

Argyll and Bute Council

Report on the 2008-09 Audit

October 2009

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1 Executive Summary

1.1 Introduction

This report summarises the outcome of our audit and key messages for members. We planned and performed our 2008-09 audit in accordance with our Audit Plan issued in February 2009. The Code of Audit Practice objectives and key findings arising from the audit are summarised in Exhibit 1 below.

Exhibit 1 - Key findings from the 2008-09 audit

Code Area	Summary
<p>Financial statements</p> <p>To provide an opinion on the Council's financial statements for the year ending 31 March 2009.</p>	<ul style="list-style-type: none"> • We gave an unqualified opinion on the Council's 2008-09 financial statements on 30 September 2009. • Our audit opinion, however, draws attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. • The Council has a history of managing its finances well, but has identified a potential budget shortfall for the 3 year period to 2011-12. The current economic recession will lead to reductions in public sector funding and will require the Council to take action to reduce costs, increase income or reduce levels of service provision. • The Council has recognised a provision of £0.8 million for the additional costs associated with implementation of single status arrangements. This provision reflects the outcome of the recent appeals process. The Council has also recognised a potential contingent liability in relation to single status appeals currently in progress.
<p>Governance</p> <p>To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.</p>	<ul style="list-style-type: none"> • We have concluded that the Council's systems of internal financial control are operating adequately. The Council has generally good financial management and budgetary control arrangements. • The Council has not yet appointed a head of internal audit position. The Council should develop a strategy for the future provision of internal audit which sets out its vision for the future role, remit and structure of the internal audit section to meet the new challenges facing local government. • The Council continued to develop its audit committee arrangements during 2008-09. An away day was held to facilitate discussion on the future role of the committee and there are plans in place to review and update the 2009-10 work plan, training arrangements and the terms of reference. • The Council should ensure it completes the processing of data matches from the National Fraud Initiative exercise as a matter of urgency.

Code Area	Summary
<p>Performance</p> <p>To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance in the use of resources, and arrangements for preparing and publishing statutory performance indicators.</p>	<ul style="list-style-type: none"> • The Council has responded positively to address the areas for improvement identified in Audit Scotland's recent best value report and has made good progress in implementing the Improvement Plan developed following the appointment of the new Chief Executive. • In particular, the Chief Executive has implemented a strategy which has resulted in a significant improvement in the Council's best value arrangements and has increased the pace of change and reform to meet best value expectations. This addresses a key area of weakness highlighted by Audit Scotland as requiring priority action. • The Council recognises that it needs to continue with the current pace of change and to ensure improvements in performance and strategic management lead to real and measurable improvement in service delivery outcomes and service user satisfaction. We are satisfied that officers and members understand the scale of this challenge and are committed to achieving the necessary improvement. Correspondingly, we regard the Council's prospects for future improvement as good. • The Council has published its performance against the Single Outcome Agreement Objectives for 2008-09. The results show the Council has made significant progress across the 15 National Outcomes, with 2 areas identified as needing further work (Health and Inequalities). • The Council achieved efficiency savings of £3.4 million for 2008-09, which met the Council's share of the national target, but below its own target of £4.6 million. A scorecard system is now in place to monitor departmental contributions to savings going forward.

1.2 Action needed by the Council

Our audit identified the following key actions for the Council in the coming year. The Council should:

- review the financial strategy to address the forecast budget shortfall and assess the impact of any future cuts in public sector funding on council services
- develop a clear strategy setting out its vision for the future role, remit and structure of the internal audit section that meets the new challenges facing local government
- ensure risk and performance management arrangements are output, outcome and impact focussed and enable monitoring of the contribution of all partners in the community partnership to the achievement of Single Outcome Agreement objectives
- ensure recent improvements in strategic and performance management arrangements deliver the expected improvements in efficiency, service delivery outcomes and citizen satisfaction

- review and refine the existing improvement plan in light of the issues identified following our follow up best value audit and to ensure it is well prepared to respond effectively to the revised 'best value 2' scrutiny arrangements.

Detailed action plans have been agreed with the Council and included in our audit reports issued during the year (Appendix A).

1.3 Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in the 2008-09 audit for their assistance and co-operation.

This report is part of a continuing dialogue between the Council and Grant Thornton 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 it.

Grant Thornton UK LLP
30 October 2009

2 Financial statements

2.1 Introduction

We have audited the Council's 2008-09 accounts in accordance with our Audit Plan issued in February 2009. The key messages arising from our financial statements audit are contained in our Report on the 2008-09 Accounts Audit, issued in September 2009, and summarised below.

