

## APPENDIX 2

# Argyll and Bute Council

Audit Risk Analysis and Plan 2005/06

March 2006



## Contents

<b>Summary of planned audit activity</b>	<b>1</b>
<b>Introduction</b>	<b>1</b>
<b>Our responsibilities</b>	<b>2</b>
<b>Our approach</b>	<b>3</b>
<b>Strategic risk analysis</b>	<b>4</b>
<b>Summary assurance plan</b>	<b>6</b>
<b>Reporting arrangements</b>	<b>6</b>
<b>Quality control</b>	<b>8</b>
<b>Fees and resources</b>	<b>8</b>
<i>Appendices</i>	
<b>Appendix A: Summary assurance plan</b>	<b>10</b>
<b>Appendix B: Reliance on internal audit</b>	<b>31</b>
<b>Appendix C: Audit team</b>	<b>32</b>

# Summary of planned audit activity

Based on our analysis of the risks facing Argyll and Bute Council, our planned work in 2005/06 includes:

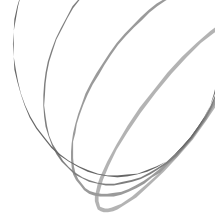
- review of the council's arrangements to manage a number of key risks including improving performance, financial strategy and sustainability, workforce planning, joint working and progress with the efficient government agenda;
- review of the council's arrangements for transferring its housing stock and an assessment of the relevant financial assumptions;
- issuing local reports arising from identified risk areas as required;
- initial follow-up work following the publication of the best value report on the council in February 2006;
- audit of the financial statements and provision of an opinion on whether they present fairly the financial position of the council and its income and expenditure for the year. Audit of whole of government accounts; and
- audit of a number of specific grant claims.

## Introduction

1. Our audit is focused on the identification and assessment of the key risks to Argyll and Bute Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Argyll and Bute Council's financial statements. This report summarises the key risks facing the council and sets out the audit work that we propose to undertake in 2005/06.

Our plan reflects:

- your local risks and priorities;
- current national risks relevant to your local circumstances;
- the impact of changing International Auditing Standards;
- our responsibilities under the Code of Audit Practice as approved by the Accounts Commission; and
- issues brought forward from last year's audit.



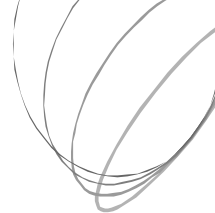
## Our responsibilities

2. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
3. In carrying out our audit, we seek to gain assurance that:
  - the council has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability;
  - the council has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties;
  - the council proactively manages and reviews its performance in line with its strategic and operational objectives;
  - the council's system of recording and processing transactions provides a sound basis for the preparation of financial statements and the effective management of the council's assets and interests;
  - the systems of internal control provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption;
  - the council's financial statements present fairly the financial position at the 31 March 2006 and its income and expenditure for the year then ended; and
  - the council complies with established policies, procedures, laws and regulations.
4. The Local Government in Scotland Act 2003 created new arrangements for the audit of best value. Best value audits are based on a cyclical approach and involve a detailed review of the council by a specialist team every three years, with checks on ongoing progress in intervening years. The principles of best value are central to our new audit approach, and the evidence and assurances obtained through the annual audit of the council provide valuable input to the best value review. A best value audit of the council has recently been completed and was published in February 2006. The council now requires time to consider the report and prepare its agreed improvement plan. Many of the key risks identified in this planning document will also be addressed through this process. In particular, the best value improvement plan is likely to include actions relating to performance management, developing the corporate plan and linking this to community planning priorities and further developing the council's financial strategy. We will monitor the actions of the council during the audit, and report on progress as part of our annual reporting to the council.

## Our approach

5. The key features of our risk-based audit approach include:
- integration of audit work on financial statements, performance and corporate governance;
  - an increased focus on key business, operational and financial risks;
  - a more streamlined financial statements audit which maximises assurance from existing control processes, and
  - development of tailored reviews of the council's priorities and risks.
6. Our preliminary audit work has involved us in assessing the significant risks facing your Argyll and Bute Council. This assessment is based on the likelihood of the risks occurring and the impact they could have on the delivery of services and the council's financial position. We have also assessed the adequacy of the arrangements in place to address the identified risk and the extent to which these reduce the risk to an acceptable level. We have used a number of audit tools to assess the issues and risks facing Argyll and Bute Council, including the *Priorities and Risks Framework* (PRF). The PRF is a planning tool which helps ensure that audit work is properly focused, and takes account of both national and organisational priorities and risks, when combined with knowledge of the key priorities and risks for Argyll and Bute Council. The priority areas identified in the 2005/06 local government PRF are:





## Strategic risk analysis

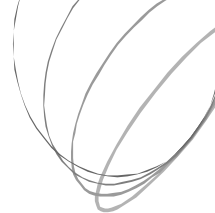
7. Based on our discussions with staff and a review of supporting information, we have identified and assessed the following strategic risk areas for Argyll and Bute Council. Risks exist in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Conversely, organisations that seek to avoid risk entirely are unlikely to achieve best value.

### *Performance management and improvement*

8. The council aims to achieve significant improvements in performance across its activities to support its ambition to be recognised as the “leading rural area”. Opportunities for improvement in existing processes and increasing expectations of stakeholders present significant challenges. Ultimately, a failure to demonstrably improve may lead to loss of credibility.
9. The council is currently in the process of implementing a new performance management framework. Although the basic framework has been developed, much remains to be done to incorporate the process into the planning and reporting cycles. The council is still some way off from being able to demonstrate that the framework is effective in driving the continuous improvement in council services.

