

**PROGRESS REPORT on EXTERNAL AUDIT REPORTS TO COUNCIL FROM
1999/00 TO PRESENT**

1. SUMMARY

Internal Audit has produced a list of all external audit management letters received from 1999 – 2000 to the present. (See Appendix 1). A review regarding the progress made by management in the implementation of external audit recommendations with regard to these external management letters from PricewaterhouseCoopers (PwC) has been performed the results of which are detailed below.

2. RECOMMENDATIONS

2.1 The contents of this report are to be noted and followed up by Internal Audit.

3. DETAILS

3.1 Appendix 1, details the reports that have been received by the Council from PwC and more recently Audit Scotland.

3.2 In the previous report to audit committee of May 2002 it was reported that there were 4 remaining action points still to be implemented from the original 22 detailed in the Interim Management Letter for 2000 - 2001. A review by Internal Audit as at the 20th June 2002 indicates that 3 action points remain ongoing. (See Appendix 2).

3.3 In May 2002 it was reported to the committee that 9 recommendations remained ongoing from the original 41 outlined by PwC in their Second Interim Management Letter for 2000 – 2001. The Information Technology Department has made steady progress in the implementation of external audit recommendations however they have suffered from insufficient staffing as a result the level of anticipated progress has not been achieved. As at the 20th June 2002 there are still 9 points, which remain ongoing. (See Appendix 3).

3.4 It was reported to committee in May 2002 that audit follow-up had been performed on the Draft Audit Management Letter 2000 - 2001 this established that 9 of 15 recommendations had been implemented. As of the 20th June 2002 only 3 remain ongoing. (See Appendix 4).

3.5 With regard to the above management letters, Internal Audit has accepted management assurances that implementation has taken place.

3.6 No testing has yet been performed on the Systems Audit Management Letter 2000 – 2001 for the Housing & Council Tax Benefit System nor the Management Report produced by Audit Scotland Regularity and Governance as they have both just recently been finalised and returned to PwC & Audit Scotland. However, testing of all these action points will be performed as part of the new 3-year audit

plan.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit as part of the 2002 – 2003 audit plan. Those action points remaining to be implemented have been circulated to the appropriate Directors with management comments on progress to date appended.

5. IMPLICATIONS

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

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APPENDIX 2

ARGYLL & BUTE COUNCIL

INTERIM MANAGEMENT LETTER 2000/01

SEPTEMBER 2001 (Updated 20 June 2002)



DETAILED RECOMMENDATIONS

Findings	Recommendation	Management Comment	Responsible Officer	Update as at 08/10/01	Update as at 18/03/02	Update as at 20/06/02
<p>2.0 2</p> <p>Education budget has not been appropriately phased</p> <p>Our review of the Education monthly budget monitoring reports highlighted that a number of material variance had arisen because the budget had not been phased appropriately throughout the year.</p> <p>The budget does not therefore reflect the income and expenditure fluctuations throughout the year. This increases the complexity of departmental monitoring and variance reporting and carries a risk of misinterpretation.</p>	<p>The department should review income and expenditure patterns across the major lines of service to ensure that effective profiling of budgets can be carried out to provide a realistic reflection of departmental income and expenditure activity.</p>	<p>Finance and Education staff have undertaken a major exercise jointly. The cause of many of the phasing issues had been the expansion of new projects within the Excellence Fund and the provision of funding direct to Head teachers.</p> <p>Considerable scope existed for budget holders to decide upon the spend, eg, staffing, materials or repairs. In addition, some projects required consultation with partners before plans were implemented. As the programmes become more stable, the issue will diminish. Finally, a review will be undertaken on the timing of the invoices from other departments of the Council.</p>	<p>Joseph McGeer (Now the responsibility of the Finance Team, Dunoon and future reports will reflect this)</p>	<p>Ongoing</p>	<p>Ongoing In process, but Director of Finance is directly responsible</p>	<p>An action plan has been prepared to address the improvements required in financial control within Education. This is a much wider issue than that identified by PWC. The action plan is currently being progressed by an augmented finance team for Education. A monitoring group of members and senior officials has been established to review progress against the action plan. The Group is reporting progress to the Strategic Policy Committee. The action plan continues until March 2003.</p>
<p>3.0 3</p> <p>No Monitoring Controls over DES Stock</p> <p>Insufficient monitoring controls exist over stock</p>	<p>A comprehensive stock recording and</p>	<p>The statement at 3.03 does not accurately reflect the Stock</p>	<p>Andrew Law, Head of</p>	<p>Ongoing</p>	<p>31 March 2002</p>	<p>There is a system in place and it was done by</p>

