

Argyll & Bute Council 2002/03

Management Report

Regularity & Governance (2)

Brian Howarth, ACMA – Senior Audit Manager, Audit Scotland
7th Floor, Plaza Tower, East Kilbride, G74 1LW
T 01355 619200 F 01355 619201

1. Executive Summary

Introduction

- 1.1 We conduct our audit in accordance with Audit Scotland's Code of Practice. The Code makes clear that it is the responsibility of management to ensure that internal control systems are appropriate.
- 1.2 Interim audit activity, is largely concerned with undertaking reviews of selected systems. Our approach in 2002/2003 sought to obtain assurance, by systems review and testing, together with discussion with officers, as to the existence and effectiveness of a number of controls considered essential to ensure that reliance could be placed on the operation of the identified systems.
- 1.3 This report summarises the findings from our audit work and, where appropriate, makes recommendations to strengthen existing controls or otherwise address any identified weaknesses. It should be noted that the weaknesses recorded are only those which came to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses that may exist.
- 1.4 Our review covered the Council's regularity and governance arrangements including the financial position and budgetary control within the Education Department and the Building Maintenance DLO, the arrangements for engaging management consultants and the corporate governance framework.
- 1.5 This is our second regularity and governance report of 2002/2003.

Summary of Main Findings

- 1.6 **Education Department Budgetary Control.** The Education Finance Team, Accounting Services Manager, Head of Accounting and Director of Finance have initiated significant improvement in the budgetary control process within the Education Department during 2002/2003. Further improvements are planned during 2003/2004 and many of our own findings are already reflected within an internal Action Plan. The main issues for further improvement include:
 - ◆ the development of a Council-wide budgetary control procedures manual;
 - ◆ a review of the DMR Scheme of Delegation;
 - ◆ the re-basing of non pay budgets and the refinement of budget profiling;
 - ◆ alerting cost-centre budget holders to year end overspend forecasts on budget reports;
 - ◆ introducing a system of follow-up of agreed remedial actions where variances re-occur;
 - ◆ internal monitoring of unreturned responses from budget holders; and
 - ◆ extending training opportunities to Head Teachers and other budget holders.

-
- 1.7 The Authority has identified a range of 22 actions to achieve £2.4 million of savings and efficiencies during 2003/2004 in order to maintain financial balance with the Education Service.
- 1.8 **Building Maintenance DLO Budgetary Control.** We found that there is regular and full budgetary reporting to the Commercial Operations Board on the DLO's financial position. The DLO forms part of the Transportation and Property Department. We undertook a general review of budgetary control in the Department and identified the need to improve the budgetary instructions given to officers, improve variance reporting, specify levels of variance which should be investigated, implement a system to identify persistent adverse variances and ensure action has been taken and to make suitable training available.
- 1.9 The Building Maintenance DLO has again recorded a deficit. In the financial period to 31 March 2003, the deficit is £186,000. Business Plans exist in relation to recovery actions, but we considered that the reporting of the achievement of identified actions could be improved. The Council has set challenging financial targets for 2003/2004, which will be difficult to achieve. A decision has been taken to consider alternative means of delivery if the financial position has not improved by the end of the third quarter of 2003/2004.
- 1.10 **Management Consultants.** Most contract and tendering exercises relate to building and maintenance contracts. These areas have been recently reviewed by Internal Audit and our audit review therefore examined arrangements to engage management consultants. A number of recommendations have arisen from this review. These include:
- ◆ an officer should be assigned responsibility for regularly reviewing Contract Standing Orders to ensure that they are EU compliant and represent the latest developments in tendering practice; and
 - ◆ improving records of the value and details of tender bids on opening and of evaluations of tenders.
- 1.11 Given the sensitive nature of public sector tendering exercises, the potential for challenge and the frequency with which these issues are generally subject to audit investigation as a result of external complaint, the system controls should be carefully applied.
- 1.12 **Governance Framework.** Overall we found that Argyll & Bute Council could demonstrate the existence of a fairly comprehensive and robust control framework. We did however identify some areas for improvement, the most important of these include the introduction of:
- ◆ clearly defined capital investment control guidelines;
 - ◆ formal capital project management disciplines;
 - ◆ regular reviews of policies, procedures and control frameworks, particularly the Standing Orders, Scheme of Delegation and Financial and Contract Standing Orders;

- ◆ a formal risk assessment and Risk Management Strategy;
- ◆ an IM&T Strategy which covers the finance directorate and all significant financial systems;
- ◆ documented financial operating procedures for all significant and fundamental systems; and
- ◆ an organisation-wide register of risk, based on a robust prioritisation methodology (risk ranking and cost-benefit analysis). This has been introduced during 2003/2004.

1.13 Although this report includes a number of specific recommendations to strengthen internal controls, it is the responsibility of management to decide the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.

