

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 18 SEPTEMBER 2009**

Present:

Ian M M Ross (Chair)

Councillor Gordon Chalmers
Councillor David Kinniburgh
Councillor Andrew Nisbet

Councillor James Robb
Christopher Valentine

Attending:

Sally Loudon, Chief Executive (for item 3)
Iain Jackson, Governance and Risk Manager
Bruce West, Head of Strategic Finance
Andrew Law, Director of Operational Services (for item 6)
Peter Ward, Principal Engineer (for item 6)
David Clements, Performance Manager (for item 6 and 7)
Lyndis Davidson, Performance Management Officer (for item 6
and 7)
Allen Stevenson, Service Manager (for item 5)
Cath Cakebread, Addiction Team Manager (for item 5)
Gary Devlin, Grant Thornton UK LLP, External Auditors

Apologies:

Councillor Mary Jean Devon

The Chair ruled, and the Committee agreed, to vary the order of business to allow Officers to deal with other commitments following presentation of their reports at the meeting.

1. DECLARATIONS OF INTEREST

None declared.

2. MINUTES

The Minutes of the Audit Committee meeting held on 26 June 2009 were approved as a correct record.

3. PERFORMANCE MANAGEMENT

The Planning and Performance Management Framework and the Improvement Plan set out the structure and timescale for reporting the Council's performance to Elected Members on a quarterly cycle. On 26 August 2009, the Chief Executive and Directors presented the Council Scorecard and Departmental Scorecards to the Executive using the Council's performance management system, Pyramid. The presentation focussed on performance during the period April to June 2009, including a review of successes, areas for improvement and an outline of improvement actions for the following period.

The Chief Executive's and Directors' reports and Scorecards were before the Audit Committee for information and as evidence of the successful delivery of the performance management process.

A presentation was also given to the Audit Committee on the Council's performance management system, Pyramid, including an explanation of the process for reporting scorecard information to Members, the information contained within the Scorecards and progress with the development of the performance management system and what areas still had to be developed.

Decision

1. Noted the reports and Scorecards for the period April – June 2009; and
2. Agreed to request Internal Audit to look at the effectiveness of the process and system of the performance planning and management framework (PPMF), including the developing role of the Policy and Performance Groups, in December 2009 and report back to the Audit Committee meeting in March 2010.

(Reference: Report by Chief Executive, submitted)

4. RISK MANAGEMENT AND BUSINESS CONTINUITY STRATEGY

A report on progress being made with the implementation of the Council's Risk Management and Business Continuity Strategy was considered along with a presentation giving an insight into the ongoing development of the Strategic and Operational Risk Registers held within Pyramid.

Decision

Noted the contents of the report.

(Reference: Report by Governance and Risk Manager, submitted)

5. THE AUDIT COMMISSION (2009) REPORT "DRUG AND ALCOHOL SERVICES IN SCOTLAND" - PROGRESS REPORT FOR COUNCIL

A report detailing progress made by the Council against the recommendations of the Audit Commission (2009) report "Drug and Alcohol Services in Scotland" published in March was considered.

Decision

1. Noted the contents of the report;
2. Instructed Officers to provide a further report to the next meeting detailing a breakdown of expenditure incurred on alcohol and addiction services by both Argyll and Bute Council and NHS Highland in the Argyll and Bute area, including staffing and administration costs; and
3. Requested that a copy of the needs assessment currently being prepared be circulated to the Audit Committee once this was available.

(Reference: Report by Director of Community Services, submitted)

* 6. PORT ASKAIG REDEVELOPMENT

The Organisational Development Policy and Performance Group (PPG) considered a report dated 30 January 2009 by the Head of Roads and Amenity Services outlining the history of the Port Askaig redevelopment project and reporting on the contractual issues associated with the completed Phase 2 Marine Works contract, customer expectations and project management issues. The Executive, at its meeting on 19 March 2009, agreed to a recommendation made by the PPG that this project be the subject of a financial audit and referred this to the Audit Committee for attention with a request that they report back to the Executive with their findings.

Internal Audit carried out a review of this project and the outcome of this Review was before the Committee for consideration. The Director of Operational Services and the Principal Engineer in charge of the project also reported to the Audit Committee and responded to questions arising from these reports.