September 2001

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Findings	Recommendation	Management Comment	Responsible Officer	Update as at 08/10/01	Update as at 18/03/02	Update as at 20/06/02
<p>held by the Development and Environmental Services Department. This includes Departmental and DSO stores for Leisure Management, Ground Maintenance and Refuse Collection/Street Sweeping. No stock systems are maintained, other than informal local records. Two stores in Helensburgh were identified by Internal Audit in February 2001 as having no stock records at all.</p> <p>The absence of such controls over the stock cycle increase the risk of undetected misappropriation of items in stores, material errors or misstatements in the stock balance.</p>	<p>monitoring system should be introduced in the Development and Environmental Services Department, with regular stock counts taking place.</p> <p>Stores staff should be fully trained in the procedures for ordering, receiving and issuing of stock. This should help to ensure that these new procedures are properly implemented and operated correctly.</p>	<p>Report, to quote the Report : "Oban Millpark Depot where both Grounds Maintenance and Waste Management Stores are located, practices were found to be good in that an accurate record keeping system had been put in place by store staff. The system provides reliable stock records and valuable management information." In addition, no visits were made to Leisure Management facilities and yet 3.03 refers to Leisure Management. However, management welcomed the Stock Report as it highlighted several areas where substantial improvement was needed. Helensburgh stores were found not to be operating any stock system at all. Kilnory and Campbeltown stores were found to lack accurate records due to poor record keeping. Two key recommendations were agreed: 1. That the computerised stock system operating successfully in Oban should be modified to be used throughout all Amenity Services depots;</p>	<p>Amenity Services</p>		<p>All stores should have system as of End April 2002</p>	<p>31/3/2002 for each area. This allowed end year figures to be produced and data fed into computer system at Kilnory as base point for the start of 2002/03 figures. This computerised system would have been rolled out to all areas by now, but for the recall from secondment of the officer dealing with its implementation to another function within DES because of an emergency situation. However this now resolved and member of staff returns on 1st July, at which time her priority will be to put in place the system in its computerised form to all depots.</p>

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<p>5.0 1</p> <p>No list of authorised signatories</p> <p>When area office administration staff are authorising changes to the debtors accounts, there is a requirement to sign a cover sheet which includes:</p> <ul style="list-style-type: none"> • the debtors details; • the person keying in the information; and • the officer who has verified that action. <p>However, we noted that no list of authorised signatories for administrative staff exists.</p> <p>We were advised that this</p>	<p>An authorised signatory list should be kept of administrative officers who may authorise charges to debtor's accounts.</p>	<p>2. That a stock review is carried out with procedural guidelines issued to all stores.</p> <p>This programme has already commenced and a revised Oban based system is currently being installed in the Kilmory depot as the first stage of extending this system to all other Amenity Services stores.</p>	<p>M McFarlane</p>	<p>Ongoing</p>	<p>Ongoing</p>	<p>There will be a request to all Directors to provide updated signatory lists by 30/09/02.</p>

Findings	Recommendation	Management Comment	Responsible Officer	Update as at 08/10/01	Update as at 18/03/02	Update as at 20/06/02
<p>has arisen as finance staff know all the administration officers who may authorise charges, and where there is a doubt, clarification is sought by telephone. However, there is a risk that new staff starting in the office might not be familiar with these signatures and it also not possible for audit staff to confirm that signatures are as stated.</p>						

