



Argyll and Bute Council

Interim Management Report

28 August 2008

DRAFT

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Executive Summary

Introduction

The Council is required to have arrangements in place for ensuring propriety, regularity and Best Value in the stewardship of public funds. It is the responsibility of management to ensure that adequate internal controls are in place which:

- ensure that resources are applied to the activities intended;
- deter fraud and irregularity; and
- ensure the most effective use of resources.

As part of our 2007-08 audit, we have reviewed the adequacy of the Council's internal control framework in the following areas:

- financial management and budgetary control;
- audit committee arrangements; and
- participation in the National Fraud Initiative exercise.

Key Findings

Financial management and budgetary control

The Council has generally good arrangements for financial management and budgetary control and has improved its arrangements for linking corporate priorities into the budget setting process. The linkage between budget setting and corporate priorities is being addressed by the Council, but there remains scope for further transparency in this area.

The Council will continue to face financial pressures over the next three years, and currently anticipates that the level of unearmarked reserves will fall below the target of 1.5% of net operating expenditure by the end of the 2008-09 financial year. The Council's earmarked reserves of £21 million remain healthy, however, the reduction in available un-earmarked reserves presents a risk to the achievement of overall corporate objectives.

More generally, there is scope for greater transparency in the plans the Council has to apply all earmarked reserves, including those currently earmarked within departmental budgets.

The Council has produced an Efficiency Savings Plan to identify ways to achieve the Scottish Government's target of 2% efficiency gains per annum over the next three years, but does not yet have the performance systems in place to measure outputs and outcomes to support the measurement of efficiency.

Audit Committee arrangements

Our review found that the audit committee operates effectively and complies with the majority of good practice principles outlined in the CIPFA guidance. In particular, the approach adopted by the Council to appoint non-executives as chair and vice chair of the

audit committee goes beyond good practice, and significantly improves overall governance and scrutiny within the Council.

We identified some areas where overall audit committee arrangements could be improved further to fully comply with good practices principles, including:

- reviewing and updating the committee's terms of reference to ensure it incorporates all the areas recommended by CIPFA; and
- establishing a formal training programme for committee members.

We also note that one member of the audit committee is also a Deputy Spokesperson. The audit committee's existing terms of reference currently preclude the appointment of Spokespersons to avoid the potential for conflicts of interest to emerge in the exercise of scrutiny functions.

National Fraud Initiative

The Council participates in the National Fraud Initiative (NFI) Exercise, but has identified only a small amount of housing benefit fraud following its 2006-07 review. We found a number of areas for improvement in the Council's arrangements for participating in the NFI exercise, in particular the need for improved documentation of progress monitoring, investigation and closure of case matches.

Way Forward

The findings and recommendations from our review are summarised in an Action Plan (Appendix A) which accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of management to decide the extent of the internal control system appropriate to the Council.

About this report

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on.

Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in this review for their assistance and co-operation.

Grant Thornton UK LLP
28 August 2008

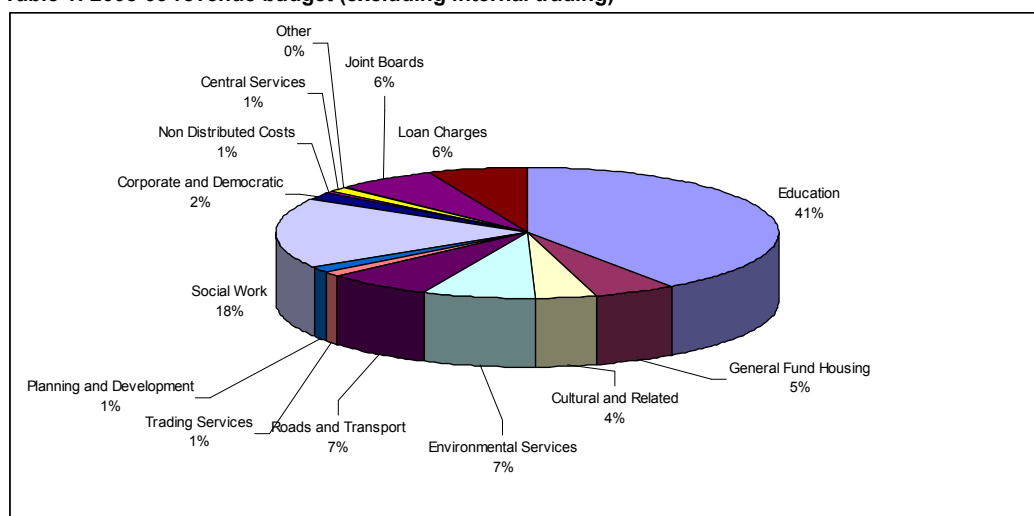
1 Financial management and budgetary control