Decision

1. Noted and accepted the recommendations and criticisms highlighting the shortcomings in the management of the project contained within the Internal Audit report which will be followed up by Internal Audit and reported to the Executive;
2. Noted that since the inception of the Port Askaig project, the Council had adopted PRINCE 2 as its preferred project management system. This change does not in itself guarantee improved project management, but does provide a good framework for that to be the case;
3. Noted that the structure of PRINCE 2 should highlight the inter service failure that was detrimental to the Port Askaig project;
4. Noted that Members have vital role in ensuring that the PRINCE 2 gateway process is rigorously applied in taking projects through the approval process;
5. In addition to advising on the outcome of the Internal Audit report, agreed to recommend to the Executive that –
 - a) The form of contracts used for all significant construction projects should facilitate good project management and good risk management;
 - b) There is a need to address any skills gaps identified in relation to the use of PRINCE 2 along with a requirement for the Council to ensure that the use of PRINCE 2 is properly resourced;
 - c) Consideration should be given to development of a pool of strategic partners to assist with areas of a project where the required skills may not be available within the Council. This type of arrangement is already used by Finance and Legal with KPMG and Brodies;
 - d) Communication throughout the duration of a project must be

managed in such a way as to avoid unrealistic expectations being raised;

6. Agreed that contract management will be revisited at a later date by the Audit Committee; and
7. Agreed that, rather than wait for the next post completion audit, Internal Audit would investigate the current status of Process and Contract Management for ongoing projects to see whether or not processes that have been put in place for Contract Management are robust and effective.

(Reference: Report by Internal Audit Manager dated 8 September 2009, Internal Audit Report on Contract Review of Port Askaig Redevelopment dated July 2009, Extract from Minutes of Executive of 19 March 2009 and Report by Head of Roads and Amenity Services dated 30 January 2009, submitted)

Prior to the conclusion of the discussion on the foregoing item the Chair ruled, and the Committee agreed, to adjourn the meeting at 1.50 pm and reconvene at 2.10 pm.

7. REPORT ON THE 2008 - 2009 ACCOUNTS AUDIT

A report setting out the key findings emerging from the External Auditor's audit of the financial statements of Argyll and Bute Council for 2008 – 2009 financial year was considered.

Decision

Noted the contents of the report.

(Reference: Report by Grant Thornton UK LLP, External Auditors dated 16 September 2009, submitted)

8. EXTERNAL AUDIT PROGRESS REPORT

A summary of the External Audit Progress update to 21 August 2009 by the Council's External Auditors was considered.

Decision

Noted the contents of the report.

(Reference: Report by Grant Thornton UK LLP dated 21 August 2009, submitted)

9. INTERIM MANAGEMENT REPORT

The Council is required to have arrangements in place to ensure propriety, regularity and best value in its stewardship of public funds. It is the responsibility of management to have adequate systems of internal control in place to ensure that resources are applied to the activities intended, fraud is prevented and detected, and resources used economically, efficiently and effectively.

As part of their interim audit, the Council's External Auditors have reviewed the Council's financial management and budgetary control and core financial systems including fixed assets, treasury management, cash and bank and procedures for journals.

A report advising on the key findings of this review and action plan was before the Committee for consideration.

Decision

1. Noted the contents of the report and that these will be followed up by Internal Audit;
2. Noted the Head of Strategic Finance's reasons for not updating the Fixed Asset Register on an ongoing basis in respect of improvements to assets which were accepted by the External Auditors; and
3. Welcomed the proposed training for Members to be organised in respect of Treasury Management.

(Reference: Report by Grand Thornton UK LLP dated June 2009, submitted)

Councillor James Robb left the meeting at 3.00 pm.

10. ANNUAL REPORT BY AUDIT COMMITTEE 2008 - 2009

The Code of Practice for Internal Audit in Local Government (the Code) issued by CIPFA in 2000 sets out good practice in delivering internal audit services. The Code was further revised in 2006. In May 2009, Grant Thornton UK LLP, the Council's External Auditors carried out a Code compliance review which resulted in a report with recommendations. One recommendation required the Audit Committee to produce an Annual Report to the Council. A report summarising the work of the Audit Committee during the financial year 2008 – 2009 and outlining its view of the Council's internal control framework, risk management and governance arrangements was before the Committee for consideration.

Decision

Noted and approved the contents of the Annual Report for submission to the Council.

