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# 1. Executive Summary

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## 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 2003/2004 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 cash income and banking, trading accounts and budgetary control.
- 1.5 This is our 2<sup>nd</sup> regularity and governance report of 2003/2004.

## Summary of Main Findings

- 1.6 **Cash Income & Banking.** In the cash offices reviewed, we have identified areas where the physical security arrangements for storing cash and other income could be improved. All cash receipting staff should also be issued with an official receipt book and steps taken to ensure that all customers are provided with a payment receipt. A comprehensive procedures document should also be prepared.
- 1.7 **Trading Accounts.** Argyll & Bute Council has made significant progress in preparing for trading accounts. Extensive criteria have been developed for identifying service areas where trading accounts should be prepared. However, this criteria would appear to indicate that officers should also consider treating Building Services activity as a significant trading operation. The format and content of the reporting and monitoring processes remain to be agreed. Budgetary targets should be set for the next 3 years to ensure that the current and projected financial position may be monitored against the statutory requirement for trading accounts to breakeven over the 3-year period.
- 1.8 The Financial Regulations require to be updated to reflect management duties and responsibilities.
- 1.9 **Budgetary Control.** The overall projected financial position of the Council to 31 March 2004, as at 31 December 2003, is a deficit of £284,000, which is to be financed from the existing General Fund Reserve. One of the authority's trading account groups is currently projected to produce a year-end deficit. Officers have reported that they are taking steps to address this situation.
- 1.10 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.

- 1.11 The factual content of the report has been agreed in discussion with appropriate officers from the Council. The Action Plan which sets out the proposed action to be taken in response to the audit recommendations should be read in conjunction with the relevant references from the main report.
- 1.12 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

## 2. Action Plan

| No | Recommendation  | Responsible Officer                             | Action   | Implementation Date | Update as at 30 July 2004 |
|----|---|---|--|---------------------|---------------------------|
|    | <b>Cash Income &amp; Banking - General</b>  |   |  |                     |                           |
| 1  | A procedure manual covering receipting and banking should be drafted and issued to all staff. These procedures should incorporate the relevant information from the Council Financial & Security Regulations.<br><b>Priority : Medium</b> | Central Services Manager – Operational Services | Procedures issued to staff in Oban, Lorn & Isles. To be rolled out to other staff. | July 2004           | Complete.                 |
| 2  | Internal Audit and Management should carry out surprise cashing up exercises on a periodic basis.<br><b>Priority : Low</b>  | Internal Audit Management                       | Time has been detailed within the annual audit plan for 2004 – 05.                 | May 2004            | Complete.                 |
|    | <b>Cash Income &amp; Banking - Helensburgh</b>  |   |  |                     |                           |
| 3  | Support Services staff should be provided with an official receipt book and these receipts should be issued for all cash received.<br><b>Priority : Medium</b>  | Central Services Manager – Operational Services | Receipt book issued.   | Done                | Complete.                 |
| 4  | A notice should be displayed at the main reception to communicate to customers that an official receipt will be issued for all remittances.<br><b>Priority : Low</b>  | As above  | Notice to be written and distributed for display.                                  | June 2004           | Complete.                 |

| No | Recommendation   | Responsible Officer                             | Action   | Implementation Date | Update as at 30 July 2004   |
|----|--|---|--|---------------------|---|
| 5  | Income spreadsheets should be signed by the "counter" and counter-signed by the "checker".<br><b>Priority : High</b>   | As above  | Covered within procedures.   | June 2004           | Complete.   |
| 6  | Physical security at Blairvadach should be improved. The Support Services Office should be fitted with a combination lock and. consideration should also be given to having a member of staff attend the reception desk at all times when the main door is unlocked<br><b>Priority : Low</b> | Central Services Manager – Operational Services | Shared Office; action to be considered jointly with other users.             | July 2004           | Improved procedures in hand. Will be completed by end of August 2004. |
| 7  | A larger safe should be acquired to allow cash to be securely held.<br><b>Priority : Medium</b>  | As above  | Review cash collection times to ensure banking done on receipt of such sums. | June 2004           | Complete. A safe has been ordered.                                    |
| 8  | Additional keys to the key box should be provided to, and held by, identified key holders. These should not be stored on the premises.<br><b>Priority : Low</b>  | As above  | Additional keys to be obtained and key holders identified.                   | June 2004           | Currently under review August 2004.                                   |
|    | <b>Cash Income &amp; Banking - Dunoon and Rothesay</b>   |   |  |                     |   |

| No | Recommendation   | Responsible Officer       | Action  | Implementation Date | Update as at 30 July 2004           |
|----|--|---------------------------|---|---------------------|-------------------------------------|
| 9  | The combination to open the security door in Dunoon should be changed on a periodic basis and after any member of staff, permanent or temporary, leaves their post.<br><b>Priority : Low</b> | As above                  | Agreed.   | June 2004           | Currently under review August 2004. |
| 10 | Additional keys to the safes should be provided to, and held by, identified key holders. These should not be stored on the premises.<br><b>Priority : Low</b>                                | As above                  | Additional keys to be obtained and key holders identified.  | June 2004           | Currently under review August 2004. |
|    | <b>Trading Accounts</b>  |                           |   |                     |                                     |
| 12 | The treatment of Building Services as a "non-significant" operation should be reviewed.<br><b>Priority : High</b>  | Head of Strategic Finance | Building Services will be treated as a Significant Trading Activity.  | September 2004      | Complete                            |
| 13 | Officers should ensure adequate monitoring arrangements for trading account operations are introduced.<br><b>Priority : High</b>   | Head of Strategic Finance | Monitoring of trading operations will be incorporated into normal budget monitoring routine with a focus on the breakeven position. | June 2004           | Complete                            |
| 14 | 3 year rolling targets should be approved for the trading activities<br><b>Priority : Medium</b>   | Head of Strategic Finance | Assumed position is for a breakeven over the 3 years but this will be reviewed annually.  | Ongoing             | Ongoing                             |

| No | Recommendation   | Responsible Officer                      | Action   | Implementation Date | Update as at 30 July 2004  |
|----|--|--|--|---------------------|--|
| 15 | Officers should ensure that Interest on Revenue or Stock balances is included when calculating the anticipated surplus / deficit position and costs included in the BVACOP definition of "Total Costs" should be included in monitoring statements.<br><b>Priority : Low</b> | Finance Manager – Development Services   | This has been introduced.  | Immediate           | Complete   |
| 16 | Officers should determine the form and content of Trading Accounts and the accompanying Annual Reports, ensuring they comply with the minimum guidance requirements.<br><b>Priority : Medium</b>   | Finance Manager – Development Services   | The form and content of Trading Accounts have been standardised and now comply with minimum guidance requirements. | Immediate           | Complete   |
| 17 | A timescale for future service reviews should be identified.<br><b>Priority : Low</b>  | Head of Strategic Finance                | An annual review of potential trading services will take place.  | April 2005          | Ongoing  |
| 18 | The Security and Financial Regulations should be amended to incorporate changes arising from the introduction of Trading Accounts Legislation.<br><b>Priority : High</b>   | Head of Democratic Services & Governance | Trading accounts legislation will be reflected in the new regulations to be issued this year.                      | August 2004         | Implementation delayed due to move to Council Constitution Model and problems in recruiting a Corporate governance and Risk Manager. Completion now December 2004. |