1.1 Background

1.1.1 In February 2008, the Council approved its first three year budget plan for the period to 2010-11. This marks a significant change in the Council's approach to financial management and budgetary control, and matches the introduction of the new three year funding settlement with the Scottish Government for local authorities.

1.1.2 For the year ending 31 March 2009, the Council plans to spend some £252 million on providing services, with education services accounting for the significant majority of planned expenditure in line with Council priorities. Effective financial management and budgetary control arrangements are therefore essential for the proper stewardship of the Council's resources. Table 1 below provides a more detailed breakdown of the 2008-09 budget across services, excluding the effects of internal trading.

Table 1: 2008-09 revenue budget (excluding internal trading)



Source: Argyll and Bute Council

1.1.3 Our review assessed the adequacy of the Councils' financial management and budgetary control arrangements covering:

- the budget setting process;
- the process for monitoring and reporting budget variances;
- procedures for authorising and processing budget virements;
- the reserves policy; and
- arrangements for meeting the Scottish Government's efficiency savings target of 2% per annum.

1.2 Budget setting process

1.2.1 In our 2006-07 audit, we noted that the Council prepared the budget on a largely historical basis rather than on a more fundamental zero based budgeting approach. The traditional budget setting approach does not always ensure that resources are targeted to the Council's corporate priorities and objectives.

1.2.2 Since our last review, there have been significant changes in the Council's approach to setting the budget. The main changes reflect the need to re-align the Council's budget to meet the aims of the Concordat between the Scottish Government and local government, including:

- a funding settlement based over the three years to 2010-11;
- freezing of Council Tax at 2007-08 levels;
- the development of a Single Outcome Agreement to link national policy priorities and targets with local priorities and circumstances;
- reduction in the ring-fencing of resources; and
- the requirement to meet an efficiency savings target of 2% per annum.

1.2.3 The Council has responded by developing a financial strategy which seeks to provide a more transparent link between the revenue budget and corporate objectives. As part of the budget process, the Council allocated free funding of £1 million to priority areas of roads and services for older people. The Council has also carried out a "golden thread" review to monitor how it is progressing with matching objectives with financial resources. This review concluded that there was a good linkage between budgets and corporate priorities, although the review also identified some corporate priority areas that did not yet seem to receive budget priority. The Council is moving towards making the linkage between corporate priorities and budget setting, however there is scope to make this more transparent.

Action Plan Point 1

1.3 Budget monitoring

1.3.1 Regular and robust budget monitoring is required in order for the Council to maintain effective budgetary control throughout the year. The Council prepares two main types of budget monitoring reports:

- monthly budget monitoring reports for each budget holder;
- monthly budget monitoring reports for SMT; and
- quarterly budget reports for the Executive.

1.3.2 The budget monitoring reports are clear and concise, and provide budget holders and members with the necessary level of information to understand the financial position. Projected year end outturn figures are produced for each monthly budget monitoring report and the quarterly report to the Executive.

1.3.3 However, budget reports continue to be produced on a cash basis, and many of the identified variances are noted as "profiling issues". Thus, reports may not fully reflect the

Council's financial position at the report date, or be fully effective in highlighting potential budget variances sufficiently early in the financial year for corrective action to be taken. The Council should consider producing an accruals based budget report to report more accurately on the financial position at the report date.

