report within Education would have led to an increase in the number of explanations which is unlikely to have improved the overall understanding of the budgetary position of the department. Consideration will be given in future budget monitoring exercises to reporting on variances on an individual service basis within a department. However, there will be a balance between adopting this approach and providing information, which is relevant, concise and understandable to members. The Council would wish to avoid a situation whereby it is repeating similar explanations for a number of services if a summary will be more informative to members.</p>	<p>Joseph McGeer</p>	<p>22 March 2001</p>	<p>Ongoing</p>

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SECTION 2 - DETAILED RECOMMENDATIONS (CONTINUED)

Budgeting and monitoring

2.02

Findings	Recommendation	Management Comment	Responsible Officers	Agreed completion date	Update as at 08/10/01
<p>Education budget has not been appropriately phased.</p> <p>Our review of the Education monthly budget monitoring reports highlighted that a number of material variance has arisen because the budget had not been phased appropriately throughout the year.</p> <p>The budget does not therefore reflect the income and expenditure fluctuations throughout the year. This increases the complexity of departmental monitoring and variance reporting and carries a risk of misinterpretation.</p>	<p>The department should review income and expenditure patterns across the major lines of service to ensure that effective profiling of budgets can be carried out to provide a realistic reflection of departmental income and expenditure activity.</p>	<p>Finance and Education staff have undertaken a major exercise jointly. The cause of many of the phasing issues had been the expansion of new projects within the Excellence fund and the provision of funding direct to Head teachers.</p> <p>Considerable scope existed for budget holders to decide upon the spend, eg, staffing, materials or repairs. In addition, some projects required consultation with partners before plans were implemented. As the programmes become more stable, the issue will be undertaken on the timing of the invoices from other departments of the Council.</p>	<p>Joseph McGeer</p>	<p>Largely complete but will require constant attention due to the delegation of budgets to schools.</p>	<p>Ongoing</p>

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SECTION 2 - DETAILED RECOMMENDATIONS (CONTINUED)

Budgeting and monitoring

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>2.03 Absence of commentary on variance for DLO/DSO's.</p> <p>At the monthly meeting of the DLO/DSO financial monitoring committee, commentary is provided on expenditure variances. A review of the minutes of the meeting for the period ended 30 September 2000 highlighted that no commentary had been provided for the Transport Services DSO, Catering Services DSO. It appears to be common practice that where a surplus is being reported, explanations of variances are not reported.</p> <p>It was unclear from these reports whether the surplus had arisen as a result of a problem in the budget setting process or whether the surplus reported was only a short term position with future losses expected</p>	<p>Detailed commentary on all variances from budget should be reported, whether the variances are adverse or favourable, to enable lessons to be learned and action taken if necessary.</p>	<p>In terms of the first paragraph, there has been a tendency in the reporting to COB to concentrate only on those units facing potential deficits. Favourable variances should also be explained and I will remedy this in future reporting. The next report will be for the year end.</p> <p>The second paragraph is not valid since the reports contain the standard format of figures which gives projections for the year end from each DLO/DSO.</p>	<p>Alan Brough</p>	<p>31 March 2001</p>	<p>31 October 2001</p>

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SECTION 2 - DETAILED RECOMMENDATIONS (CONTINUED)

Budgeting and monitoring

2.04

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>Budget monitoring not completed Council wide.</p> <p>The Quarterly Objective Summary Report details the financial position of the Corporate Democratic Core and Joint Boards. However, no explanations of variances or evidence of review are provided to the budget co-ordinator at any point in time in relation to these balances.</p> <p>Where variances are not sufficiently explained, management may be unable to take corrective action if required.</p>	<p>The Council, should ensure that all budget holding departments are provided with budget monitoring information to ensure that the financial position is recorded and reviewed regularly.</p>	<p>There are no budget holders for Joint Boards. The costs from Joint Boards are requisitions, which are fixed at the start of the financial year and do not vary. In relation to Corporate and Democratic Core this comprises mainly members' expenses costs for which there is generally little variation. However, the Head of Corporate Policy has been nominated as budget holder for Corporate and Democratic Core.</p>	<p>Alistair Bovaird</p>	<p>31 March 2001</p>	<p>Ongoing</p>

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SECTION 3 - DETAILED RECOMMENDATIONS