1.14 The factual content of the report has been agreed in discussion with appropriate officers from the Council.

1.15 The Action Plan which sets out the agreed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.

1.16 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

2. Action Plan

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
1	A Council wide budgetary control procedures manual should be produced and circulated to all budget holders.	High	Head of Strategic Finance	This recommendation will be actioned as part of an overall review of budgetary monitoring. Council wide procedure should be supplemented by service-specific guidance to reflect the diversity of operations	31 March 2004	Ongoing
			Accounting Services Managers		31 March 2004	Ongoing
2	The DMR Scheme of Delegation should be reviewed to ensure it is consistent with the Council's general Scheme of Delegation.	Medium	Sharon MacDonald	Already planned as part of next steps within Education Review	31 December 2003	Ongoing out to consultation with Head Teachers
3	The 2003/2004 budget setting process should consider re-basing all non-pay budgets.	Low	Sharon MacDonald	This is the process that will be followed every year	31 October 2003	Completed
4	The basis of budget profiling should be examined in 2003/2004.	Low	Sharon MacDonald	Already Completed at June 2003.	Completed	Completed
5	Consideration should be given to identifying year-end projected overspends on cost centre monitoring reports.	Medium		This information will be included.	31 August 2003	Ongoing at the present time as there have been no projected outturn variances.
6	A process of follow-up should ensure that agreed actions have implemented where adverse variances continue to re-occur.	High	Accounting Services Managers	Adoption of variance reporting and action onto Departmental Management Team minutes.	Immediate	Completed
7	The Finance Team should monitor the return rate and follow up any missing monitoring forms.	Low	Education Accounting Services Manager	Procedure already in place at June 2003	Completed	Completed

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
8	Training events for budget holders should cover the completion of monitoring forms and the level/detail of response required.	Low	Head of Strategic Services	This recommendation is accepted and will be incorporated as part of an overall review of budget monitoring procedures.	31 March 2004	Ongoing
9	The Human Resources Department should confirm that they have discontinued the practice of reissuing post numbers.	Low	Principal Officer Personnel (Education)	As detailed.	Immediate.	Completed
10	Budget and Finance training should be made available to Head Teachers and other budget holders perhaps combined with the launch of a Council wide budgetary control manual.	Low	Accounting Services Managers	This recommendation is accepted and will be incorporated as part of an overall review of budget monitoring procedures. Some training may take place earlier.	31 March 2003	End of Dec 03.
11	All budgetary control reports should be reviewed to ensure that variances are identified.	High	Accounting Services Managers	As detailed	31 December 2003	End of Dec 03.
12	Departmental management should identify the levels at which budget to actual variances should be investigated and comment obtained.	High	Accounting Services Managers	As detailed	31 December 2003	Completed
13	Reporting to the Commercial Operations Board should identify progress in respect of actions contained in the Business Plan.	High	Neil Leckie	As detailed	On-going	On-going
14	A detailed action plan should be prepared to support the actions contained in the DLO Business Plan. This should identify responsible officers and key timescales.	High	Neil Leckie	As detailed	On-going	On-going

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
15	An officer should be given designated responsibility for regularly reviewing the Contract Standing Orders to ensure that they reflect EU Directives and good practice..	Medium	The Head of Democratic & Governance Services will assume this role	As detailed	Immediate	Completed
16	Staff with responsibility for maintaining the tender opening register should be reminded of the need to record details of all bids on opening	Medium	Head of Democratic & Governance Services	Memo to tender opening staff	Immediate	Completed
17	The basis and reasons for qualitative assessments of bids should be carefully recorded and retained. Standing Orders should clearly state this requirement.	Medium	Head of Democratic & Governance Services	This will be addressed in the new Standing Orders to be adopted by the Council.	31 October 2003	It is intended that new Standing Orders will come before the Council by the end of 2003. The delay arises from the structured review.
18	Capital investment control guidelines should be reviewed and revised.	Medium	Per Internal Audit Reports	This recommendation summarises a variety of action points identified in two in internal audit reports on capital contracts and contract tendering and vetting. Action plans have been completed for both audits and a responsible officer, action and implementation date agreed for each point. Internal audit will follow up this up in accordance with normal procedures.	Per Internal Audit Reports	Follow up Review
19	Capital project management should be reviewed and consistent controls introduced.	Medium	Per Internal Audit Reports	As above	Per Internal Audit Reports	Follow up Review

No	Recommendation	Grade	Responsible Officer	Action	Date	Update 31 October 2003
20	Review dates should be set for key policies procedures and control framework documents. This includes Standing Orders and Financial Regulations.	Medium	Director of Corporate Services	Council will endorse a strategy of regular reviews	31 October 2003	To be included as part of review process.
21	A comprehensive IM&T Strategy should be prepared.	Low	Heads of Service	The Finance Department disappears as part of the Council-wide reorganisation. An IMT strategy for finance functions will be prepared following the reorganisation.	30 September 2004	An ICT strategy group with Heads of Service from each of the new departments is being set up. This has been agreed by the SMT so there is ongoing progress.
22	A risk register should be completed and reviewed annually.	Medium	Susan Mair, Head of Legal Services	Risk Register complete as at July 2003. Annual reviews will take place.	Complete. On-going	Complete and On-going