Action Plan Point 2

1.4 Budget virements

1.4.1 The policies and procedures for processing budget virements (transfers of budget authorisation between linked budget groupings) are set out in the Financial and Security Regulations. These regulations require that:

- all virements above £25,000 are agreed by the relevant service Director, and notified to the Head of Strategic Finance; and
- for virements above £100,000, there must be advance consultation with the Chair and Vice Chair of the Executive, and all virements above £200,000 require specific Executive approval.

1.4.2 The Council's financial and security regulations require budget virements to be notified to the Head of Strategic Finance. We reviewed a sample of twenty budget virements processed during the 2007-08 financial year, and found that only three (15% of our sample) had evidence that the correct notification procedures had been followed. This increases the risk that budget virements are being processed without the necessary level of senior management scrutiny.

Action plan point 3

1.5 Reserves

1.5.1 For the year ending 31 March 2007, the Council had a total general fund reserve balance of £24.8 million, of which £20.5 million was earmarked for specific purposes, and £4.3 million was unearmarked. Table 1 shows the breakdown of the main general fund balances at 31 March 2007.

Table 1: General Fund balances as at 31 March 2007

	31 March 2007
	£'000s
Total General Fund	24,798
<i>of which</i>	
Earmarked:	
Smoothing Funds	6,587
Social Housing	3,173
Grant Income carried forward	3,918
Budget carried forward	4,843
Funding committed to 2007-08	2,026
Total Earmarked	20,547
Un-earmarked	4,251

Source: Argyll and Bute Council

1.5.2 In our 2006-07 audit, we noted that the Council's arrangements for reserves were prudent, but more could be done to better identify how the Council proposes to apply some earmarked balances. The Council has responded by producing a new reserves policy, as part of the three year budget setting process.

1.5.3 The Council has analysed the earmarked portion of the reserves and developed budget expectations for specific reserve balances, including:

- the Waste Management PPP Smoothing Fund balance is expected to increase to £9.5 million;
- a balance held for social housing projects to be funded by income generated from council tax levied on second homes; and
- a target to ensure that balances relating to unspent grants and contributions do not exceed 1% of expenditure (current position is 1.8%) in any year.

1.5.4 We note that the level of earmarked reserves for social housing projects continues to rise each year from the accumulation of council tax receipts on second homes (approximately £1.7 million per year). The reserve will be used to fund projects based on the conditions set out in the Strategic Housing Fund and Landbank policy. The Council has provisionally allocated £0.642m in support of 2 projects.

Action plan point 4

1.5.5 The Council currently enables departments to carry forward unspent budget provision between years. In 2007-08, the total value of this element of reserves had risen to £6 million. Only funds set aside for specific purposes should be earmarked. A full review of the earmarked general fund balance is carried out on an annual basis, and departments are asked to provide explanations for balances carried forward. However, the Council should ensure departments are sufficiently challenged in how they intend to utilise unspent budget provisions as part of the budget process.

Action plan point 5

1.5.6 The Council is required to hold reserve balances to meet contingencies and respond to unforeseen events. It is important that the Council hold adequate reserves of this type to manage the impact such events can have on the ongoing operations of the Council.

1.5.7 The Council currently plans to reduce the target level of unearmarked reserves from 1.9% to 1.5% of net operating expenditure for 2008-09. Current forecasts indicate that this revised target may not be met in the 2008-09 financial year due to a transfer from general fund reserves to balance the budget for that year.

1.5.8 The revised target for unearmarked reserves has been calculated to reflect available funds as part of the budget setting process and a partly risk based assessment of the reserves balance required to be held to meet contingencies and respond to effectively to unforeseen events.

Action plan point 6

1.6 Efficiency savings

1.6.1 The Scottish Government has set local authorities an efficiency savings target of 2% per annum for the 3 year period beginning 2008-09. This is a challenging target for the Council and will require savings of approximately £2 million to be identified. Under the Concordat, the Council will be able to retain savings to meet its own priorities.