### *Financial strategy and sustainability*

10. There is a risk that the council is unable to afford the changes needed to improve its performance while meeting new demands for its services. Significant efficiencies are required to release funding for the scale of improvement projects planned and to meet the challenges of funding settlements and the efficient government agenda. Increased freedoms are available to the council but these require to be used in a way that is affordable, prudent and sustainable.
11. The council is faced with a challenging time ahead, in terms of ensuring the services it provides are affordable and sustainable. Cumulative savings of some £23m require to be identified over the two year period from the draft 2006/07 budget (pre-savings) through to meeting the 2007/08 budget requirement. The impending equal pay settlement will also impact heavily on the council’s reserves.
12. It is expected that a full transfer of the council’s housing stock will take place towards autumn 2006. The council will require to adopt a clear corporate approach to manage the transfer process and to address the risk of the transfer failing or not being achieved on satisfactory terms.



### *Workforce planning*

13. People play the key role in delivery of high performing services and the council may not have the right skills, in the right place, at the right time – both through a period of significant change and on a continuing basis. One of the main challenges faced by the council, due to its geographical remoteness and disparity, is in recruiting and retaining high calibre professional staff in certain key occupations.
14. In a period of transition and particularly with the implementation of the single status agreement, there are significant risks in relation to the morale of affected staff and the potential for industrial relations difficulties.

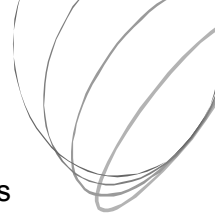
### *Joint working and community planning*

15. There is a risk that the council does not identify and respond effectively to the needs of its local communities and individuals. Services have to be configured in a manner that allows them to respond to identified needs and local priorities.
16. Increasingly the council is dependent on partnership working to deliver service improvements. Inevitably much of the development to date has focused on structures and processes. There is a key risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of public resources as a result.
17. Formal duties to initiate, facilitate and maintain community planning have been placed on the council relatively recently. Partners may be unable to demonstrate sufficient progress in improving outcomes within challenging timescales. A similar situation exists with the community healthcare partnership, which has had a delayed start due to uncertainty over Argyll and Clyde Health Board's successor bodies.

### *Corporate governance and risk*

18. There are a number of challenges to the council's corporate governance capabilities. Our particular concerns in this area relate to the delays the council has had in developing its asset management and risk management strategies, both of which are in the early stages of development and implementation.

### *Efficient government*



19. The Scottish Executive has set challenging targets for local authorities to liberate resources through efficiency savings. Funding settlements will make assumptions as to the amount of resources each council is expected to release through efficiencies. Lack of innovation and delayed or unsuccessful projects in this area will mean the anticipated level of savings will not be released and the council's resources will come under further pressure. To increase efficiency and meet its targets the fundamental business processes across the council will need to be revisited.
20. The measurement of efficiencies is a further key area. Efficiencies are broadly achieved where increased outputs are obtained for the same inputs or reduced inputs are applied for the same amount of output. Without fundamental review of current service delivery there is a risk that the council is unable to demonstrate that its efforts are being rewarded by increased efficiency of service delivery.

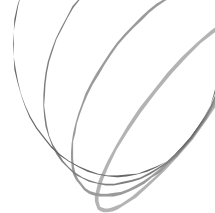
## Summary assurance plan

21. Within these strategic risk areas there is a range of more detailed risks and these are summarised at appendix A. In most cases actions are either planned or already underway within the council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in appendix A. The work of internal audit plays a key part in the management assurance framework and specific areas where we plan to place reliance on their work in 2005/06 are outlined at appendix B.
22. Our *Financial Statements Strategy* sets out our approach to the audit of Argyll and Bute Council's financial statements. This provides more detail in how we will approach our audit of the financial statements and the significant accounting or financial risks which we have identified for 2005/06. The *Financial Statements Strategy*, together with this *Audit Risk Analysis and Plan*, form our overall strategy for the audit in 2005/06.

## Reporting arrangements

23. Matters arising from our audit will be reported on a timely basis during the year and will include agreed action plans. Draft reports will be issued to the head of strategic finance and responsible director or senior officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
24. A copy of all final agreed reports will be sent to the chief executive, the head of strategic finance, responsible director, internal audit and Audit Scotland's Performance Audit Group. All



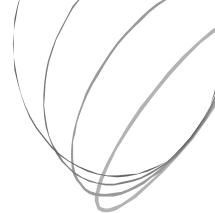


formal reports, or summary thereof, will be made available to the Audit Committee for its consideration. Regular updates on the completion of audit reports will be provided to the Audit Committee.