2.2 Audit opinion

We gave an unqualified opinion on the Council's 2008-09 financial statements on 30 September 2009.

The Council's catering and cleaning trading operation achieved a £0.97 million surplus for the year, but has recorded deficits exceeding £1 million in each of the previous 2 years. As a result, this trading account has not met its statutory financial target to break even over a rolling 3 year period for the third successive year. This matter was referred to in an explanatory paragraph in the audit report.

2.3 Group accounts

The Council's group accounts include the consolidation of the Council's interest in Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board. All local authorities were notified in August 2009 that the new police and fire pension schemes are not covered by the Local Government Pension Reserve Fund (Scotland) Regulation 2003. As a result, Councils are unable to reverse out the pension costs applicable under FRS 17, Retirement Benefits, and replace them with the actual pension contributions paid out of the general fund.

Strathclyde Police Joint Board did not process an adjustment to their accounts to comply with the 2003 Regulations and the Council calculated that this omission impacted on their group accounts by decreasing the Council's share of the general fund of the Strathclyde Police Joint Board by £447,000 and increasing their share in the pension reserve by £447,000. The Council did not adjust the group accounts to reflect this decrease on the grounds of materiality. Strathclyde Fire and Rescue Joint Board did adjust their accounts to comply with the 2003 Regulations and the Council processed the Council's share of the adjustment (£93,000). A relevant disclosure note was added to the group financial statements on the situation.

It is expected that the Scottish Government will facilitate legislation to ensure that the new police and fire pension schemes are covered by the 2003 Regulations for the 2009-10 financial year.

2.4 Implementation of Single Status

During 2007-08, the Council implemented a new Pay and Grading Model and also revised staff terms and conditions. Each role within the council was reviewed, and graded within the new structure. Where the new grade resulted in an increase in pay, this was backdated to 1 April 2006. A provision was created to meet the costs of the new pay and grading model approved by Council and this provision was fully released during 2008-09 following implementation of the model.

Some 580 staff have, however, appealed the determination of their allocated grade under single status arrangements. If an appeal is successful then any pay differential is normally backdated to 1 April 2006, and the Council is also required to honour the new salary scale increase for the particular individual or staff group. 179 appeals have been processed as at 31 August 2009 and 98 (55%) of these have been successful, resulting in an estimated £0.8m liability for backdated pay as at 31 March 2009.

The Council created a new provision to reflect the additional cost of successful appeals against allocated grades under single status arrangements. The Council takes the view that it is too early to estimate the potential cost associated with the remaining appeals waiting to be heard, as the likelihood of their success cannot be known with any certainty. A contingent liability was disclosed in the financial statements for further costs relating to the implementation of single status arrangements.

2.5 International Financial Reporting Standards

Local government bodies will be required to prepare accounts on the basis of IFRS from 2010-11, with shadow IFRS-based accounts required for 2009-10. In addition, HM Treasury will require local authorities to restate PFI or PPP schemes under IFRS for the 2008-09 Whole of Government Accounts Return.

The transition to IFRS is complex, and will require detailed project planning to ensure the Council is able to fully implement the standard in line with the planned timetable. The Council has set up an IFRS project team, and has engaged the services of Pricewaterhouse Coopers to assist in the IFRS restatement exercise. A key task will be to review the impact of IFRS on the existing accounting treatment for the Schools NPDO and Waste management PPP projects.

We provide an annual training workshop for the Council's finance staff on developments in accounting and auditing standards and will continue to work closely with the Council's finance team over the period of our appointment.

2.6 Financial results

The Council reported a surplus on the Income and Expenditure account for 2008-09 of £8.2 million (2008: £5 million). The net increase on the general fund was £1.6 million (2008: £5.9 million).

The total net worth of the Council has decreased by £19.2 million over the course of the year, mainly due to actuarial losses on the Strathclyde Pension Fund offset by small revaluation gains on fixed assets.

The impact of the credit crunch on the global economy has led to a significant deterioration in the financial position of the UK government. This will translate into a reduction in funding available across all public services for the foreseeable future, with the likely impact taking effect on the Council's budget from 2010-11 onwards. The Council is aware of this issue and has projected that it is likely to face a significant budget shortfall in the 3 year period to 2011-12 as a result.