ARGYLL & BUTE COUNCIL

SECOND INTERIM MANAGEMENT LETTER 2000/01

JULY 2001 (Updated 20 June 2002)

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01	Update as at 30/04/02	Management Comment	Update as at 20/06/02
Escrow agreements should be obtained for all specialised major applications.	K. Duncan	End July 2001 End September 2001	Ongoing Ongoing	Complete End July 2002	<ul style="list-style-type: none"> • 95% in place • NDR escrow to be reviewed but understood to be in place • Oracle escrow agreement statement awaited for all users. 	95% complete
A procedure for ensuring that user documentation is updated should be implemented and maintained on a regular basis.	A.Allen & D.Bailey	26 th October 2001	Ongoing	Completed in 4 to 5 weeks Ongoing	This is currently being tested	Hoping to start using by 30/06/02
A formal change control procedures should be adopted and adhered to for all system changes.	A.Allen	End October 2001	Ongoing	Completed in 4 to 5 weeks Ongoing	This is currently being tested	Hoping to start using by 30/06/02
<p>A review of controls over dial-up access should be undertaken and improvements made. Examples are:</p> <ul style="list-style-type: none"> • Third party vendors could have a bank of modems, which would only be switched on after a formal request for access. • Dial-in passwords could be alphanumeric, changed on a regular basis and not be 	A. Connolly	End December 2001	Ongoing.	Ongoing Technical difficulties still to resolve. Time allocated to the project.	Time has been spent on this without success. IT may be looking for alternative solutions if present solution is not successful.	Still trying for 30/06/02

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01	Update as at 30/04/02	Management Comment	Update as at 20/06/02
<p>recorded by the administrator of these accounts.</p> <ul style="list-style-type: none"> • Restrictions on the use of dial up networking should be included within third party contracts and all dial-in requests should be formally recorded. • Dial-up access could be monitored and failed login attempts formally recorded and investigated. <p>Users should be reminded of the importance of enabling the pin number on their Nokia mobile phones.</p>	K.Duncan	Stage 3 & 4 : End December 2001 Stage 5 : End March 2002	Ongoing Ongoing	Stage 1 & 2 End May 2002 Stage 3 End July 2002 Stage 4 End August 2002 Stage 5 End December 2002	No admin support. Recruiting 22 July 2002	Tasks to begin 22/07/2002
<p>Service Level Agreements and maintenance contracts held with third parties should be updated on an on-going basis, have a confidentially clause, and where relevant contain a clause regarding external dial-up.</p>						

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01	Update as at 30/04/02	Management Comment	Update as at 20/06/02
In order to increase system resilience it is recommended that a contingency and scenario planning exercise be undertaken. This should enable a full risk assessment to be made and a detailed disaster recovery plan to be developed. This plan should then be tested and updated on an ongoing basis.	G. Wilson	End October 2001	Ongoing	Ongoing	This is a much wider issue than that identified by PWC. The outline of the main elements of such a plan has been drawn up.	Ongoing
It is recognised that current system reporting tools are limited; we recommend that attempts to proactively track the adequacy of system and network resources be undertaken on a regular basis.	A.Allen & A Connolly	End September 2001	End October 2001	Ongoing	Developing systems to monitor database and application performance. Some tools have been introduced and investigating other areas. (Resources issue)	Hope to start by 31/08/02
Formal key performance indicators for the IT department should be established and reported to management on a regular basis.	G.Boyd	End September 2001 End December 2001	Ongoing Ongoing	Ongoing	No formal statutory requirement for IT to have performance indicators, however steps are being taken by the IT department to set up their own indicators.	Ongoing
Controls over the Council network should be strengthened.	A.Connolly	End October 2001 April 2001	Ongoing	30 th June 2002	A procedure will be developed to ensure that all changes to the network are properly approved. Major changes	30/09/02 No progress made

