

**INTERNAL FINANCIAL CONTROL STATEMENT
2003-2004**

DRAFT

To the members of Argyll & Bute Council, the Head of Strategic Finance and the Chief Executive

As Internal Audit Manager of Argyll & Bute Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Council for the year ended 31 March 2004.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Internal Audit Manager to provide an annual overall assessment of the robustness of the internal financial control system.

Sound internal controls

The main objectives of the Council's internal financial control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of financial control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal financial control.

The work of internal audit

Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The section undertakes an annual programme of work approved by the Audit Committee based on a 3-year strategic audit plan. The strategic audit plan is based on a formal needs assessment process, which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters arising from internal audit work are reported to the Head of Strategic Finance, The Chief Executive and the Council's Audit Committee.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by internal audit during the year to 31 March 2004;
- The assessment of needs completed during the preparation of the strategic audit plan;
- Reports issued by the Council's external auditors, Audit Scotland.
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

Opinion

Except for the following listed matters it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31 March 2004: -

Matters brought forward from previous year

- Revisions to the Contract Standing orders were to be made to overcome the inadequacy of capital control guidelines. This exercise was found to be still outstanding and is scheduled to be complete by 31 July 2004.
- Capital project management disciplines were to be improved. Management has taken some steps to address this issue but has not yet fully completed and approved a guidance handbook of procedures. This is scheduled to be complete by 31 July 2004.
- Whilst the building maintenance activity has achieved a surplus in 2003 – 2004 and an action plan is in place and being monitored, the financial position of the building maintenance activity in previous years has resulted in significant shortfalls for the Council. The performance of the building maintenance activity will therefore require careful monitoring on an ongoing basis.

New Matters

- A Risk Management Register has been prepared but a Risk Management Strategy has yet to be completed and approved. The Risk Management Register also requires review and updating.
- A recent audit of operating leases systems and controls revealed 13 weaknesses considered fundamental to the effective management of operating leases. Management is in the process of addressing the weaknesses identified.
- A recent joint internal/external audit of the management of the Councils property assets indicated 15 weaknesses considered fundamental to the effective management of assets. Management is looking to address the majority of these weaknesses prior to the issue of the 2003 – 2004 final accounts.
- Asset management planning underpins and is essential to supporting the Council's compliance with the Prudential Framework. The Council is still to develop its asset management strategy/plans. This work is currently underway.

Ian Nisbet, MBA MSc ACMA

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