The Council is in the process of identifying and evaluating options to increase income and reduce expenditure to address the projected budget shortfall. Although the Council has sufficient general fund reserves, the level of unearmarked reserves may not cover budget shortfalls. In addition the Council is also facing a number of other budgetary pressures:

- wage and price inflation continue to exceed increases in income and levels of funding
- income from fees, charges and investments has decreased due to the decline in economic activity and interest rates
- demand for Council services, particularly care services, continues to exceed existing levels of provision
- the impact of appeals by staff on the new grading structure could lead to a significant and unplanned increase in future staff costs.

2.7 Trading Accounts

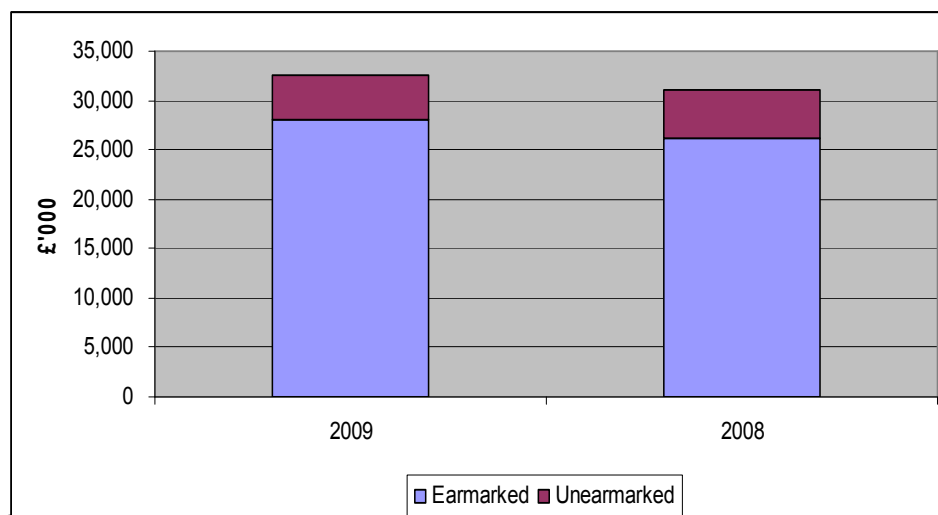
The Local Government in Scotland Act 2003 places a statutory requirement on significant trading operations to break even over a three year rolling period. The accounts record that, for the three year period to 2008-09, the Council's catering and cleaning trading operation failed to achieve the statutory break even financial requirement with a cumulative deficit of £1.1 million.

The recorded deficit largely results from the impact of the cost of equal pay claims and implementing single status, which was not accounted for when setting budgeted recharges. The Council has prepared a financial strategy to return the catering and cleaning trading operation to a break even position, and the 2008-09 in year result is a surplus of £0.97m. It remains unlikely, however, that this trading account will be in a position to meet its statutory financial target until 2010-11 at the earliest.

2.8 General Fund

The Council's reserves policy for the year ending 31 March 2009 was to retain unearmarked reserves of at least 1.5% of net operating expenditure. At 31 March 2009, the Council's unearmarked reserves totalled £4.6 million representing 1.8% of net operating expenditure in line with this policy as outlined in Exhibit 2 below.

Exhibit 2: General Fund balances at 31 March



The Council completed a risk based assessment of the general fund reserve and level of unearmarked reserves during the budget setting process for 2009-10. The assessment concluded that the Council will continue to maintain the 1.5% target for unearmarked reserves.

The Council continues to keep its reserve policy under review and has undertaken steps to implement our 2007-08 interim management report recommendation to improve arrangements to provide greater transparency around departmental plans to apply all earmarked reserves. The Council now restricts the carry forward of unspent grants and budgets to 3% of net operating expenditure, and this target was achieved for 2008-09. Going forward, the Council will implement plans to ensure that unspent budget carried forward is targeted at the Council's priorities as set out in the corporate and service plans.

2.9 Capital Expenditure and the Prudential Code

The total capital budget for the year was £41.3 million reflecting a continuing high level of planned spending on schools and transport infrastructure. The Council incurred gross capital expenditure of £28.2 million during the year (2007: £34.2 million), representing a significant budget underspend of £13.1 million (30%) for the year. The main areas of underspend are in Roads and Amenity Services and Primary Education, due to slippage in project timescales.

The Council has also identified that, on a cumulative basis, it was forecast to be overspent by £4.7 million across all capital projects, representing 2.8% of the total capital programme of £171 million. The largest overspends were recorded on the following 3 projects: Rothesay Harbour Berth Improvements (£1.1 million); Port Askaig (£0.9 million); Argyll Air Services (£0.6 million).