1.6.2 The Council has prepared an Efficiency Savings Plan to address how it intends to meet the Scottish Government's target. A Strategic Board for Performance Improvement will oversee the monitoring of the target. The Council has identified the following five themes where efficiency savings can be obtained:

1. Asset Management
2. Absence Management
3. Procurement
4. Shared Services; and
5. Streamlining Bureaucracy

1.6.3 The Council has not yet set out how it will measure and report efficiency savings generated from the plan and performance systems are not yet in place to measure outputs and outcomes to support the measurement of efficiency. In addition, efficiency savings targets are not yet linked to corporate priorities and incorporated within the budget setting process and this may not provide sufficient challenge to Council departments to achieve planned savings.

Action plan points 7 and 8

2 Audit Committee arrangements

2.1 Background

2.1.1 To assist audit committees in local government in effectively discharging their functions, CIPFA issued guidance in 2004 *Audit committee principles in local authorities in Scotland: a guidance note*. This outlines the principles audit committees should adopt in addressing their functions across the following key areas:

- the role and remit of the audit committee;
- audit committee membership, induction and training;
- audit committee meetings;
- arrangements to monitor the systems of internal control;
- arrangements for financial reporting and regulatory matters; and
- establishing relationships with internal and external audit.

2.1.2 As part of our review we have evaluated the extent to which the Council's audit committee arrangements meet the principles set out in the CIPFA guidance.

2.2 Role and Remit

Terms of Reference

2.2.1 The audit committee requires formal terms of reference that set out its core functions. The terms of reference should be approved by the Council and reviewed on an annual basis. Terms of reference for the audit committee were agreed at the Council's meeting on 17 May 2007 and cover the following duties:

- promote internal controls, financial risk and governance;
- develop an anti-fraud culture;
- promote good practice;
- agree internal audit strategy and plans;
- receive external audit strategy and plans, and review external audit reports;
- review financial performance and to report on the internal control environment; and
- exercise a governance role over management.

2.2.2 Our review found that while the current terms of reference meet many of the best practice principles included in the CIPFA guidance, further improvements could be made by incorporating sections on:

- the committee's responsibility to review the annual accounts process and review the accounts on behalf of the Council;
- the rights of the Committee to call any officer to account for their actions during the year;

- the role of the committee in the formal establishment of internal audit - including rights of access to the chair by the Head of Internal Audit;
- the requirement for the committee to consider the annual internal audit report and annual governance statement;
- the frequency of meetings and required quorum arrangements; and
- training arrangements for committee members.

Action plan points 9

Annual Report

2.2.3 The audit committee should also prepare an annual report to the Council, which sets out the committee's work and performance during the year. The report should include confirmation that the system of risk management in the authority is adequate in identifying all relevant risks and allowing the authority to understand the appropriate management of those risks; and confirmation that there are no areas of significant duplication or omission in the systems of governance in the authority that have come to the committee's attention and not been adequately resolved.

2.2.4 We noted that the audit committee did not produce an annual report for the 2006-07 financial year, but has produced one for 2007-08. For 2008-09, the report should also provide a self review of the audit committee's performance over the financial year. CIPFA have produced a template to assist audit committees in performing their self review.

Action plan point 10

2.3 Membership, induction and training

Chair

2.3.1 A key feature of a successful audit committee is the appointment of a strong chair, with relevant skills and depth of interest in local government. It is also essential that the chair is apolitical, and CIPFA guidance recommends that the chair should not be a member of the executive.

2.3.2 The current chair of the audit committee, is not an elected member and has significant commercial experience. In our view, the additional independence provided by this arrangement goes beyond the minimum good practice requirement and improves overall scrutiny and governance within the Council.

Membership

2.3.3 The current audit committee is comprised of seven members with five Councillor members (three members from the Coalition group, and two others), and two non-Councillor members. The terms of reference state that none of the Councillor members of the committee should be a Spokesperson, Deputy Spokesperson or Member of the Executive.

2.3.4 However, we noted that one member of the audit committee is also a Deputy Spokesperson and this may limit the effectiveness of overall scrutiny within the committee.

Action plan point 11

Induction and training

2.3.5 It is essential that tailored induction and training is provided to audit committee members, covering the diverse topics and subjects that are included within the committee's remit.

2.3.5 We noted that members received an extensive induction programme following the 2007 elections, and this covered key areas relevant to the audit committee, including finance and accountancy, internal and external audit and risk management.

