



ARGYLL & BUTE COUNCIL

OVERVIEW REPORT 2000/01
ACCOUNTS COMMISSION
FINDINGS

<p>Audit Commission Review</p> <p>Introduction</p> <p>1 This statutory report is prepared under section 102(1) of the Local Government (Scotland) Act 1973 to advise the Accounts Commission of the main issues arising from the 2000/01 local authority audits. It is also made available to all local authorities to enable them to assess their progress in key areas of financial stewardship and performance. It draws on reports prepared by external auditors at the conclusion of their audits and covers all the significant matters arising from the 2000/01 audits of the 32 councils and 35 related local authority bodies, such as police and fire boards.</p>	<p>Argyll & Bute Council Comparison</p> <p>Below is detailed how Argyll & Bute compares against the comments raised by the Accounts Commission in their annual report.</p>
<p>2 The report is in two parts. The first part relates to recurrent general issues and shows the broader results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 2000/01.</p>	<p>As above.</p>
<p>Part 1: Annual results and trends</p> <p>Completion of accounts and audits</p> <p>3 The deadlines for the completion of accounts and audits are challenging. The performance of councils in completing their accounts by the statutory date of 30 June was commendable. The performance of external auditors in completing audits represented an overall improvement over previous years, but there is scope for further improvement.</p>	<p>Argyll & Bute Council accounts were submitted by the statutory date of 30th of June and the Audit was completed by 30th September.</p>
<p>4 The 2000/01 accounts of two of the 32 councils were qualified, an improvement compared with 1999/2000 when four were qualified. One of the 35 'other' local authority bodies' accounts for 2000/01 was qualified.</p>	<p>The Accounts of Argyll & Bute Council were not qualified.</p>

<p>Corporate governance and financial controls</p> <p>5 The audit committee concept is an integral component of good governance. External auditors reported that councils are increasingly adopting audit committee principles, often as part of a wider review of committee structures and scrutiny arrangements. In 2000/01 about half of the 32 councils had audit committees or their equivalent in place.</p>	<p>Argyll and Bute Council has an Audit Committee set up and running since 2000.</p>
<p>6 Internal audit is a key element of the internal control system established by a council's management. The Accounts Commission report 'A job worth doing – raising the standard of internal audit in Scottish councils' (August 2001) identified that some performed significantly better than others but that all had room for improvement. Twenty of the 32 councils complied with over 70% of CIPFA's standards for internal audit.</p>	<p>Argyll & Bute Council is currently taking steps to improve standards and performance of Internal Audit in conjunction with its audit partner KPMG.</p>
<p>7 It is disappointing that auditors' 2000/01 reports referred to continuing weaknesses in fundamental financial controls including: _no reconciliations between key financial systems _internal control weaknesses in major financial systems such as payroll, housing benefits administration, commercial and industrial rents systems</p> <p>_weaknesses in budgetary control and monitoring systems.</p>	<p>Better internal audit and external audit reports may identify weaknesses in internal controls. Potential improvement will be laid out in an action plan. Implementation of action plan is monitored and reported to the Audit Committee.</p>
<p>8 In future local authorities will need to include within their accounts a statement on the internal financial control systems in operation. Such statements are already required in most parts of the public sector and emphasise that the responsibility for sound systems of internal control rests with management. Internal financial control statements within the accounts of local authorities will enable them to set out the framework within which financial control is managed and reviewed and the main components of</p>	<p>This will be done. An annual report on internal audit will be submitted to the Audit Committee in July 2002.</p>

<p>the system, including the arrangements for internal audit.</p>	
<p>9 In order to maintain confidence in the conduct of public business it is in the interest of councils to create a culture where significant issues are brought to the attention of management so that corrective action can be taken. External auditors reported that councils are making progress in implementing 'whistle blowing' policies but that some have been slow to take action.</p>	<p>A whistle blowing policy was adopted by Argyll and Bute Council in March 2001. A copy is available in the public folders directory under standing orders.</p>
<p>Financial position</p> <p>10 The total value of reserves held by councils at 31 March 2001 was some £586 million, though there were wide variations in the amounts held by individual councils. Auditors have indicated that the statutory basis and purpose of amounts described as 'other reserves' is not always clear.</p>	<p>The General Fund reserve of Argyll and Bute Council stands at £85,000 which is 0.04% of the Council's gross revenue expenditure, Pricewaterhouse Coopers, in their report submitted to the Council on 1st of November 2001, commented on the small level of General Fund surplus carried forward and available to offset against any potential future overspends.</p> <p>The balances on the Housing Revenue Account and DLO/DSO reserves stand at £1,573,000 and £108,000 respectively. These reserves were created in accordance with relevant legislation.</p> <p>The fixed asset restatement reserve (FARR) and the capital financing reserve (CFR) stand at £74,895,000 and (£9,278,000) respectively. These are non-distributable and are requirements of the code of practice on capital accounting.</p> <p>These are also ear marked reserves</p> <ul style="list-style-type: none"> - Repairs and Renewals – vehicles £584,000 - Repairs and Renewals – General £649,000 - DLO Capital Fund £86,000 <p>These are established under schedule 3 of the Local Government (Scotland) Act 1975.</p> <ul style="list-style-type: none"> - Education Reserves £342,000 <p>This allows replacement of major items of equipment within schools and on this basis</p>

