

2001/2002 final report on the audit of

Argyll & Bute Council

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31 October 2002

Controller of Audit
EDINBURGH

Ladies and Gentlemen

Report on the Audit for the year ended 31 March 2002

I have now completed my audit of the Council's Accounts for the year ended 31 March 2002.

As part of my responsibilities as external auditor to the Council I am required to submit, at the conclusion of each year's audit, a report addressed both to Members of the Council and to the Controller of Audit. I have pleasure in attaching my report on the Council's audit for the year to 31 March 2002.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of Members' attention.

I should like to take this opportunity to thank those officers who have assisted my staff in the course of the audit.

Yours faithfully

David McConnell
Chief Auditor

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Executive Summary

Introduction

This report summarises the auditor's main responsibilities and duties and draws the attention of members to the range of matters emerging from the audit of the Council for the year to 31 March 2002.

Financial Statements and Related Matters

There are no qualifications to my audit report in that I am able to conclude that the Council's financial statements present fairly its financial position as at 31 March 2002. However, my audit report highlights the failure of the Property Maintenance Direct Labour Organisation to meet its prescribed financial objective. I have also provided an audit opinion for the Council's Direct Labour Organisations and Direct Service Organisations and can confirm that the prescribed financial objective has been achieved for each description of work and defined activity, with the exception of the Property Maintenance DLO.

Governance and Regularity

As part of the 2001/02 audit, a number of systems were reviewed including main accounting, payment of creditors, unified benefits and payroll. We also undertook follow-up audits of the main financial systems and departmental systems reviewed in previous years. Our systems audit work is designed to help ensure that appropriate levels of control are in place. We also carried out overviews of the Council's internal audit service and of its procedures for the prevention and detection of fraud and corruption. A standard checklist approach was used in each case. Additionally, we carried out an overview of the Council's corporate governance arrangements.

Performance Management

Part of the auditor's statutory responsibilities is to be satisfied that the Council has made appropriate arrangements to secure value for money from its available resources. The main elements of the performance audit work carried out as part of the 2001/2002 audit included an exercise on managing pre-school education (including grant arrangements), a review of the trading standards service and follow-up reviews of property risk management in schools and benchmarking internal audit.

Introduction

1. It may be helpful to members to summarise my main responsibilities and duties and the way in which I approach the conduct of the audit.
2. My responsibilities and duties as auditor derive from the Local Government (Scotland) Act 1973. These responsibilities and duties are summarised in the Audit Scotland Code of Audit Practice which sets out the auditor's objectives as being to review and report on:
 - ◆ the Council's corporate governance arrangements as they relate to
 - the systems of internal control
 - the regularity of transactions, and the prevention and detection of fraud and irregularity
 - standards of conduct and prevention and detection of corruption
 - its financial position;
 - ◆ aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources, and the publication of specified performance information;
 - ◆ the Council's financial statements.
3. Accordingly, I have significantly wider responsibilities than would be expected of external auditors in the private sector. This report on the 2001/2002 audit is a summary of audit activity for the year, and reflects those wider responsibilities.
4. This report requires to be considered in the context of the stewardship responsibilities of the management of the Council. As the Audit Scotland Code of Audit Practice makes clear:

"The prime responsibility for ensuring both that public business is conducted in accordance with the law and proper standards and that public money is handled with absolute integrity and spent appropriately rests with the members and officials. To discharge this accountability, public bodies and those responsible for the conduct of their affairs require to establish and maintain proper arrangements for the governance of their affairs and the stewardship of resources at their disposal."
5. The key issues arising from the audit, which require action by the Council, are set out in the Action Plan included as an appendix to this report.

Financial statements and related matters

- ◆ Introduction
- ◆ Auditor's report
- ◆ Matters from previous years
- ◆ Financial position
- ◆ Issues arising
- ◆ Other issues

Introduction

1. The financial statements of the Council are an essential means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. The management of the Council is responsible for the preparation of the accounts, which present fairly its financial position and the income and expenditure for the year.
2. I am required to place an auditor's report on the financial statements, which contains my opinion as to whether the Council has fulfilled this responsibility.
3. I am also required to consider whether the Council has established adequate arrangements to ensure that its financial position is soundly based.