25. We will provide a report to Argyll and Bute Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to the members of Argyll and Bute Council will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks. From 2005/06, all annual reports produced by Audit Scotland will be published on our website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

26. The full range of outputs to be delivered by the audit team are summarised below:

Example	Target delivery Date
<b>Governance</b>	
Audit risk analysis and plan	31 March 2006
Review of internal audit	31 March 2006
Computer audit report	31 March 2006
Governance report 1	30 May 2006
Governance report 2	30 June 2006
<b>Performance</b>	
Efficient government	31 March 2006
Statutory performance indicators return	31 August 2006
<b>Financial statements</b>	
Financial statements strategy	31 March 2006
Report to Audit Committee in terms of ISA 260	30 September 2006
Independent auditor's report on the financial statements	30 September 2006
Annual report to members of the council and the Controller of Audit	30 September 2006 (draft)
	31 October (final)
Audit opinion on whole of government accounts	Date to be determined
Certification of DWP/Scottish Executive and European grant claims	Various dates throughout the year



27. In addition to the above work which will result in reports aimed at your organisation, Audit Scotland is conducting a programme of studies on behalf of the Auditor General and Accounts Commission. Current and planned studies include:

- Review of community planning partnerships (April 2006);
- A teaching profession for the 21st century (Stage 1: early 2006, Stage 2: autumn 2006);
- Housing stock transfer (February 2006);
- Waste management (autumn 2006);
- Police call management (March 2006); and
- Fire and rescue review (November 2006).

## Quality Control

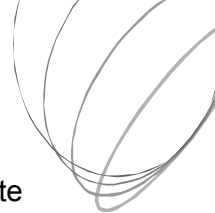
28. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Argyll and Bute Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client (in your case this is Angela Cassels, Assistant Director of Audit (Local Government) who is responsible for quality control;

29. As part of our commitment to quality and continuous improvement, we may seek your views from time to time. We would be grateful for any feedback on our services.

## Fees and resources

30. Our agreed fee for the 2005/06 audit of Argyll and Bute Council is £271,750, comprising a local audit fee of £180,050 and a fixed charge of £91,700. Our fee covers:

- all of the work and outputs described in this plan;
- a contribution towards the costs of national performance studies and statutory reports by the Accounts Commission;
- attendance at audit committees;
- access to advice and information on relevant audit issues;
- access to workshops/seminars on topical issues; and
- all travel and subsistence costs.



31. In determining the agreed fee we have taken account of the risk exposure of Argyll and Bute Council and the management assurances in place. We have assumed receipt of the unaudited accounts and working papers by 30<sup>th</sup> June 2006. If the unaudited accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any work on PPP or other significant exercises not within our planned audit activity.
  
32. Angela Cassels, Assistant Director of Audit (Local Government) is your appointed auditor, and she is responsible for ensuring that our work is carried out on time and to a high quality standard. She is also responsible for the certification of the council's financial statements. The local audit team will be led by David Jamieson, who will carry out the day to day management of the audit and will be your primary contact. Details of the experience and skills of our core staff are provided at appendix C. The core audit team will call on other specialist and support staff, as necessary.



March 2006

# Appendix A: Summary assurance plan

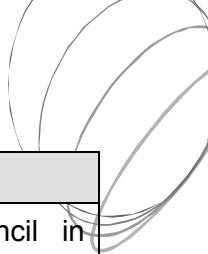
**Summary assurance plan** - In this section we identify a wide range of operational risks facing Argyll and Bute Council, the related management assurances received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

## Performance management and improvement

The council aims to achieve demonstrable and significant improvements in performance across the range of its activities in order that it can meet its ambition to be a top performing local authority. Opportunities for improvement in existing processes and increasing expectations of stakeholders present significant challenges. Ultimately, a failure to demonstrably improve may lead to loss of credibility.

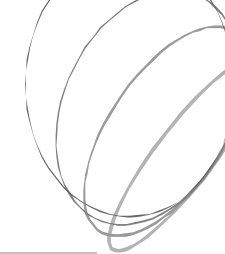
Risk	Management assurances	Planned audit action
<p>The council has recognised a need to improve its approach to <a href="#">performance management</a>. In the absence of an effective approach there are risks that:</p> <ul style="list-style-type: none"> <li>corporate plan objectives are not closely integrated with service plan initiatives</li> <li>service plans are not clearly integrated with the revenue and capital budgets</li> <li>service plans should clearly indicate how the key themes contribute towards achieving the overall corporate objectives.</li> </ul> <p>Lack of alignment between the corporate plan, service plans and budgets could result in financial risk to the authority if the resources required for the achievement of corporate objectives are not being clearly identified.</p>	<ul style="list-style-type: none"> <li>In terms of aligning service planning with revenue and capital budgets, a project to align service and budget planning exercises is already underway and will be in place for the 2007/08 budget cycle.</li> <li>Policy and Strategy are currently developing a corporate strategy map as part of the council's performance management framework. This document will ensure there are links between corporate and service objectives.</li> <li>The performance management framework will be implemented in phases, as agreed in the project plan approved by the SMT and SPC.</li> <li>Evaluation of each phase will be conducted in line with the project plan. Regular progress reports will be submitted to the SMT.</li> </ul>	<ul style="list-style-type: none"> <li>Track management assurances</li> <li>Review improved performance management arrangements as they are implemented</li> <li>Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.</li> </ul>