2.3.6 However, there is no formal training programme specifically tailored to the role of audit committee members and this may limit the continued effectiveness of scrutiny going forward.

Action plan point 12

2.4 Meetings

2.4.1 The audit committee meets four times per year, and as far as possible, the timing of meetings is scheduled to meet the business and governance needs of the Council, including receipt of the external audit plan and annual reports.

2.4.2 From our attendance at audit committee meetings over the past 18 months, we note that:

- an agenda is produced and distributed with relevant papers in advance of the meeting;
- a register of attendance is maintained by the Board secretary;
- relevant Council officers, including Head of Strategic Finance and the Internal Audit Manager, are in regular attendance;
- declarations of interests are sought at the beginning of each meeting; and
- minutes are promptly produced and published following the meeting.

2.4.3 All Councillor members of the audit committee complete an annual declaration of interests, which is made available for public inspection. However, there is no annual declaration of interests for the two non-Councillor members of the audit committee.

Action plan point 13

2.4.4 The Committee has also not yet sought a private meeting with internal or external audit.

Action plan point 14

2.5 Internal control

Statement of Internal Control

2.5.1 The audit committee has responsibility for advising the Council on the effectiveness of internal control systems and compliance with laws and regulations. Internal control systems should also provide reasonable assurance that assets are safeguarded, that waste or inefficiency is avoided and that reliable financial information is produced. They should also give reasonable assurance of effective and efficient operations.

2.5.2 A statement of internal control has now been prepared for the 2007-08 financial statements and this represents an improvement in overall governance and control arrangements. A key task for the audit committee going forward will be to set out expectations for the scrutiny of wider internal control within the Council (including operational control issues) going forward.

Action plan point 15

Risk Management

2.5.3 The Council has overall responsibility for ensuring that appropriate risk management procedures are in place. The role of the audit committee is to provide assurance to the Council that risk management procedures are effective for the Council's purposes.

2.5.4 Our review found that risk management arrangements are reviewed by officers on a regular basis, and risk is a standing item on the audit committee's agenda. However, we note that risk registers do not yet cover aspects of operational risk and the audit committee has not yet undertaken a formal review of the risk registers prepared by the Council.

Action plan point 15

2.6 Financial reporting and regulatory matters

2.6.1 The audit committee should review the Council's financial statements before they are submitted to the full Council. The audit committee should also review the external auditor's ISA 260 Report, *Communication of audit matters to those charged with governance*, and the annual audit report.

2.6.2 Our review found that the audit committee performs this role in line with CIPFA guidance.

2.7 Internal and external audit

2.7.1 It is essential for the audit committee to have good relations with both internal and external auditors, and to have procedures in place for reviewing, monitoring and approving the work of internal and external audit, including:

- approving internal and external audit plans and strategies;
- reviewing the outputs of internal and external audit reports; and
- allowing access for private discussions with the audit committee.

2.7.2 The audit committee currently has a good relationship with both internal and external audit. The committee reviews all audit plans and strategies on an annual basis. Following recommendations made in our 2006-07 audit, the audit committee now formally receives and approves all internal audit reports, and continues to receive all reports from external audit.

2.7.3 The audit committee does not yet, however, assess or formally consider the performance of internal and external audit and this may limit the effectiveness of overall scrutiny.

Action plan point 16

3 National Fraud Initiative

3.1 Introduction

3.1.1 The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI was initially rolled out in Scotland as part of a two year cycle beginning 2004-05 and was principally for the audits of councils, police and fire boards. The exercise was expanded for the 2006-07 cycle by the inclusion of more data sets and a wider range of audited bodies.

3.1.2 The 2006-07 exercise has now been completed, and Audit Scotland reported that across Scotland, £9.7 million of fraud, overpayments and forward savings have been identified. The amount of savings identified by Argyll and Bute Council was £1,546.75, relating to a housing benefit fraud.

3.1.3 The role of external audit in NFI is to review the Council's procedures for managing the exercise and the progress in pursuing potential frauds highlighted by the data matching exercise.