Stocks & Stores

Findings	Recommendation	Management Comments	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>3.01 Obsolete Stock Report not being produced.</p> <p>Our review highlighted that TPS obsolete stock reports have not been produced.</p> <p>The Head of Service should receive an annual report of obsolete stock, which should then go to the Council where write off of stock will be approved. However, this has not been done since local government reorganisation in 1996.</p> <p>In the absence of such reporting, there is a risk that the Council may be carrying obsolete stock, which is overstating the stock balance.</p>	<p>The Council should produce comprehensive annual obsolete stock monitoring reports, which are presented to Committee for approval to write off obsolete stock on an annual basis.</p>	<p>The question of obsolete stock has been dealt with a piecemeal basis. Unfortunately, it is already too late to carry out the comprehensive survey suggested for this year and I would propose an exercise during the summer of 2002 with a report to Committee in the Autumn.</p>	<p>Alan Brough</p>	<p>October 2001</p>	<p>31 October 2001</p>

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SECTION 3 - DETAILED RECOMMENDATIONS (CONTINUED)

Stocks & Stores

Findings	Recommendation	Management Comments	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>3.03 No Monitoring Controls over DES stock</p> <p>Insufficient monitoring controls exist over stock held by the Development and Environmental Services Department. This includes Departmental and DSO stores for Leisure Management, Ground Maintenance and Refuse Collection/Street Sweeping. No stock systems are maintained, other than informal local records. Two stores in Helensburgh were identified by Internal Audit in February 2001 as not having any stock records at all.</p> <p>The absence of such controls over the stock cycle increase the risk of undetected misappropriation of items in stores, material errors or misstatements in the stock balance.</p>	<p>A comprehensive stock recording and monitoring system should be introduced in the Development and Environmental Services Department with regular stock counts taking place.</p> <p>Store staff should be fully trained in the procedure for ordering, receiving and issuing stock. This should help to ensure that these new procedures are properly implemented and operated correctly.</p>	<p>The statement at 3.03 does not accurately reflect the Stock Report, to quote the report:</p> <p>“Oban Millpark Depot where both Grounds Maintenance and Waste Management Stores are located, practices were found to be good in that an accurate record keeping system had been put in place by store staff. The system provides reliable stock records and valuable management information.</p> <p>In addition, no visits were made to Leisure Management facilities and yet 3.03 refers to Leisure Management.</p> <p>However, management welcomed the Stock Report as it highlighted several areas where substantial improvement was needed. Helensburgh stores were found not to be operating any stock system at all. Kilmory and Campbeltown stores were found to</p>	<p>Andrew Law, Head of Amenity Services</p>	<p>Ongoing</p>	<p>Ongoing</p>

3.03

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Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
		<p>lack accurate records due to poor record keeping.</p> <p>Two key recommendations were agreed:</p> <ol style="list-style-type: none"> 1. That a computerised stock system operating successfully in Oban should be modified to be used throughout all Amenity Services depots; 2. That a stock review is carried out with procedural guidelines issued to all stores. <p>This programme has already commenced and a revised Oban based system is currently being installed in the Kilmory depot as the first stage of extending this system to all other Amenity Services stores.</p>			

SECTION 4 - DETAILED RECOMMENDATIONS

Treasury

Findings	Recommendation	Management Comment	Responsible Officer	Agreed Completion date	Update as at 08/10/01
<p>4.01 Treasury Management Performance Indicator Reports.</p> <p>The Finance Department have been preparing a monthly Treasury Management Performance Indicators Report on a trial basis to assess the cost and benefit associated in preparing this information. Reports were prepared on a monthly basis until October 2000. For the periods October to December 2000, there was a delay in completing the reports, although subsequent reports have been completed.</p>	<p>Management should evaluate the use and development of the monthly Treasury Management Performance Indicator Report to establish how this report will be used in the future.</p>	<p>Consideration and development of these reports will take place on an ongoing basis.</p>	<p>B West</p>	<p>Ongoing</p>	<p>Ongoing</p>

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SECTION 5 – DETAILED RECOMMENDATIONS

Debtors

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>5.01 No list of authorised signatories.</p> <p>When area office administration staff are authorising charges to the debtors accounts, there is a requirement to sign a cover sheet which includes:</p> <ul style="list-style-type: none"> • the debtors details; • the person keying in the information; and • the officer who has verified that action. <p>However, we noted that no list of authorised signatories for administrative staff exists.</p> <p>We were advised that this has arisen, as finance staff know all the administration officers who may authorise charges, and where there is a doubt, clarification is sought by telephone. However, there is a risk that new staff starting in the office might not be familiar with these signatures and it was also Not possible for audit staff to confirm that signatures are as stated.</p>	<p>An authorised signatory list should be kept of administrative officers who may authorise charges to debtor's accounts.</p>	<p>Noted and will be actioned.</p>	<p>M McVicar</p>	<p>31 March 2001</p>	<p>Ongoing</p>