Risk	Management assurances	Planned audit action
<p>Best value reviews should rigorously assess what the activity is aiming to achieve, whether it is still required, and whether it will continue to meet future needs. There should be a systematic approach for evaluating options for providing a service, including competition where appropriate, to ensure that customers receive the highest quality of service possible within the resources available. However, within the council, the methodology for the reviews is not well developed, sound options appraisal techniques are not used, and that the level of challenge is not significant with the resultant risk that reviews are not rigorous enough to address the 4 'C's option appraisal and provide an element of independent challenge.</p>	<ul style="list-style-type: none"> <li>The best value review process within the council was halted pending the outcome of the statutory best value review. It is expected that the council will address this issue in response to the areas identified as most in need of improvement by the statutory best value review.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.</li> </ul>
<p>There is no formal provision for members to review the results of <u>scrutiny and efficiency reviews</u>. In the absence of member input to these reviews there is a risk that sufficient priority might not be given to implementing recommendations arising therefrom.</p>	<ul style="list-style-type: none"> <li>It is expected that the council will address this issue in response to the areas identified as most in need of improvement by the best value review process.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.</li> </ul>
<p>There is a general lack of formal <u>scrutiny of performance</u> by members in relation to interim monitoring of service performance against plans. Whilst we are aware that the corporate plan action plan is monitored and reported to members bi-annually, effective scrutiny by members of council performance requires that they receive regular and detailed updates on council performance.</p>	<ul style="list-style-type: none"> <li>It is expected that the council will address this issue in response to the areas identified as most in need of improvement by the best value review process.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.</li> </ul>



Risk	Management assurances	Planned audit action
<p>Local authorities have a statutory duty to provide a range of information and advice to their communities, regarding the various services they provide.</p> <p>Recently internally conducted audits have identified <u>serious performance issues relating to the Citizens Advice Bureau</u> in terms of the assistance provided and poor value for money.</p>	<ul style="list-style-type: none"><li>• A policy development group has been set up to determine the scope and proposals of the service for the future.</li><li>• Revised business and improvement plans have been requested</li></ul>	<ul style="list-style-type: none"><li>• Review progress made by the council in addressing the issues identified</li></ul>

## Financial strategy and sustainability



There is a risk that the council is unable to afford future developments planned to improve council services due to issues such as meeting the demands of the equal pay legislation.

Risk	Management assurances	Planned audit action
<p>Argyll and Bute Council is the only council undertaking a schools PPP project using an NPDO model. Our letters of 16 June 2005, 25 July 2005 and 26 August 2005 confirm that the process followed to determine whether the body should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance (subject to certain reservations detailed in the letters). Financial close on nine of the schools was achieved on 9 September 2005, with further negotiation continuing on the other school.</p> <p>The council will require to prescribe adequate controls for monitoring service delivery, ensuring compliance with contractual commitments and managing any under performance by the supplier. In the absence of an effective contract monitoring system, there is a risk that the council will be unable to ensure that the provision of education facilities under the NPDO model is provided effectively and in accordance with contract conditions and standards.</p>	<ul style="list-style-type: none"> <li>• NPDO Working Group established to oversee process</li> <li>• Internal audit review</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>

Risk	Management assurances	Planned audit action
<p>The council is pursuing the option of transferring its housing stock to a community owned housing association. The transfer to Argyll Community Housing Association is expected to bring significant benefits in the form of refurbishment and upgrading of the existing stock. Following the successful tenants' ballot in December 2005, it is expected that a full transfer of the council's housing stock will take place towards autumn 2006. The council will require to adopt a clear corporate approach to manage the transfer process or there is a risk of the transfer failing or not being achieved on satisfactory terms.</p>	<ul style="list-style-type: none"> <li>The council is managing the housing stock transfer corporately. Decision making at member level involves the full council and the Ad-hoc Sub Committee on housing stock transfer. The council identified the need at an early date to set up a dedicated core project team which meets regularly to progress the project. Other staff from within the council support the implementation team as required.</li> </ul>	<ul style="list-style-type: none"> <li>Review of research analysis and data gathering, business planning and preparation, consultation with tenants and staff and negotiation with the landlord.</li> </ul>



Risk	Management assurances	Planned audit action
<p><u>Homelessness</u> applications have increased significantly in recent years and are continuing to do so, as a consequence of the provisions of the Housing (Scotland) Act 2001.</p> <p>There is a shortage of suitable accommodation and this has led to council house waiting lists being suspended. The council has also been forced increasingly to made significant use of short term, and expensive, bed and breakfast accommodation. As such there is a risk that the council may be failing to comply with the Homelessness Persons (unsuitable accommodation) Order 2004.</p> <p>There are also associated problems such as collecting rent when a homeless person is not entitled to housing benefit. Further the significant service cost element of rent charges, which is ineligible for recovery under the housing benefit scheme, is likely to place additional financial pressures on the council</p>	<ul style="list-style-type: none"> <li>The council has a Homelessness Strategy in place and are currently preparing a Temporary Accommodation Strategy to address the capacity problems caused by the lack of suitable short term accommodation</li> </ul>	<ul style="list-style-type: none"> <li>Track management assurances;</li> <li>Review longer term financial planning model as it is developed.</li> </ul>