The Council's level of outstanding debt fell by £31m (16%) from £188 million in 2007-08 to £157 million at 31 March 2009. This reflects the Council's decision to repay Public Works Loan Board debt with excess cash, rather than hold cash in the banking system given uncertain counterparty risks and low interest rates. The Council has policies in place to ensure it is not borrowing in advance of need.

Local authority capital expenditure and borrowing is regulated by the Prudential Code which requires councils to ensure capital plans are affordable, borrowing is prudent and sustainable, and treasury management arrangements reflect good practice. The Council approved a set of prudential indicators for 2008-09 and managed capital expenditure within these approved limits.

2.10 Key actions going forward

In summary, the key recommendations arising from our audit of the financial statements are that the Council should:

- review the financial strategy to address the forecast budget shortfall and assess the impact of any future cuts in public sector funding on operations
- review departmental budget assumptions to ensure they are subject to rigorous review, continue to remain affordable, and reflect corporate priorities

- undertake a more detailed review of the capital plan, in light of recent reported underspends, to ensure it continues to remain realistic.

A detailed action plan has been agreed with the Council to address these key issues and is contained in the following reports: Core Financial Systems Report and the Report on the 2008-09 Accounts Audit issued in September 2009.

3 Governance

3.1 Introduction

In accordance with the 2008-09 Audit Plan we have reviewed key aspects of the Council's governance arrangements. The detailed findings from our governance review are contained in our interim reports issued as follows:

- Governance (June 2009)
- IT follow up review (June 2009)
- Core Financial Systems (September 2009)

Key messages are summarised below.

3.2 Overview of arrangements in 2008-09

We have concluded that the Council's systems of internal financial control and governance arrangements are generally operating adequately. Key findings from our review included:

- The Council should introduce procedures to ensure all transfers between budgets in service departments are appropriately documented.
- The Council should update the fixed asset register throughout the year and use fixed asset register information more proactively to improve asset management arrangements.
- The Council should establish counterparty limits for sums invested with its bankers. This reduces the risk of lending to risky financial institutions.
- The Council should review treasury management policies to ensure they are up-to-date and incorporate CIPFA's interim guidance on treasury management which was introduced following the credit crunch.

The Council has agreed to take action to address all of the recommendations emerging from our audit and we will review progress as part of our 2009-10 audit.

3.3 Audit Committee arrangements

Our review found that the Council's 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-councillors as chair and vice chair of the audit committee goes beyond good practice, and significantly strengthens overall governance and scrutiny within the Council.

The Council continued to develop its audit committee arrangements during the year and members attended an 'away day' to facilitate discussion on the future operations of the committee. Members completed a self assessment questionnaire

which analysed the working arrangements of the committee as a basis for reviewing and improving current arrangements.

The Committee produced a report on its work during the year which was presented to the September 2009 committee. The Committee has set out its plans to further improve its working arrangements and has undertaken to review and update its 2009-10 work plan, 2009-10 training plan, and current terms of reference.

3.4 Internal Audit

As part of our 2006-07 audit, we reviewed the Council's internal audit department against the eleven standards set out in the Code of Practice for Internal Audit. We found that the internal audit section did well in undertaking and reporting its work but was not sufficiently resourced to deliver its audit plan effectively. We followed up progress in implementing our recommendations in 2007-08. Our Governance report issued in June 2009 reported on the progress of implementation of those recommendations that remained outstanding:

Our review of progress found that 6 out of the 8 outstanding recommendations have now been fully implemented. Of the remaining recommendations, 1 is in the process of being implemented and 1 remains under consideration by management. Of the recommendations that are not yet fully implemented, both are categorised as medium risk:

- The Council has not yet updated the constitution to recognise the role of internal audit in the investigation of frauds. We are aware that the relevant section has been completed for inclusion in the constitution, and the updated constitution is expected to be published in August 2009.
- The Council has not yet created a 'head of internal audit' position. The Council had planned to review the structure of Internal Audit at the end of the internal audit partnership with KPMG in 2007-08. However the partnership has since been extended and this decision has been delayed.

The Council has not yet developed a clear strategy setting out its vision for the future role, remit and structure of the internal audit section that meets the new challenges facing local government. We have recommended that the Council develop a strategy for the future provision of internal audit. This should include a consideration of whether the service should be provided internally, externally or a mixture of both.

3.5 National Fraud Initiative

The Council continues to participate in the National Fraud Initiative (NFI) exercise, and is currently processing matches from the 2008-09 exercise.

From our previous review of the 2006-07 exercise, 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.