	<p>can be covered under Schedule 3 of the Local Government (Scotland) Act 1975.</p> <ul style="list-style-type: none"> - Insurance Fund £1,234,000 <p>This has been established in accordance with powers under the Local Government (Scotland) Act 1994.</p>																		
<p>11 Total General Fund capital expenditure in 2000/01 across all councils was £590 million of which £87 million (15%) was financed from current revenue. Housing Revenue Account capital expenditure totalled £356 million of which £118 million (33%) was financed from current revenue. Again, within these overall figures, there was wide variation in the extent to which capital expenditure was financed from current revenue.</p>	<p>Total General Fund Capital Expenditure for Argyll and Bute Council was £12,837,000 of which £134,000 (1%) was financed from current Revenue. Housing Revenue Account Capital expenditure was £3,175,000 of which £700,000 (22%) was financed from current revenue.</p>																		
<p>12 The total amount due to councils (net of bad debt provisions) at 31 March 2001, for the four main account areas relating to charges levied against taxpayers and council tenants, increased to £609 million. This is a 3% increase from 2000 and results from increases in net amounts due for council tax and housing rent arrears, offset by a decrease in net amounts due for community charge and non domestic rates.</p>	<p>The total amount due to Argyll & Bute Council for the four main account areas is</p> <table border="1" data-bbox="820 965 1437 1379"> <thead> <tr> <th></th> <th>2000/01</th> <th>1999/00</th> </tr> </thead> <tbody> <tr> <td>Council Tax</td> <td>£2,068,000</td> <td>£2,379,000</td> </tr> <tr> <td>Community Charge</td> <td>£44,000</td> <td>£44,000</td> </tr> <tr> <td>Non Domestic Rates</td> <td>£462,000</td> <td>£663,000</td> </tr> <tr> <td>Housing Rents</td> <td>£101,000</td> <td>£58,000</td> </tr> <tr> <td>Totals</td> <td>£2,675,000</td> <td>£3,144,000</td> </tr> </tbody> </table> <p>This is a decrease of 15% from 2000.</p>		2000/01	1999/00	Council Tax	£2,068,000	£2,379,000	Community Charge	£44,000	£44,000	Non Domestic Rates	£462,000	£663,000	Housing Rents	£101,000	£58,000	Totals	£2,675,000	£3,144,000
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<p>DLO/DSO performance</p> <p>13 The Direct Labour/Service Organisation (DLO/DSO) results show further improvement over recent years with 97% of all DLOs/DSOs in Scotland achieving the statutory break-even target with net surpluses totalling £52 million. In 1999/2000 94% achieved break-even with total surpluses of £41 million.</p>	<p>The Direct Labour/Service Organisations for Argyll & Bute Council all met their statutory financial objectives and contributed £389,000 to the General Fund.</p>																		
<p>14 The Local Government Bill proposes the repeal of Compulsory Competitive Tendering (CCT) and its replacement with a</p>	<p>Noted.</p>																		

<p>statutory duty of Best Value. In the meantime, councils are reviewing services under the existing Best Value framework. Where these services remain subject to the CCT regime, Best Value initiatives may lead to developments which are not consistent with the existing CCT legislation.</p>	
<p>Housing and council tax benefits</p> <p>15 External auditors must be satisfied that councils' housing and council tax benefit subsidy claims are fairly stated and that councils' underlying systems for calculating and paying benefit are sound. In light of the sums and risks involved and the complexity of the system, it is anticipated that housing and council tax benefits will continue to feature significantly in external auditors' work programmes in future years.</p>	<p>This is noted. Internal and External Audit have held discussions to establish/determine which areas will be covered by each of them in their respective work plans.</p>
<p>Financial relationships with external parties</p> <p>16 External auditors assessed the extent to which councils comply with 'The Code of Guidance on Funding External Bodies and Following the Public Pound' and found a mixed picture of the reliability and adequacy of such arrangements. In view of auditors' reports of difficulties at councils in achieving compliance with the existing Code, and the increasing use by councils of arms-length arrangements, Audit Scotland intends a more detailed review of this area.</p>	<p>Noted.</p>
<p>Audit follow-up</p> <p>17 Where external auditors conclude that action needs to be taken, they agree action plans with the local authority which they then monitor and follow up. In cases where remedial action has not been agreed or where the local authority has been slow to implement agreed action, Audit Scotland may pursue the matter directly with the authority. The Controller of Audit may also report formally to the Accounts Commission on any matter arising from an audit. The various measures available in terms of follow-up of audit findings provide a flexible framework for action in relation to</p>	<p>Four External Audit Management Letters were received by the authority in 2000/01. Of the three letters 19 action points remain ongoing. The fourth Management Letter is due to be returned in May-June 2002. This letter relates to a systems audit of Housing Benefits. It has been delayed pending clarification of some of the recommendations and action points. It is now complete and in the process of being submitted to the Management Team.</p>