Risk	Management assurances	Planned audit action
<p>For 2007/08, the council requires to identify cumulative savings of some £23m - £12.5m from draft 06/07 budget (pre-savings) and further savings of £10.5m to meet the 07/08 budget requirement.</p> <p>However the impact of the <u>significant funding gap</u> identified in 2007/08 has not been assessed at a service level. Accordingly, in the light of short term, financial settlements, there is a risk that medium to long term objectives are not sustainable.</p>	<ul style="list-style-type: none"> <li>As part of the 2006/07 budget process, all services submitted detailed proposals on how to achieve the £12.5m savings required to enable the council tax increase to be restricted to 2.5%. A longer term financial planning model will be developed as part of the project to align service and budget planning exercises and will be in place for the 2007/08 budget cycle.</li> </ul>	<ul style="list-style-type: none"> <li>Track management assurances;</li> <li>Review longer term financial planning model as it is developed.</li> </ul>
<p>The planned £4.3m equal pay settlement deal will impact heavily on the council's reserves. As well as using up all free uncommitted balances, there will be a requirement for the council to draw £0.5m from its 2% contingency balance.</p> <p>The actual take-up of the deal is not yet known. There is therefore a risk of an even greater impact on council reserves.</p>	<ul style="list-style-type: none"> <li>Update on actual take-up is expected to be reported to SMT/SPC once known.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor developments</li> </ul>

Risk	Management assurances	Planned audit action
<p>There is currently a varied approach to budgetary control throughout the council's service departments. There is therefore a risk that budgetary control could be weakened in the absence of appropriate skills, guidance and a consistent approach.</p>	<ul style="list-style-type: none"> <li>• Principles of Community Service budget monitoring to be rolled out to all services with training for budget holders.</li> <li>• Preliminary discussions have been held within the council relating to the implementation of a service wide consistent approach to budget setting and monitoring and also the provision of budget holder training. The overall objective is to roll out the approach currently adopted by Community Services. It is recognised, however, that there will be a need to take account of the different nature of the operations in each of the services. Therefore it is intended to implement key principles and guidelines rather than a rigid set of rules and procedures. No formal timescales have been allocated to this task however it is intended for an initial roll out during the 2005/06 financial year.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances;</li> <li>• Review improved budgetary control arrangements as they are implemented</li> <li>• External audit review of budgetary control arrangements 2005/06.</li> </ul>

Risk	Management assurances	Planned audit action
<p>As a means of ensuring that strategic property decisions are soundly based and in order to set or revise prudential indicators, authorities are required to have regard to <u>asset management planning</u> systems, which should be linked to both strategic and service level plans.</p> <p>The council is currently coordinating the development of a suitable system. However the project is in its early stages. Officers envisage that this will be a substantial task, given the absence of any such previous formal reviews. The review is anticipated to have significant implications for the capital programme, in terms of identifying additional projects and expenditure requirements.</p> <p>There is therefore a risk that the council's current system does not provide a framework for ascertaining the suitability, condition and maintenance cost of the assets.</p>	<p>The council have already included the following actions within their draft best value improvement plan</p> <ul style="list-style-type: none"> <li>• Need to review approach to monitoring capital plan to get more focus on projects rather than spending total budget.</li> <li>• Capital projects could be more robust with options appraisal.</li> <li>• Whole life assessment options being developed for major projects in line with prudential borrowing code and asset management processes.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances;</li> <li>• Review improved asset management planning arrangements as they are implemented.</li> </ul>

Risk	Management assurances	Planned audit action
<p>Capital expenditure for 2004/05 totalled £28.861 million against an approved budget of £37.627 million. The underspend arose due to slippage on a number of projects included in the programme; in particular Argyll Air Services, Bruichladdich Pier, Cuan Ferry Slipways, Campbeltown Community Project and Campbeltown New Quay. These five projects accounted for £10.5 million of the slippage.</p> <p>There is a risk that poor capital planning and monitoring can lead to delays in the completion of projects and policy objectives not being achieved.</p>	<ul style="list-style-type: none"> <li>• A revised process for monitoring the capital plan is in place. This monitors project progress, benefits and risks as well as financial outturn. A traffic light approach is adopted where “red” projects require a supplementary report to be made by the relevant head of service</li> <li>• Slippage will occur and the approach to monitoring should now identify that early care needs to be taken when considering action / alternative action to ensure it does not create resource / capacity problems, leading to increased costs and impacting adversely on other projects. In managing the overall capital plan the council needs to consider VFM as much as it does the timing of individual projects. External factors such as market capacity can have an effect on capital projects which the council cannot control.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>
<p>The current <u>maintenance backlog</u> on the council’s roads network has been evaluated as £38 million. The current allocation of funding through revenue and capital budgets is insufficient to meet this backlog. The risk exists that if the backlog is not tackled over a reasonable timescale, it will have a significant impact on users of the road network and on council finances.</p>	<ul style="list-style-type: none"> <li>• For 2005/06, the capital reconstruction budget is around £1.9 million and there is no allowance in the revenue budget for reconstruction work. The current estimate by the authority is that £9.5 million is required per annum for ten years and then £6.5 million thereafter.</li> <li>• The council has an asset management and planning system for roads that allows spending decisions to be prioritised.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor developments and report</li> </ul>