Since our report was issued, the Council has taken the following action:

- an action plan has been developed which sets out the key milestones in the NFI process, and the Council's progress against completion
- a control record is maintained of matches from the NFI application

- the action plan is passed to Senior Management for review when key milestones are reached

Although the Council has improved the planning and monitoring procedures for the NFI process, there continues to be a lack of urgency in processing data matches. As of 20 October 2009, the Council has processed all housing benefit matches, but has not recorded any frauds. We noted that the Council has not yet processed any payroll, blue badge holders, private residential care homes or insurance claim matches. These matches offer the best quality matches and an opportunity for the Council to detect or prevent fraud, and should be investigated as a matter of urgency.

3.6 Key actions going forward

In summary, the key recommendations arising from our governance audit are that the Council should:

- develop a clear strategy setting out its vision for the future role, remit and structure of the internal audit section that meets the new challenges facing local government.
- review and clear as a matter of urgency, those high quality NFI matches that have not yet been opened.

Detailed action plans have been agreed with the Council to address these key issues and are contained in our Interim Report issued in August 2009, our report on IT Systems and Applications issued in June 2009, and in our follow up report on Internal Audit issued in May 2009.

4 Performance

4.1 Introduction

In accordance with the Audit Plan we have reviewed key aspects of the Council's performance arrangements during 2008-09. The detailed findings from our performance review will be contained in our Best Value follow-up Report to be issued in October 2009. Our key findings during the year are summarised below.

4.2 Best Value follow up review

Audit Scotland published their report on the follow up audit of the Council's best value and community planning arrangements in December 2008. Audit Scotland found that the Council had made progress in a number of key areas, including corporate leadership and strategic direction, but concluded that overall there was a clear need to increase the pace of change and ensure a number of systems and processes for supporting best value were successfully implemented.

As part of our 2008-09 audit, we have followed up the progress made by the Council in addressing the improvement agenda prepared in response to the 2008 best value audit. Our audit has covered the following key areas

- an evaluation of progress in achieving Improvement Plan objectives
- an assessment of the overall achieved improvement to date
- an assessment of the prospects for future improvement.

The Council appointed a new Chief Executive in September 2008 which has led to a marked change in the Council's leadership and approach to best value and performance management. The Council has invested heavily in developing the leadership capacity of its staff since the Audit Scotland report, and there is a more focussed approach to delivering strategies and driving continuous improvement more effectively as a result.

We found that the Council has responded positively to address the areas for improvement identified in the Action Plan developed to address Audit Scotland's recommendations and the appointment of the new Chief Executive earlier in the year has increased the pace of change across Council services, but particularly in improving and embedding a new performance and strategic management framework. This addresses a key area of weakness highlighted by Audit Scotland as requiring priority action.

The process of designing, implementing and communicating the revised approach to corporate and strategic management has been the focus of the Council's senior staff over the past year and it is too early to assess the impact of these changes on service delivery improvement. We note, however, that many of the Council's services continue to record good levels of performance as measured by statutory performance indicators, but that performance is 'patchy' across services. In some

corporate priority areas, such as children's services and adult social care services, performance is often below the national average as per the SPI results for 2008-09.

The Council recognises the need to demonstrate improvement in service outcomes and we are satisfied that it now has a robust performance reporting framework which will enable it to achieve this going forward.

The Council has also taken action to re-invigorate its community planning arrangements and revised the role and remit of area committees as part of this review. These changes remain at an early stage of development and arrangements to monitor partners' contributions to achieving Single Outcome Agreement targets are now in place (through the Community Planning Partnership's (CPP's) adoption of the PPMF) although at an early stage of implementation. The CPP remains on track for delivering key objectives in line with agreed plans.

As noted above, we found that the Council was taking action to address all areas identified by Audit Scotland as requiring improvement and we are satisfied with the pace of reform overall. At the time of our audit the Council was in the process of developing and implementing a range of corporate plans and processes. These development areas were on track for delivery in accordance with the Council's own plans and timescales, but were not covered by our audit and are summarised below:

- reform of strategic financial management arrangements is in progress, but will not be completed until summer 2010
- development of an employee involvement strategy has been delayed to allow the new Head of Service to review the Council's overall workforce strategy
- arrangements for asset management remain in the process of development, and we note that a schools estate strategy has been developed and a detailed action plan is in place setting key milestones for improved asset management more generally
- corporate risk management arrangements have been significantly improved since our last audit, and we noted risk management is developing across all services
- the Council has improved its public performance reporting arrangements since our last review and has plans in place to co-ordinate how it communicates with its service users across all of its services. The Council has done some work to identify the information requirements and expectations of its service users.