<p>the annual audit of accounts, stewardship of funds and governance matters.</p>	
<p>Part 2: Matters arising during the year</p> <p>Statutory reports</p> <p>18 During 2001, the Controller of Audit prepared four statutory reports for consideration by the Accounts Commission, including last year's overview report. Two were follow-up reports on the progress being achieved at Inverclyde Council in addressing weaknesses in accounting procedures and financial administration. The fourth report, on Scottish Borders Council, was concerned with the financial management of the council's education budget.</p>	<p>Argyll and Bute Council was not the subject of any statutory reports.</p>
<p>General accounting issues</p> <p>19 The main accounting issues reported by auditors related to councils' compliance with the capital accounting regime and the implications of new requirements for pensions accounting. Auditors highlighted the potential pressures faced by fire boards in funding firefighters' pensions.</p>	<p>Argyll & Bute Council is not the subject of any of these reports.</p>
<p>20 There are a number of public/private partnerships (PPP) and private finance initiative (PFI) contracts at various stages of completion in councils in Scotland. External auditors review the processes by which councils progress their interests in these schemes and, where appropriate, provide preliminary views on the proposed accounting treatment. Audit Scotland is examining the value for money of recent Private Finance Initiative schools deals in Scotland with a view to making recommendations to help promote good practice in the preparation and delivery of PFI schemes.</p>	<p>Argyll and Bute Council entered into a waste management PPP with Shanks in September 2001.</p> <p>In response to the Scottish Executive's initiative "Revenue support for public/private partnership (PPP) school building projects" Argyll and Bute Council lodged, in December 2001, an application for support.</p>
<p>Matters arising at individual councils</p> <p>21 The auditors of Clackmannanshire Council expressed serious concerns about the council's lack of progress in reviewing its financial interests in external bodies. At</p>	<p>There are no major issues at Argyll & Bute Council.</p>

<p>Comhairle nan Eilean Siar (Western Isles Council) the auditors reported that the Building Maintenance and Roads DLOs failed to achieve break-even with deficits of £321,000 and £253,000 respectively. These are significant in terms of the level of DLO activity, representing over 10% of turnover in each case. The external auditor of Midlothian Council referred to a contract for an extension to a school in which there had been a £560,000 (over 30%) overspend. At South Lanarkshire Council the auditor expressed concerns about a contract for debt recovery services.</p>	
<p>Value for money studies</p> <p>22 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. Reports on 2000/01 study topics related to: pre-school education; property risk management in schools; internal audit; and homecare services for older people.</p>	<p>Noted.</p>
<p>Best Value</p> <p>23 Best Value was introduced in Scotland in 1997. It requires councils to provide high quality services that meet the needs of their customers and communities, and achieve value for money. Councils must also demonstrate that they are accountable and delivering continuous improvement. The Scottish Executive is expected to introduce legislation that will place a statutory duty on councils to deliver Best Value. The Accounts Commission published a progress report in December 2001 ('Making Progress with Best Value') that provided a snapshot of councils' performance management and planning arrangements.</p>	<p>Noted.</p>
<p>Performance Indicators</p> <p>24 The Local Government Act 1992 places upon the Accounts Commission an annual</p>	<p>Liaison between the Chief Executive Department, Audit Scotland and Internal</p>

<p>duty to direct local authorities to publish information which will, in the Commission's opinion, assist in the making of appropriate comparisons. By reference to the criteria of cost, economy, efficiency and effectiveness, comparisons can be made between the standards of performance achieved by different authorities in a financial year and the standards of performance achieved by individual authorities in different financial years. In 2000/01 councils, fire brigades and police forces were required to report their standards against 76 statutory performance indicators covering a wide range of services.</p>	<p>and External Audit has taken place at local level in an effort to address general issues over national comparison requirements.</p>
<p>25 The statutory performance indicators are only one means by which the performance of councils can be measured and need to be interpreted in a broader context. Nevertheless, it is encouraging to note that the general trend is one of overall improvement, with the majority of councils improving on most indicators between 1998/99 and 2000/01.</p>	<p>The number of PI's, which were qualified, rose from 9 in 1998/99 to 11 in 2000/01.</p>