Risk	Management assurances	Planned audit action
<p>The Scottish Executive requires local authorities to produce schools estate management plans.</p> <p>The council's NPDO will not tackle a sizeable element of the school estate and some 82 (mainly primary) schools will still require extensive modernisation. The council has looked at a range of options for the non-NPDO schools although in reality there are only two options available. Either a major injection of capital takes place to rejuvenate the existing primary estate or a large-scale demand led modernisation of the primary estate is instigated. The total cost of modernising the whole of the council's school estate is estimated at £206.56m, made up of revised NPDO work of £75m with the balance of £131.56m for the remaining school estate. Based on retaining the existing number of buildings, the plan identifies <u>a funding gap of £102.3m</u> over 10 years after the NPDO work has been completed. The plan concludes that failure to address the issue now of massive over supply in the primary school estate will only lead to increasingly poorly maintained primary schools with very small school rolls.</p>	<ul style="list-style-type: none"> <li>Argyll and Bute Council's SEASMP was submitted to the Strategic Policy Committee of March 2005 and is designed to demonstrate the way forward for the school estate.</li> <li>The SEASMP outlines that the council is constrained in its achievements by the inadequacy of the physical environment of its school properties.</li> <li>The SEASMP also states that design defects and lack of provision for ongoing investment in the physical fabric of the schools has led to failure of major components and an ad-hoc, reactive approach to maintaining the school estate. However, the document also states that this plan, together with the NPDO will prove a starting point for the rectification of the situation.</li> </ul>	<p>Monitor developments and report</p>

Risk	Management assurances	Planned audit action
<p>Local residents rely heavily on ferry transport to the area's islands and peninsulas and there is a risk that if the <u>piers and harbours</u> sustainability issues are not tackled within a reasonable timescale, there could be a significant impact on users of the service and on council finances.</p>	<p>A report arising from a review of piers, harbours and ferries provision within Argyll and Bute was submitted to the Strategic Policy Committee on 5 May 2005. The main issues considered by the review were:</p> <ul style="list-style-type: none"> <li>• Appropriate maintenance and management techniques for piers and harbours and how the council can increase the income for future investment and maintenance work.</li> <li>• The provision of ferry services and the level to which the council should be involved in this service delivery.</li> </ul> <p>The report noted the need to reduce pier ownership and to consider opening council run ferry services to competitive tendering. The results of a subsequent consultation exercise are due to be considered soon.</p>	<ul style="list-style-type: none"> <li>• Monitor developments and report.</li> </ul>

## Workforce planning

People play the key role in delivery of high performing services and the council may not have the right skills, in the right place, at the right time. Underlying this is a risk that insufficient management information is available to allow joined up planning across the council. There are also risks over the ability of the council to retain and recruit staff in some specific areas.

Risk	Management assurances	Planned audit action
<p>The recently launched “Grow Your Own” scheme is designed to address the council’s difficulty in recruiting certain key skills and types of staff.</p> <p>At present, however, the scheme only involves two management trainees. There are plans to increase this number however there is a risk that the scheme will not address <u>workforce requirements in the longer term</u>.</p>	<ul style="list-style-type: none"> <li>The scheme is currently being extended to include various skilled trades</li> </ul>	<ul style="list-style-type: none"> <li>Track management assurances;</li> <li>Review improved recruitment procedures as they are implemented.</li> </ul>
<p>There is currently no central monitoring of the PDR process. Further the scheme has not yet been extended to manual workers.</p> <p>There is a risk that some reviews may not be of the required quality and may not be taken at all. As a result the training needs of certain staff may not be fully realised or met.</p>	<ul style="list-style-type: none"> <li>None as yet</li> </ul>	<ul style="list-style-type: none"> <li>No audit activity; reporting only</li> </ul>
<p>There has been little recent evidence of direct staff consultation. The last staff survey was undertaken in 2001.</p> <p>There is a risk that management may not be fully aware of the concerns of its workforce and may fail to realise problem areas</p>	<ul style="list-style-type: none"> <li>None as yet</li> </ul>	<ul style="list-style-type: none"> <li>No audit activity; reporting only</li> </ul>



Risk	Management assurances	Planned audit action
<p>Within the council, personnel management is heavily devolved to departments. Some services are clearly more inclined to implement specific policies than others. The lack of <u>corporate strategy</u> has led to services devising their own. For example Corporate Personnel is accredited under Investors in People (IIP), as are certain other services but there is no corporate policy on organisational accreditation or further roll-out.</p> <p>There is a risk that services may not be adhering to policies which are in the corporate interest.</p>	<ul style="list-style-type: none"> <li>• It is expected that the council will address this issue within the action plan it is preparing in response to the issues raised within the best value audit</li> </ul>	<ul style="list-style-type: none"> <li>• Follow-up the issues raised in the best value report and consider the implementation progress made in relation to the action plan once devised and approved.</li> </ul>
<p>For Corporate Personnel, the biggest challenge continues to be <u>preparation for single status</u>.</p> <p>In addition to the likelihood of incurring significant costs, there is a risk that the council may also require to make some potentially tough decisions in relation to existing terms &amp; conditions.</p>	<ul style="list-style-type: none"> <li>• Funding made available in future years budgets</li> <li>• Union negotiations ongoing</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor developments</li> </ul>

## Joint working and community planning

There is a risk that the council is not best positioned with its community partners to deliver the aims and objectives of community planning.