Auditor's report

4. There are no qualifications to my audit report as, in my opinion, the Council's accounts present fairly its financial position as at 31 March 2002 and its income and expenditure for the year. However, my audit report highlights a failure to comply with a statutory requirement, in that the Property Maintenance Direct Labour Organisation did not meet its prescribed financial objective. This matter is discussed further at paragraph 12 of Section 4 of this report.
5. I have also provided an audit opinion on the Council's Direct Labour Organisations and Direct Service Organisations and can confirm that, with the exception of the Property Maintenance DLO, the prescribed financial objective has been achieved for each description of work and defined activity.
6. It should be noted that the auditor's report included in the financial statements document does not, in the year under audit, refer to the statement on corporate governance arrangements.

Matters from previous years

7. A number of action plan points were included in the 2000/2001 Report to Members. I have summarised below those significant issues that I would draw to the attention of members.
8. **Central support recharges.** The Council had agreed, in response to the previous auditor's comments, to consider automating the central support recharge process further, in order to improve the timely allocation of overhead charges during the 2001/2002 financial year. During our audit of the 2001/2002 annual accounts we noted that the agreed action had not been implemented although work was being progressed. We understand that the Logotech time recording system is now being implemented within the majority of the Council's Central Support Departments, i.e. Corporate and Legal, Finance, Personnel and Information Technology. The information generated from this exercise will be used to produce the central support recharge allocations for 2002/2003 financial year. Auditors will continue to monitor progress in this area.
9. **Performance indicators.** The Council had agreed that each department would report on the action proposed to address the issues identified by external audit with regard to the 2000/2001 Performance Indicators to the Strategic Policy Committee/Audit Committee by 31 December 2001. We noted that no such reports have been presented as yet to the Strategic Policy Committee/Audit Committee. Auditors will continue to monitor progress in this area.
10. **Implementation of the 2000/2001 action plan.** Our audit work also included a review of the Council's progress in implementing the action plan contained in the previous year's final report. We can confirm that action has been taken to address issues raised in last year's report and this includes:
 - ◆ a 'whistleblowing' procedure has been introduced as part of the Council's Public Interest Disclosure Policy;
 - ◆ Internal Audit follow up all internal and external audit report recommendations and progress reports with regard to implementation of these recommendations are presented regularly to the Audit Committee.

Financial position

11. The Report by the Director of Finance, which prefaces the Annual Report and Accounts, indicates that the revenue budget was set such that the authority would end the year in a break even position. During the course of the year, the Council decided to undertake additional work on housing, funded from carry forward Housing Revenue Account (HRA) balances, and the accounts therefore disclose an actual deficit of £0.490million on the HRA. The surplus on other services is £0.402m. The HRA deficit is set against accumulated surpluses, leaving funds to be used in future years to contribute to the Housing Capital Programme. The General Fund surplus has been added to the surplus brought forward from the previous year of £0.085m; the total of £0.487m has been carried forward to financial year 2002/2003.

12. The Report by the Director of Finance also discloses that, within Education Services, expenditure exceeded budget by £0.691m. Two reports submitted by the Director of Finance to the Council and the Strategic Policy Committee on 27 June 2002 and 15 August 2002 respectively, give further details of Education Services overspend in 2001/2002. Both reports show that Education Services' actual expenditure exceeded budget by £0.891m.

13. The difference of £0.200m is due to the fact that Education Services deferred £0.200m of capital expenditure to future years and transferred £0.200m of capital consent in 2001/2002 to Roads and Transportation Services. Consequent adjustments by Roads and Transportation Services effectively increased its surplus by £0.200m against the original revenue budget. As this £0.200m of additional Roads and Transportation Services surplus was generated by Education Services transferring its capital consent to Roads and Transportation Services, the Director of Finance is of the opinion that this £0.200m of additional surplus can be taken against Education Services deficit of £0.891m to reduce it to £0.691m.