3.2 Data submission and quality

3.2.1 In order to ensure that the Council complies with data protection and human rights legislation, all data subjects had to be notified in advance that their data was to be used for the 2006-07 exercise. We reviewed the Council's procedures and found that all data subjects were notified in line with Audit Scotland guidance.

3.2.2 We did note however, that the Council failed to submit Form 3 (Return on Data Protection Compliance) to the Audit Commission by the specified date of 31 September 2006. The return was eventually received by 31 March 2007.

Action plan point 17

3.3 Planning

3.3.1 In order to effectively coordinate the exercise, the Council should have a structured approach to manage, monitor, control and deliver the NFI exercise. It is essential to the success of the exercise that individuals are clear as to their responsibilities and the approach to be taken.

3.3.2 A planned approach should be formulated for each category of data match as some of the reports contain different types of matches. The Council has not developed a protocol to document the investigation procedures for each type of match. As a result, there is no established procedure for ensuring that a common approach is taken in recording the investigations, and in retaining the supporting evidence.

Action plan point 18

3.4 Investigation

3.4.1 The Council should have a planned and prioritised approach to reviewing matches and determining the reasons why an investigation should not take place. The Council should apply the data filters recommended by the Audit Commission when prioritising matches and determining which matches to investigate.

3.4.2 Our review found that the Council investigated all the high priority matches after applying the recommended filters. However, we noted that:

- officers did not routinely complete all their investigations on the NFI application;
- there was a lack of audit evidence as to how the matches were investigated and cleared; and
- there was no evidence that any of the available monitoring reports were reviewed by the co-ordinator.

Action plan point 19

3.5 Monitoring and Reporting

3.5.1 In order to assess the effectiveness of the NFI exercise, it is essential that procedures are in place to monitor the progress of data matches. This includes:

- what matches are being reviewed;
- by whom;
- within what timescales; and
- stage reached.

3.5.2 The absence of a control record increases the risk that the Council does not complete the investigations by order of priority, and within the appropriate timescale. Our review found that the Council did not maintain a formal control record throughout the exercise. As a result of this, many of the data matches were not processed in a timely manner.

