

**REPORT RE FIRST YEAR OF THE RENEWED PARTNERSHIP AGREEMENT
WITH KPMG AND PROPOSALS FOR THE SECOND YEAR**

1. SUMMARY

This report details the progress of the internal audit partnering agreement in its first year of operation and explains KPMG's proposals for the forthcoming year.

2. RECOMMENDATIONS

2.1 That this committee notes the progress of the agreement in its first year and approves the proposals for the forthcoming year.

3. DETAILS

3.1 The Council entered into a three partnership agreement with KPMG for the years 2002-2005 to assist with internal audit arrangements with the specific objective: "In any follow-up review of internal audit functions at Scottish Local Authorities by Audit Scotland, that of Argyll and Bute will be classed as amongst the best." This objective was achieved. After a tender exercise KPMG was awarded a follow on contract for the period 2005-2008 with fewer days being required. KPMG now provide 28 days audit advice and management support and 25 days Information Technology audit input.

3.2 The objective of the partnering arrangement is:

- To consolidate and build upon the improvements made in the operation of the internal audit function at the Council; and
- To provide specialist IT audit resource with an added remit to transfer skills in this area to a member of Argyll and Bute audit staff.

3.3 In 2005-2006 KPMG undertook the following work:

- Advice regarding the role and stakeholder expectations of internal audit in a Scottish Local Authority;
- Training sessions to both elected members and members of staff on governance and audit issues;
- Attendance at Audit Committees;
- Assistance and advice about the development of a new risk based three year internal audit strategy;
- Undertook a review of budgetary control arrangements at the Council;
- Undertook a file review to provide an opinion on compliance with professional standards of file keeping and working papers;

- Miscellaneous ad hoc advice to audit management as required; and
- An IT security control review, including “penetration testing”, alongside a nominated member of Argyll and Bute audit staff to facilitate skill transfer.

3.4 KPMG propose the following activities for the second year of the partnership agreement:

- Management and professional support – focusing this year on the role of internal audit in relation to the Council’s duty of Best Value;
- Formal and informal training (both to the elected members and staff as required);
- Direct audit time where KPMG’s wider experience of local authority issues adds value;
- Audit Committee attendance;
- Meetings/relationship management and audit functioning (in particular continuing reviews of compliance with good practice and guidance and continuous improvement); and
- IT audit alongside a nominated member of staff. This year we propose to look at the operation of two key computer applications – the finance ledger and the council tax system.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Steve Keightley
 Partnership Manager
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