The Council has responded positively to address the areas for improvement identified in Audit Scotland's recent best value report. In particular, the Chief Executive has implemented a strategy which has resulted in a significant improvement in the Council's best value arrangements and has increased the pace of change and reform to meet best value expectations. The Council recognises that it needs to continue with the current pace of change and to ensure improvements in performance and strategic management lead to real and measurable improvement in service delivery outcomes and service user satisfaction. We are satisfied that officers and members understand the scale of

this challenge and are committed to achieving the necessary improvement. Correspondingly, we regard the Council's prospects for future improvement as good.

We issued our draft report on our follow-up review to the Council in October 2009 and we have now agreed this report with management. Our findings will be reported to the Audit Committee when this process is complete.

4.3 Single Outcome Agreement

The publication of the Single Outcome Agreement (SOA) and Corporate Plan has provided a clear vision for the Council based around the 15 National Outcomes (Exhibit 1). The SOA was developed and agreed with the Council's community planning partners. This provides a shared framework to monitor and assess performance across the Argyll and Bute area. The Council recently published the first annual progress report on the SOA, as shown below in Exhibit 3.

Exhibit 3 - Performance against SOA objectives

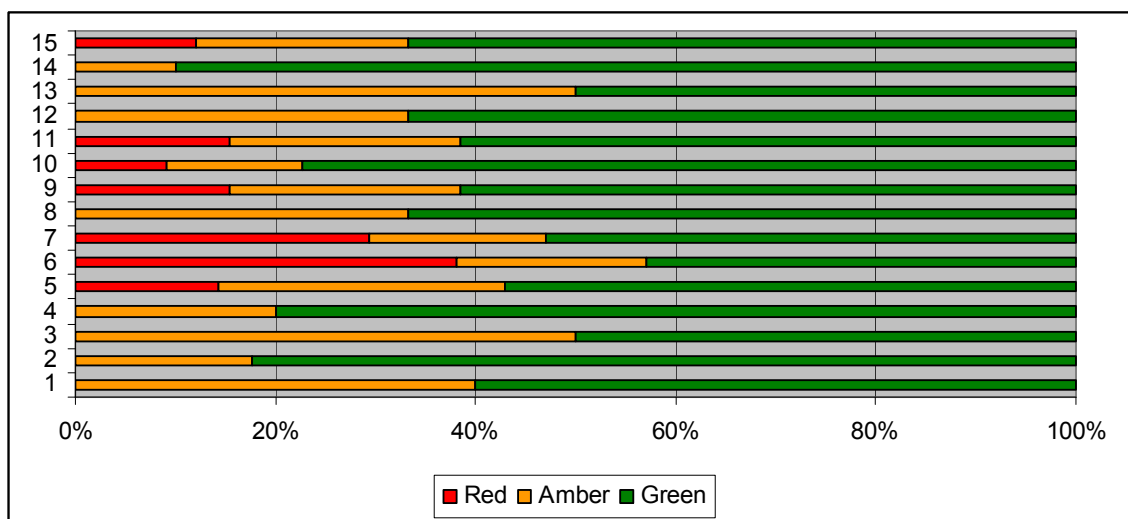


Exhibit 3 highlights that significant progress has been made across each of the agreed priorities. However the Council has identified that the bulk of the targets not met are in National Outcomes 6 and 7 (Health and Inequalities).

4.4 Efficient Government

The efficient government initiative is a central part of the government's programme of investment, reform and modernisation. The Efficient Government Plan sets targets for local government bodies to achieve 2% cash-releasing savings for 2008-09. For Argyll and Bute Council this equates to a savings target of around £3.4 million, with identified savings of £4.6 million identified at the start of the financial year. The actual outcome as reported in the 2008-09 Annual Efficiency Statement was £3.4 million, in line with the national target but £1.2 million below the level of savings identified at the start of the financial year.

In order to claim an efficiency, the Council needs to demonstrate that service outcomes have been maintained or improved and this can only be achieved through a robust performance management system that captures information and baseline data covering both cost and quality aspects of service provision. The Council is continuing to progress its systems of performance management, and is developing Service Performance Scorecards that identify key performance indicators (KPI) for each service within the Pyramid performance management system. For 2008-09, 43 KPIs were agreed for services and achievement of these was measured using a 'traffic light system'. As at March 2009, out of 43 KPIs, 31 were classed green, 5 were amber and 7 were red.