3.5.3 The results of the NFI exercise should be also reported to the Senior Management Team, and Council members.

Action plan points 20 and 21

A Action plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Financial management and budgetary control					
1	There is scope to make the linkage between corporate priorities and budget setting more transparent.	Medium	The Council should undertake a further review of its budget setting arrangements to better demonstrate how corporate priorities are prioritised within the budget.	Head of Strategic Finance - Planning and budgeting arrangements will be further developed in the coming planning and budgeting exercise.	February 2009.
2	Budget monitoring reports may not be fully effective in highlighting potential budget variances sufficiently early in the financial year for corrective action to be taken.	Medium	The Council should adopt commitment accounting principles when preparing budget monitoring reports.	Head of Strategic Finance - An approach to addressing this recommendation will be developed as part of the implementation of the Best Value review of Strategic Finance.	Ongoing as part of BV review implementation.
3	There is a lack of evidence that budget virements are being notified to the Head of Strategic Finance in accordance with the Council's Financial and Security Regulations.	Medium	The Council should ensure that all budget virements are authorised in accordance with established procedures. A report of budget virements processed should be prepared for review by the Head of Strategic Finance on a monthly basis to provide evidence that procedures are being followed.	A report of budget virements will be prepared each month and reviewed to ensure proper authorisation.	October 2008.
4	The Council has earmarked £3.2 million of the general fund reserve for social housing projects. This is funded from the Council Tax charge on 2nd homes in the Argyll and Bute area. The Council has agreed a policy for projects to be funded from the reserve and so far have provisionally allocated £0.642 million against two projects.	Low	The Council should identify specific projects to apply these reserves or release them to be applied to other corporate priorities.	The future use of the fund is being considered within the context set by the Local Housing Strategy. Projects will be highlighted for consideration through collaborative working with the Scottish Government's Housing Regeneration Division and local RSL's. Developing a programme of projects is dependent upon RSL's bringing forward projects in line with the Local Housing Strategy and having these appraised for VFM by Scottish Government's Housing Regeneration Division and with a funding gap established. The current funding	Noted – no action proposed.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
				regime for RSL's will make it difficult to develop a medium term programme.	
5	There is scope to improve arrangements to provide greater transparency around departmental plans to apply all earmarked reserves.	Medium	The Council should ensure there are clear plans to apply all earmarked reserves.	The report submitted to the Council with the unaudited accounts lists the department, description and reason for carry forward for each element of unspent grants, unspent contribution and budgetary underspends to be carried forward. Whilst consideration will be given to what form of challenge there should be on proposed carry forwards the Council should avoid a situation whereby it is setting the budget on a 3 year basis but enforcing annuality in terms of allowing the carry forward of underspends (or overspends). Further consideration will be given to how this recommendation might or might not be implemented.	February 2009.
6	The revised target for unearmarked reserves has been calculated to reflect available funds as part of the budget setting process, rather than as part of a risk based assessment of the reserves balance required to be held to meet contingencies and respond to effectively to unforeseen events.	<i>High</i>	The Council should develop a policy for determining the level of unearmarked reserves based on past experience and an evaluation of risk.	Head of Strategic Finance - The current approach is based around general consideration of inflation and interest rate risk and historic budgetary performance and is laid out in a report to members as part of the budget pack each year. In view of the audit recommendation a more specific set of criteria will be developed for 2009-10.	February 2009.
7	The Council has not yet set out how it will measure and report efficiency savings generated and performance systems are not yet in place to measure outputs and outcomes to support the measurement of efficiency.	<i>High</i>	The Council should put in place mechanisms to record efficiency savings generated from the plan. Progress against the efficiency savings target should be reported on a regular basis to management and members.	Head of Strategic Finance - This will be addressed.	December 2008.
8	Efficiency savings targets are not yet linked to corporate priorities and incorporated within the budget setting process and this may not provide sufficient challenge to Council departments to achieve planned savings.	Medium	The Council should embed planned efficiency savings within budget setting arrangements.	Head of Strategic Finance - Efficiency savings are currently budgeted in services but a review of the efficiency savings plan as part of the coming planning and budgeting round will review how it can be linked to corporate priorities.	February 2009.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Audit Committee arrangements					
9	<p>The current terms of reference for the audit committee are not in line with best practice in the following areas:</p> <ul style="list-style-type: none"> responsibility of the committee to review the Council's financial statements; the rights of the committee to call officers to account; the responsibilities of internal audit to the committee; the responsibilities of the committee to consider the internal audit opinion and annual governance statements. 	Medium	The Council should review the current terms of reference against CIPFA guidance, and ensure all relevant areas are covered. The terms of reference should be reviewed and updated on a regular basis.	Internal Audit Manager - The terms of reference will be updated to reflect this recommendation.	December 2008.
10	The audit committee has committed to producing an annual report for 2008-09. We note that the annual report should also incorporate a review of the audit committee's performance over the financial year.	Medium	The audit committee should ensure its 2008-09 annual report also incorporates a review of the committee's performance.	Audit Committee - The audit committee did produce an annual report for 2007-08. The audit committee will take advice on appropriate tools/approaches with regard to self assessment of its own performance.	June 2009.