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

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				30 th June 2002	<p>Router configuration sheets have been updated. There is a new manager in the Telecomms team and he has been made aware of the importance of maintaining this information and is investigating ways of storing this information electronically without losing the tracking capability of the manual system.</p>	<p>30/09/02 Resource issue: conflict with other requirements</p>
				30 th June	<p>A new version of I-Gear is being introduced and it will have FTP filtering. An alternate solution is currently being developed, a new server has been delivered on 17 June 2002 and to be installed to control FTP access.</p>	<p>30/06/2002</p>
					<p>A formal procedure for backup has been formalised. It manually check backups have been successful and that</p>	<p>31/08/02 due to resource</p>

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

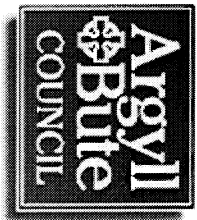
Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01	Update as at 30/04/02	Management Comment	Update as at 20/06/02
					tapes are loaded on each server. This process is being automated with failures being notified by email.	issues.

APPENDIX 4

ARGYLL & BUTE COUNCIL

AUDIT MANAGEMENT LETTER 2000/01

7 JANUARY 2002 (Updated 20 June 2002)



DETAILED RECOMMENDATIONS

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at
<p>8.01</p> <p>Performance Indicators – supporting information</p> <p>As part of our audit we undertake work on the Statutory Performance Indicators (“PIs”) produced by the Council. From this work we noted that there were a number of problems within the systems used for recording the information from which the PIs are produced.</p> <p>We could not place reliance on the information provided and had to grade 11 out of 65 PIs as an “X” where the reliability of the data was questionable.</p>	<p>The supporting information for the PIs should be recorded and reported throughout the financial year.</p> <p>Best practice would suggest that performance measures should be reported to the Council on a quarterly basis as these provide useful information as to how Council departments are performing. This would enable the Council to take corrective action if required.</p>	<p>Management is aware of this issue. Procedures currently under review.</p> <p>Management is aware of this issue. A report on remedies for some of the underlying difficulties is before the Management Team for consideration.</p>	<p>All Directors</p> <p>Alasdair Bovaird</p>	<p>Partially Completed</p> <p>Ongoing</p>	<p>Partially Completed</p> <p>Has started. First round of quarterly reports to go to Management Team on 26 August 2002.</p>

9.01

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at
<p>Partial Exemption</p> <p>The Council has a VAT partial exemption de-minimus level of 5%. At the time of our visit, we noted that the Council had not undertaken a partial exemption calculation for either the 1999/2000 or 2000/2001 financial years, although we were advised that their VAT advisers were currently working on the 1999/2000 calculation.</p> <p>In the absence of any partial exemption calculations for either 1999/2000 or 2000/2001 we are unable to comment as to whether the Council has remained within its 5% de minimus limit. It should be noted that if the Council were to exceed its 5% limit, the VAT cost to it would be in excess of £340,000 per year (based on 5% of the input tax declared on the VAT returns submitted for 2000/2001.</p>	<p>The Council should review the current procedure for calculation of its partial exemption position such that this is undertaken on a timely basis.</p>	<p>The Council is going to review the contract for external consultancy for both partial exemption and advice support. It is the intention to carry out a tendering exercise early in 2002. It is still the intention to retender for this service in 2002</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Ongoing</p>

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at
<p>Detailed Review of March 2001 VAT return</p> <p>The Council currently completes a VAT return to Customs and Excise on a monthly basis. The reconciliation of the return to the financial ledger includes a number of manual adjustments to reflect the council's operations.</p>	<p>Consideration should be given to agreeing an input tax estimate with Customs to allow for any VAT on expenditure invoices dated within the VAT return period that have not been processed by the period end. On the basis that the average delay in processing invoices is 30 days, a one off advance VAT payment of around £565,000 could be obtained. The cashflow benefit in respect of such an advance would be approximately £33,800 per year (based on interest rates at 6%).</p>	<p>Excise to identify an input tax estimate for submission and agreement with customs and excise will be carried out. Although it will depend on the availability of staff and external consultants.</p> <p>We have had preliminary discussions with KPMG (VAT advisors) and we will look at this once the annual accounts have been prepared.</p>	<p>T Armour / B West</p>	<p>Ongoing</p>	<p>Ongoing</p>