(Reference: Report by Internal Audit Manager dated 20 August 2009 and Annual Report by Audit Committee for financial year 2008 – 2009, submitted)

11. AUDIT COMMITTEE AWAY DAY - 29 MAY 2009

At the request of the Audit Committee, KPMG facilitated a training day for the Council's Audit Committee on 29 May 2009 in order to provide the Audit Committee with an analysis of completed self assessment questionnaires, review the Audit Committee's Terms of Reference, identify actions required from the self assessment process and to support management in developing an Audit Committee annual work plan and training plan. A report on the outcome of the

training day was before the Committee for consideration.

Decision

1. Noted the contents of the report and that these will be followed up by Internal Audit; and
2. Noted that a report on the timescale for delivery of the action plan contained within Appendix 3 of the report would be brought to the next meeting by Internal Audit.

(Reference: Report by Internal Audit Manager and Report by KPMG dated 24 August 2009, submitted)

12. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2009 - 2010

An interim progress report covering the audit work performed by Internal Audit up to 21 August 2009 was considered.

Decision

Approved the progress made with the Annual Audit Plan for 2009 – 2010.

(Reference: Report by Internal Audit Manager, submitted)

13. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2009 - 2010

A report advising of the key messages of a recently published Audit Commission Report entitled “Improving Civil Contingencies in Planning” was considered along with information provided by the Council’s Governance and Risk Manager on the processes the Council has in place to meet its duties under the Civil Contingencies Act 2004.

Decision

1. Noted the contents of the report and that these will be followed up by Internal Audit and
2. Agreed to request the Emergency Planning Officer and Governance and Risk Manager to bring a report to the next meeting advising on what the key issues for the Council are in terms of meeting its duties under the Civil Contingencies Act 2004, including completion of the self assessment checklist detailed at Appendix 2 of the Audit Commission report.

(Reference: Report by Internal Audit Manager, submitted)

14. ASSET MANAGEMENT IN LOCAL GOVERNMENT

A report summarising the key messages and recommendations contained within the recently published Audit Scotland report on Asset Management in Local Government and, in broad terms, outlining the areas for improvement identified for action by the Council’s Asset Management Board was considered. This

report had previously been before the Organisational Development Policy and Performance Group in June 2009 who are currently looking at Asset Management as part of their work programme.

Decision

1. Noted the contents of the report; and
2. Noted Councillor Nisbet's concern that the Audit Scotland report only covered property and not roads and infrastructure.

(Reference: Report by Director of Development Services dated 27 May 2009, submitted)

15. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2009 - 2010

The Committee considered a report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 30 June 2009.

Decision

Noted the contents of the report and that these will be followed up by Internal Audit.

(Reference: Report by Internal Audit Manager dated 9 September 2009, submitted)

Councillor Gordon Chambers left the meeting at 4.00 pm.

16. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2009 - 2010

A report detailing final report summarises and action plans from recent audits was considered.

Decision

1. Noted the contents of the reports in respect of the following audits and that these will be followed up by Internal Audit:-

Non Domestic Rates
Year End Stock 2008/2009
European Grants
General Ledger 2008/2009

2. Agreed to continue consideration of the report on Tendering Procedures to allow for further information to be provided to the Committee at the next meeting in respect of the first finding and recommendation; and
3. Agreed to request the Head of ICT and Financial Services to bring a report to the next meeting of the Audit Committee on general development with e-procurement and an update on the PECOS system used by the Council.

(Reference: Report by Internal Audit Manager, submitted)

17. DRAFT CODE OF CORPORATE GOVERNANCE

CIPFA and SOLACE published a revised Framework for “Delivering Good Governance in Local Government “ in 2007. The Framework was intended to define the principles that should underpin the governance of local authorities and provides a structure to assist authorities with their own approach to governance. The Framework has taken the six core principles, from the “Good Governance Standard for Public Services” (2004) and adapted these principles for local government, identifying eighteen supporting principles.

In May 2009 a CIPFA/Solace guidance note for Scottish Local Authorities was published identifying local code requirements underlying the principles and providing for self assessment of the Local Authority governance arrangements. A report setting out the arrangements for the preparation of the Local Code of Corporate Governance, together with a draft annual governance statement was considered.

Decision

1. Approved the proposed arrangements for preparing and maintaining the framework; and
2. Approved the Draft Code of Corporate Governance and Draft Statement of Governance and Internal Control, subject to refinements over the remainder of 2009.

(Reference: Report by Director of Corporate Services, submitted)