11	A member of the audit committee is also a Deputy Spokesperson and this does not comply with the committee's terms of reference.	Medium	The Council should review the audit committee membership to ensure it complies with the terms of reference.	Head of Democratic Services and Governance - Noted. This will be drawn to the attention of the Council.	December 2008.
12	There is no formal training programme tailored to meet the needs of audit committee members.	Medium	<p>The audit committee should develop an annual workplan setting out items to be considered at each meeting.</p> <p>This workplan should include a training programme for members timed to match the business and governance needs of the Council (for example, financial training in May in advance of accounts approval in June).</p> <p>We have some examples of workplans we can share and can also assist the Council in developing its training programme for audit committee members.</p>	Audit Committee - As noted in the report members have been provided with extensive induction training. The audit committee will develop an annual work plan and consider how to establish its own training programme within that overall workplan.	December 2008.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
13	There is no annual declaration of interests for the two non-Councillor members of the audit committee.	Medium	The non Councillor members of the audit committee should make a similar annual declaration of interest as that required for Councillor members.	Head of Democratic Services and Governance and Audit Committee Chair and Vice Chair - This requires the voluntary agreement of both the Audit Chairman and Vice Chairman. The Head of Democratic Services and Governance will discuss this matter both parties.	December 2008.
14	The audit committee has not yet held private meetings with internal or external audit.	Low	The audit committee should consider whether it should hold private meetings with internal or external audit.	Audit Committee - The audit committee has not identified a need to meet in private with internal or external audit and no request has been made by external or internal audit to meet the audit committee in private. However the audit committee will consider as part of the development of its annual work plan when it might wish to have private meetings with external audit and internal audit.	December 2008.
15	A key task for the audit committee going forward will be to set out expectations for the scrutiny of wider performance and internal control within the Council going forward.	Medium	The audit committee should set out clearer arrangements for the scrutiny of performance and wider operational control matters.	Audit Committee - The audit committee recognises the need for the scrutiny of wider internal control within the Council, especially in the embedding of Corporate Governance across the Council and its reliance on Council risk registers.	June 2009.
16	The audit committee does not yet, however, assess or formally consider the performance of internal and external audit and this may limit the effectiveness of overall scrutiny.	Low	The committee should formally assess the performance of internal and external audit annually.	Audit Committee - On annual basis a formal assessment of both external and internal audit will be undertaken by the audit committee. A proposed approach would have an annual assessment of internal audit in June and an assessment of external audit in September.	June 2009 and September 2009.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
National Fraud Initiative					
17	The Council did not submit Form 3 (Audit Commission Return on Data Protection Compliance) in line with the deadline of 30 September 2006.	Low	The Council should ensure that all relevant forms for the NFI exercise are submitted to the Audit Commission in line with the specified deadlines.	Lead Internal Audit Manager - Form 3 (Audit Commission Return on Data Protection Compliance) is detailed in the Project Plan for 2008 – 2009 along with other key dates. This was passed to Grant Thornton on the 18 th of August 2008 for 2008-09.	Completed.
18	The Council did not adopt a formal plan for the NFI exercise.	Medium	The Council should prepare a formal plan for the NFI exercise which details: <ul style="list-style-type: none"> • roles and responsibilities • training requirements • timescales for completion • monitoring and reporting arrangements 	Lead Internal Audit Manager - A Project Plan for 2008 – 2009 was passed to Grant Thornton on the 18 th of August 2008. Since this date regular plan updates have been passed to Grant Thornton to advise progress against key dates and actions for the 2008 – 09 NFI exercise.	Completed
19	The Council did not adequately monitor the progress of the NFI exercise, and there was no overall control record maintained of cases being investigated.	Medium	The Council should introduce a control record for the next NFI exercise which details: <ul style="list-style-type: none"> • matches being reviewed; • responsible officer; • completion; and • stage reached. 	Lead Internal Audit Manager - A control document has been prepared and passed to Grant Thornton, which has been accepted as addressing this recommendation.	Completed
20	Formal reports are not produced for the Senior Management Team or members on the progress of the NFI exercise.	Medium	Regular monitoring reports on the NFI exercise should be reported to Senior Management and members which detail the progress of the exercise.	Lead Internal Audit Manager - A formal reporting document was prepared and passed to Grant Thornton on the 18 th of August 2008. This has been accepted. Reporting will commence at the end of September when key milestones have been achieved.	With effect from 30 September 2008
21	The Council did not make full use of the NFI application. We noted that there was a lack of evidence on file as to the outcome of cleared cases, and there was no evidence that any of the control features of the application were utilised.	Low	The Council should ensure all staff who use the NFI application are aware of its features and are able to process data matches in line with Audit Scotland guidance.	Lead Internal Audit Manager - The results coming from the NFI exercise are of limited use to Argyll & Bute as it supplements existing systems identifying fraud. This has resulted in limited use of the system by staff. The NFI have on-	Completed.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
				line training for the 2008-09 exercise and users will be encouraged to view this training.	



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