The financial constraints referred to earlier in this report highlight the priority need to bring forward a programme of efficiency reviews across all Council operations. The Council incorporated the achievement of efficiency savings in the budget process for 2009-10, and departments were asked to identify how they would contribute to the efficiency savings target and prepare schedules showing proposals for efficiency savings. The Council will monitor the contribution of departments to the efficiency savings targets through the scorecards.

4.5 Statutory Performance Indicators

The Council is required to prepare Statutory Performance Indicators (SPIs) in accordance with a direction issued annually by the Accounts Commission. We audit these indicators to ensure they are prepared in accordance with the guidance. In the absence of locally determined performance measures, SPIs represent the main source of performance information for a local authority. In addition to SPIs, Argyll and Bute Council has developed local performance indicators that are now included in the performance scorecards.

The Council has generally satisfactory arrangements for producing SPI information, but has been unable to produce reliable performance information for one of the 78 SPIs relating to the number of visitor numbers for council funded museums.

4.6 Asset Management

In Argyll and Bute, property costs account for around 4% of the gross revenue budget. Good asset management helps to ensure that the asset portfolio is making the maximum possible contribution to meeting the Council's objectives. It also benefits service delivery by making Council buildings work better for staff and service users.

In May 2009, Audit Scotland published their national report, *Asset Management in Local Government*. The overall aim of the study was to evaluate the extent to which councils manage assets to ensure effective service provision and value for money. The report found that councils could make significant improvements in asset management arrangements and pointed to the need for standardisation of data and a consistent methodology for measuring building suitability. Audit Scotland also recommended that councils should:

- have effective asset management plans and strategies in place, linked to a long term capital strategy
- ensure that asset information is up to date, complete and held in a form which allows production of management reports
- ensure that elected members regularly consider reports on the condition, suitability and use of assets, property costs and estimates of the maintenance backlog
- agree with community planning partners arrangements for joint planning, management and property sharing.

The assessment of the Council's asset management arrangements found that Argyll and Bute Council was one of the best ranked local authorities in Scotland. Three areas were highlighted for improvement: strategy, policy and plans; structure, roles and responsibilities and performance management. The Council has since re-

established its Asset Management Board, and the Board has now reviewed the national assessment and considered responses to meet the areas where improvement is required. We will continue to monitor the Council's responses to the national report and the progress of implementation of the Board's action plan.

4.7 Equalities

Audit Scotland published a report on *The Impact of the Race Equality Duty on Council Services* in November 2008. Councils have had a duty to eliminate racial discrimination and to promote equal opportunities and good race relations under the race equality legislation since 2002. The report found that while Councils had taken steps to publish strategies and policies on race equality, they had not yet had an impact on the delivery of services.

The Council has developed an Equality Scheme to address its approach to all equalities including race, gender, age and disability and the Equality Scheme links in to the key themes within the Corporate Plan and Single Outcome Agreement.

However, in line with many other councils, the impact of this Scheme on the delivery of services has not yet been assessed.

4.8 Improving Energy Efficiency

Audit Scotland published a report on *Improving Energy Efficiency* across the public sector in December 2008. Notably, they found that while energy consumption has fallen, expenditure has risen, highlighting the continuing pressure on budgets associated with rising energy prices.

All councils signed Scotland's Climate Change Declaration in 2007, which included a commitment to prepare and publish local plans to achieve a significant reduction in greenhouse gas emissions. However, Audit Scotland found that few public bodies have action plans in place to deliver their energy efficiency strategies.

The Council has recognised the need to reduce energy costs and has developed a number of strategies to achieve this. The Council is developing its approach to energy efficiency across all Council services. During the year, the Council approved a carbon management plan, which was developed in association with the Carbon Trust.

4.9 Procurement

Procurement is one of the key areas identified within the Efficiency Programme for councils to achieve year on year savings. Purchasing the right goods and services, at the right time and for the right price can mean better services can be delivered for greater value for money. If purchasing is not done well it can lead to public bodies spending more, diverting resources away from other service priorities.

The Council's has a procurement strategy in place, which has been aligned to the National Procurement Policy Handbook and reviewed against the criteria in the McClelland review.

A fundamental element of the Efficiency Programme was development of centres of expertise to co-ordinate and lead improvements and to help to make savings. The centre of expertise for local government is Scotland Excel, of which the Council is a member.