Risk	Management assurances	Planned audit action
<p>The impending dissolution of Argyll &amp; Clyde Health Board has caused some uncertainty for the council. A community health plan has not yet been agreed with Highland NHS. There is therefore a risk that a delay to the CHP holds up development of health initiatives and militates against achieving CP objectives.</p>	<ul style="list-style-type: none"> <li>• The council is in continuing discussions with partners</li> <li>• It was agreed at the recent joint futures seminar that the Strategy would be finalised and agreed by March 2006</li> <li>• Governance, standing orders, HR issues and accountability arrangements are currently being developed</li> <li>• Key improvement targets and outputs are also being devised</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor progress of Joint Futures Working Group and relevant committee reports made to the council</li> </ul>
<p>The community planning duties of the council have helped generate a complex network of relationships, projects and initiatives in partnership with other agencies. In this environment there are risks:</p> <ul style="list-style-type: none"> <li>• of <u>duplication and overload</u> for the organisations involved;</li> <li>• that the <u>organisational status</u> of the community planning partnership restricts its effectiveness, as it is unable to hold funds or make direct decisions over allocation of resources;</li> <li>• that <u>unclear accountabilities</u> may lead to underperformance;</li> <li>• that an early focus on structures and processes results in partners being unable to demonstrate sufficient progress in terms of <u>improved outcomes for service users</u></li> </ul>	<ul style="list-style-type: none"> <li>• Argyll and Bute Community Planning Partnership was established in 1999, and comprises the key providers of public services within the area and representatives from the local community.</li> <li>• The Community Plan identifies a number of priority themes and the CPP's Strategic Regeneration Objectives flow directly from these overall "priority themes" and are concerned with tackling disadvantage where it exists geographically and where it relates to particularly disadvantaged groups. There is a direct relationship between these strategic regeneration objectives and the Executive's National Priorities for Community Regeneration and the Closing the Opportunity Gap Objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances;</li> <li>• Audit Scotland national review of community planning partnerships (Winter 2005/06).</li> </ul>

Risk	Management assurances	Planned audit action
<p><u>improved outcomes</u> for service users.</p>	<ul style="list-style-type: none"> <li>• Agencies involved in the Community Planning Partnership are actively promoting collaboration as a way of ensuring effective integration and synergy based on the development of joint plans and strategies. It is anticipated that the delivery of the regeneration outcome agreement (ROA) will result in better value for money from spend by all partners as a result of economies of scale from a joint strategic approach.</li> <li>• The CPP has assisted the process of improving the strategic focus and targeting of services. A number of significant investments are underway which will impact significantly on the most deprived data zones over the lifetime of the ROA. The importance of the economic and social regeneration of communities is, for example, a key theme of Argyll and Bute Council's Corporate Plan</li> </ul>	

Risk	Management assurances	Planned audit action
<p>Progress has stalled on the development of the new CPP framework, in facilitating the integration of SIPs. There is an apparent lack of progress with the pilot project in the Bute &amp; Cowal area.</p> <p>There is a risk that the principles behind the Scottish Executive's Regeneration Statement and the Local Government Scotland Act may not be fully delivered</p>	<ul style="list-style-type: none"> <li>• The regeneration outcome agreement (ROA) for Argyll and Bute provides an outline of the overall approach that has been developed in relation to the integration of Social Inclusion Partnership (SIP) funding with the Better Neighbourhood Services Fund (BNSF) into the new Community Regeneration Fund (CRF).</li> <li>• The ROA builds on the progress that has been made within Argyll and Bute through the work of the SIP and BNSF. The approach also draws on the lessons and experience gained through the operation of the previous programmes, and provides a strategic and operational framework for the implementation of the CRF over the three-year period 2005 – 2008</li> <li>• The ROA sets out, for each of the CPP regeneration objectives, the key outcomes, associated indicators, target areas, target groups, baseline data and (for the target areas as a whole) final targets.</li> </ul>	<ul style="list-style-type: none"> <li>• Follow-up the issues raised in the best value report and consider the implementation progress made in relation to the action plan once devised and approved.</li> </ul>
<p>The objectives of the CPP are wide-ranging and do not appear specific enough Also, these objectives are not easily measurable via targets (i.e. they are not SMART). As a result it is difficult monitor performance or gauge success. There is a risk that the CPP may begin to lose it's momentum and direction.</p>	<ul style="list-style-type: none"> <li>• It is expected that the council will address this issue within the action plan it is preparing in response to the issues raised within the best value audit</li> </ul>	<ul style="list-style-type: none"> <li>• Follow-up the issues raised in the best value report and consider the implementation progress made in relation to the action plan once devised and approved.</li> </ul>

## Corporate governance and risk

There is a risk that the systems of internal control within the council do not adequately safeguard against future risks.

Risk	Management assurances	Planned audit action
<p><u>Risk management</u> is incomplete but developing within the authority. There remains a risk that the council and services are not fully identifying or controlling the risks related to their business and services</p>	<ul style="list-style-type: none"> <li>A strategic risk management group has been set up, which meets on a quarterly basis and is intended to support the development and implementation of corporate risk management. The group has met on a number of occasions undertaking an initial high level review of the strategic risk register. The group has also agreed a form of risk matrix and register and is examining the constitution of loss control groups within service areas. It is expected that the council will continue to address this issue in response to the areas identified as most in need of improvement by the best value review process.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.</li> </ul>
<p>There is a training budget available for members and general/ specific events are provided during the year. Members are also free to make specific requests as and when required. There is no formal proactive mechanism, however, which ensures that the exact training needs of a specific member are identified and addressed.</p> <p>There is therefore a risk that an individual member's specific training needs are not adequately assessed or realised.</p> <p>There is also a risk that training resources are not adequately utilised or focussed</p>	<ul style="list-style-type: none"> <li>None yet</li> </ul>	<ul style="list-style-type: none"> <li>No audit activity; for reporting only</li> </ul>