SECTION 5 - DETAILED RECOMMENDATIONS (CONTINUED)

Debtors

Finding	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>5.02 Debtors balances over 3 years old.</p> <p>The Council has a number of debtor balances totalling around £500,000 that are over three years old and these relate to a number of small balances.</p> <p>As the length of time that an amount remains outstanding increases, there is a reduced likelihood that the balance will be collected.</p>	<p>These items should be investigated and collection progressed. Where this is not possible, consideration should be given to writing these amounts off as uncollectable.</p>	<p>The balances are being pursued or where the Department has no back up papers. Written back to Department.</p> <p>In addition, agreement being sought from the Chairman of P & R to employ debt collection agency/recovery to collect outstanding debts unable to be pursued by legal services.</p>	<p>M McVicar</p>	<p>April 2000</p>	<p>Ongoing</p>

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SECTION 8 – DETAILED RECOMMENDATIONS

Fraud & Corruption

8.01

Finding	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>Register in which staff must record any relevant interests or gifts/hospitality.</p> <p>No official register exists in which non-executive members and Directors must record any relevant interest, although these must be disclosed on their job application forms.</p>	<p>A central register for non-executive members and Directors interests should be introduced in order that this can be monitored effectively.</p>	<p>A central register is currently being prepared by Corporate and Legal Department and will be presented to the standards Committee for approval when ready.</p>	<p>Nigel Stewart, Director of Corporate and Legal Services Department</p>	<p>Ongoing</p>	<p>Ongoing</p>

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ARGYLL & BUTE COUNCIL

SECOND INTERIM MANAGEMENT LETTER 2000/01

JULY 2001

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01
Service Level Agreements and maintenance contracts held with third parties should be updated on an on-going basis, have a confidentiality clause, and where relevant contain a clause regarding external dial-up.	K.Duncan	Stage 3 & 4 : End December 2001 Stage 5 : End March 2002	Ongoing Ongoing
In order to increase system resilience it is recommended that a contingency and scenario planning exercise be undertaken. This should enable a full risk assessment to be made and a detailed disaster recovery plan to be developed. This plan should then be tested and updated on an ongoing basis.	G. Wilson	End October 2001	Ongoing
It is recognised that current system reporting tools are limited; we recommend that attempts to proactively track the adequacy of system and network resources be undertaken on a regular basis.	A.Allen	End September 2001	End October 2001
Formal key performance indicators for the IT department should be established and reported to management on a regular basis.	G.Boyd	End September 2001 End December 2001	Ongoing Ongoing
Controls over the Council network should be strengthened.	A.Connolly	End October 2001 April 2001	Ongoing

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01
Escrow agreements should be obtained for all specialised major applications.	K.Duncan	End July 2001 End September 2001	Ongoing Ongoing
A procedure for ensuring that user documentation is updated should be implemented and maintained on a regular basis.	A.Allen & D.Bailey	26 th October 2001	Ongoing
A formal change control procedures should be adopted and adhered to for all system changes.	A.Allen	End October 2001	Ongoing
Users should be locked out after three invalid login attempts and that the "/usr/admin/lastlog" file be used to identify users who may no longer require access to the UNIX operating system.	D.Bailey	End July 2001	Ongoing
The number of staff with Root access should be tightly restricted and the method for communicating privileged system passwords to these users should be reviewed. In addition, restrictions regarding FTP access should be implemented and this facility should only be granted where necessary for staff to carry out their roles and responsibilities.		End August 2001	Ongoing

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01
<p>A review of controls over dial-up access should be undertaken and improvements made. Examples are:</p> <ul style="list-style-type: none">• Third party vendors could have a bank of modems, which would only be switched on after a formal request for access.• Dial-in passwords could be alphanumeric, changed on a regular basis and not be recorded by the administrator of these accounts.• Restrictions on the use of dial up networking should be included within third party contracts and all dial-in requests should be formally recorded.• Dial-up access could be monitored and failed login attempts formally recorded and investigated. <p>Users should be reminded of the importance of enabling the pin number on their Nokia mobile phones.</p>	A. Connolly	End December 2001	Ongoing.