In July 2009, Audit Scotland published a report on procurement across the public sector called *Improving Public Sector Purchasing*. Local authorities were asked to complete an information return to benchmark good practice across the sector and highlight changes in procurement practice following the McClelland review. The

report points to the savings that can be achieved through collaborative contracts, such as those negotiated by Scotland Excel.

Procurement is a key area for the Council to glean efficiency savings. The Council's efficiency statement for 2008-09 records cash releasing savings of £571k specifically related to improved procurement practices. The Council will continue to seek further procurement efficiencies through the process for change.

4.10 Future Developments

Statutory Performance Indicators

The Accounts Commission has made a significant change in its approach to SPIs. From 2009-10, the SPI direction incorporates two main requirements:

- that councils report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1); and
- that councils report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

In reporting against SPIs 1 and 2, all councils will be required to report performance against 25 indicators specifically defined by the Accounts Commission. However, this provides a key opportunity to develop and report on locally determined indicators that reflect how the Council is performing as a whole. It is essential that these indicators are developed from existing performance management measures and that arrangements are in place to ensure the reliability and accuracy of the information to be reported. We note, for example, that some of the indicators gathered under the SOA are reported by other partners from the CPP. The Council has considered how it will gain assurance on the accuracy of these indicators, including a review of the CPP/SOA scorecard by the Council's internal auditors.

Streamlining External Scrutiny

The Crerar report on the independent review of regulation, audit, inspection and complaints handling of public services contained a series of recommendations designed to streamline the scrutiny landscape in Scotland. In their response to the report, Scottish Ministers asked the Accounts Commission to establish a single audit framework to reduce the burden of scrutiny for local authorities.

Work has now begun on creating a more co-ordinated approach to audit and inspection. Scrutiny bodies including Audit Scotland, HM Inspectorate of Education, the Scottish Housing Regulator and the Social Work Inspection Agency have selected seven councils to pilot a shared risk assessment (five Best Value 2 pathfinders and two development sites). The intention is to develop a single corporate assessment and shared risk assessment for each local authority. From this, an assurance and improvement plan would be prepared which would cover all scrutiny activity over a three year period for each council. It is hoped that the results from these pilots will be available during 2009-10.

Best Value 2

In light of national developments, it is clear that external scrutiny and the performance and accountability framework for public bodies will progressively be focused on national outcomes and Single Outcome Agreements. Audit Scotland is

currently developing its approach to Best Value 2 (BV2) by working with five pathfinder councils. The framework is based on:

- strong baselines
- robust measures of performance
- challenging targets
- comparability with others

The new framework will also assess mechanisms and levels of public engagement achieved to date. From April 2010, the new approach will be rolled out across all 32 councils in Scotland. The timing of Argyll and Bute's inspection will be determined by the shared risk assessment agreed by external audit and inspection bodies. The Council has recently adopted the Public Service Improvement Framework which provides a consistent framework for service improvement across the Council and should provide the tools for a robust approach to self assessment and review that meets the requirements of BV2.

4.11 Key actions going forward

In summary, the key recommendation arising from our performance audit is that the Council should continue to build on the good progress made in addressing the areas for improvement identified in Audit Scotland's best value progress report

The Council recognises that it needs to continue with the current pace of change and to ensure improvements in performance and strategic management lead to real and measurable improvement in service delivery outcomes and service user satisfaction. We are satisfied that officers and members understand the scale of this challenge and are committed to achieving the necessary improvement. Correspondingly, we regard the Council's prospects for future improvement as good.

A Audit reports issued during the year

Audit Area	Target Delivery	Outturn
Financial statements audit		
Interim reports	30 June 2009	Draft issued on 9 June 2009, Final issued on 3 September 2009
Accounts report (ISA260)	early September 2009	Draft issued on 9 September 2009 Final issued on 16 September 2009
Governance		
Interim reports	30 June 2009	Governance Draft on 14 May 2009, Final issued on 3 June 2009 IT Draft issued on 5 May 2009, Final issued on 3 June 2009
Performance		
Best Value- follow up review	30 October 2009	October 2009 (Draft)
SPIs- return to Audit Scotland	31 August 2009	31 August 2009
Grant claims		
Housing and Council Tax Benefit	30 November 2009	Audit fieldwork ongoing
Education Maintenance Allowance	31 July 2009	31 July 2009
Non-domestic rates	8 February 2010	Not yet due
Overall audit		
Annual Audit Report	30 October 2009 *	Draft issued on 28 October 2009 Final issued on 16 November 2009

* per the Audit Plan, 30 September 2009. A revised target of 30 October 2009 was agreed with the Chief Executive in order to include a summary of the best value report.



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