Risk	Management assurances	Planned audit action
<p>The council holds fixed assets worth approximately £358 million, mainly consisting of land and buildings. The council's asset management strategy, which provides an action plan and timetable for the integration of asset management into service planning and performance management, is being taken forward. There is a risk, however, that in the absence of a robust <u>asset management planning</u> process, capital investment decisions do not represent the best fit to corporate objectives</p>	<ul style="list-style-type: none"> <li>• Completeness checks and some property condition surveys are currently being undertaken across the council. Asset use and options appraisal will be considered once the completeness checks are finalised. Work has also been completed on the schools estate asset management plan and the roads maintenance and asset management plan and the council has assessed the level of backlog maintenance in both areas. It is expected that the council will continue address this issue in response to the areas identified as most in need of improvement by the best value review process.</li> </ul>	<ul style="list-style-type: none"> <li>• Review progress made by the council in addressing actions and targets arising from the best value improvement agenda.</li> </ul>
<p>The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for <u>significant trading operations</u>, which are required to break even over a three-year rolling period. There are risks that the council:</p> <ul style="list-style-type: none"> <li>• does not conduct operations of STOs to ensure break even;</li> <li>• fails to review its activities and the criteria used to identify STOs to reflect changing circumstances</li> <li>• processes internal recharges at the end of the year which are inconsistent with the concept of trading and do not represent proper accounting practice.</li> </ul>	<ul style="list-style-type: none"> <li>• The implementation of the action plan arising from the previous external audit report on STOs;</li> <li>• Continuing STO financial and performance monitoring arrangements</li> <li>• Review of charging basis for trading services carried out to ensure that all trading service recharges are on a trading basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances;</li> <li>• Follow-up of previous audit report.</li> </ul>

Risk	Management assurances	Planned audit action
<p>The costing system used within the Roads &amp; Lighting trading operation is outdated and there are concerns over the information provided. There is a risk that full costs are not identified by the system and that stock may be inappropriately valued.</p>	<ul style="list-style-type: none"> <li>• A working group has been set up to oversee the development of a revised costing system for use within the Roads &amp; Lighting Trading Account, with input from Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor progress and proposals made by the working group and provide advice as required</li> </ul>
<p>All local authorities are required to prepare full <u>group accounts</u> from 2005/06, including comparative figures for 2004/05. The quantity of arms length organisations, their relationships to the council and the variety in accounting practices and timetables currently operated are likely to present significant risks to the council's ability to comply.</p>	<ul style="list-style-type: none"> <li>• Review of the impact of group accounts requirements and early engagement with affected organisations.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances;</li> <li>• Review the council's progress in preparing for the introduction of group accounts.</li> </ul>

## Efficient government

There is a risk that the council are not in a position to be able to demonstrate that they can achieve savings which do not in any way adversely affect services to the public.

Risk	Management assurances	Planned audit action
<p>The council has gone some way towards meeting the £7.5m efficiency savings target set by the Scottish Executive. It has still, however, to identify how £2.5m of this will be achieved. In addition, the council has yet to demonstrate how its costings have been derived for the efficiency savings. There is therefore a risk that these savings may not be soundly based, and that the target may not be met.</p>	<ul style="list-style-type: none"> <li>• None yet</li> </ul>	<ul style="list-style-type: none"> <li>• No audit activity; for reporting only</li> </ul>
<p>The 5 key workstreams of efficient government (asset management, managing absence, procurement, shared services, and streamlining bureaucracy) have not been considered in a systematic manner over the council's services. Risks are that:</p> <ul style="list-style-type: none"> <li>• opportunities to gain efficiencies are not identified and acted upon in a systematic manner; and</li> <li>• Scottish Executive targets are not met</li> </ul>	<ul style="list-style-type: none"> <li>• None yet</li> </ul>	<ul style="list-style-type: none"> <li>• No audit activity; for reporting only</li> </ul>
<p>A benefits tracking system has not yet been developed by the council. The absence of such a system will prevent the council from substantiating any claimed efficiency savings.</p>	<ul style="list-style-type: none"> <li>• None yet.</li> </ul>	<ul style="list-style-type: none"> <li>• No audit activity; for reporting only</li> </ul>



# Reliance on internal audit

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Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our 2005/06 review of the internal audit service has concluded that, subject to certain resourcing issues, the council's internal audit service operates in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government*. We therefore plan to place reliance on the work of internal audit work in the following areas:

- Payroll
- Council tax and NDR
- Capital accounting
- Capital contracts
- Cash income and banking
- Payments to voluntary bodies
- Unified benefits
- Contract hire and operating leases
- Creditor payments and purchasing
- Debtor accounts
- Housing rents
- General ledger operations
- Government & European grants
- Treasury management
- Tendering procedures

We expand on specific aspects of reliance on internal audit within our *Financial Statements Strategy* which will be submitted to the council during March 2006.



# Audit team

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Summarised information for each core team member is set out below:

Name	Summary
Gavin Stevenson Director of Local Government	CPFA 17 years experience of the public sector
Angela Cassels Assistant Director of Audit	BA (Hons), Post-graduate Diploma in Professional Accountancy, CPFA . 16 years experience of local government audit.
David Jamieson Senior Audit Manager and lead contact	CPFA 22 years experience of public sector audit.
Ian Bell Senior Auditor	BA CPFA 9 years experience of local government
Laurence Slavin Auditor	MA (Joint Hons) QICA CISA 8 years auditing experience
Jim Cumming ICT Senior Auditor	BSc CEng MBCS CITP