14. Due to the identification of concerns over the budgetary position within the Education Department, a dedicated finance team, based within the Education Department, was set up in November 2001 to introduce improvements in budgetary control. This team has reported regularly to the Education Finance Working Group and has revised the approach to budget monitoring and reporting. It has been considered necessary to examine variances at a lower level than those examined in other departments; all Education budget holders will be required to provide explanations for variances at account code level of the lower of 5% or £5,000 (but greater than £500). The authority consider that this should provide greater control and also encourage budget holders to take ownership of their budgets and become fully involved in the financial monitoring process. The issue of budgetary control within the department has clearly been a cause for concern, both in itself, and in the context of similar issues occurring elsewhere in Scottish Local Government. This is an area which will be subject to review by external audit in 2002/2003.
15. Capital expenditure in 2001/2002 amounted to £19.103million; £3.349million was invested in the council housing stock, renewing roofs, heating, windows, improving thermal efficiency. General services capital expenditure of £15.754million is spread over all the services in Argyll & Bute. Capital expenditure is funded from cash generated from the sale of assets, revenue contributions, grants from various funding bodies, and from borrowing.

Issues arising

16. A number of issues arose during the course of the audit of the Council's accounts, which were resolved in discussion or have been separately reported to officers. These include such matters as non-compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (ACOP). This is an established part of the audit process in respect of which detailed reporting to members' is not considered appropriate. There are, however, certain issues that I would draw to members' attention.
17. **Waste Management – Public Private Partnership.** One of the most significant transactions in the year involved the Council entering into a Public Private Partnership (PPP) to meet the Council's long term waste disposal needs. The contract was signed in September 2001 and the agreement will operate until September 2026. As part of the arrangement, three waste disposal sites, two transfer stations and five civic amenity sites were leased to the project's external provider for the duration of the agreement. The PPP scheme has been assessed by the authority's financial advisers as warranting an off-balance sheet accounting treatment and I have confirmed that the process followed to determine whether the Council should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance.

18. The Council has not yet recognized, in 2001/2002, any level of acquisition of the final residual value of the assets which will revert to the Council at the end of the agreement. It is my view that such adjustments would be required. However, the amounts involved for the first part year of the agreement, from September 2001, are not considered to be material in the context of the accounts, and I note that the Council is to consider recognising these transactions from 2002/2003. Auditors will continue to review the operation of this significant arrangement.
19. **Central support recharges.** As noted in the 'matters from previous years' section, the Council is currently automating the process followed when calculating the year end central support service recharge allocations, the results of which will be reflected in the 2002/2003 Annual Accounts.
20. The 2001/2002 year end central support service recharge allocations were calculated on the basis of percentages calculated for 2001/02 revenue budget setting exercise. The percentages used were calculated from information generated during the service level agreement (SLA) exercise up to September 2000. This involved calculating the level of charges which would be due under each SLA and totalling these by user department for each of the central departments and then expressing the resulting user department total as a percentage of the total support service charge income for the relevant central department. The resulting percentages were then applied to the net cost of the central department to derive the actual charge. This process is somewhat complex.
21. Our audit work identified that, in 2001/02, approximately £252,000 of Finance Department costs were recharged to the Local Tax Collection service. However, the Head of Accounting noted that this charge was unrealistic and that Local Tax Collection should be recharged only a small amount of central Finance Department costs. This highlights the inaccuracies of the methodology used to calculate the year end central support service recharge allocations. Although, these inaccuracies would not affect the reported surplus for 2001/2002, they may impact upon the net expenditure amounts reported for each Council service.
22. In addition, any inaccuracies in the central support service recharge may impact upon the DLOs/DSOs accounts which are allocated a proportion of the costs recharged to the appropriate client service. Audit testing also identified that the methodology used to apportion central support service recharges to the individual DLOs and DSOs is not wholly robust. Auditors will continue to monitor progress with regard to the automation of central support service recharge allocations.

23. **Fixed assets.** CIPFA's Best Value Accounting Code of Practice 2001 (Annex B – Paragraph B12) indicates that capital charges on non-operational assets should not be charged to service revenue accounts, as by definition, no service is making use of the assets. However, approximately £368,000 of capital charges in respect of non-operational assets were charged to service revenue accounts in 2001/2002. This is due to the fact that service revenue accounts are receiving income for these non-operational buildings which are leased to external parties and, as such, receive the capital charge for deriving benefit from the use of the asset.
24. Paragraph 4.190 of the guidance notes for Code of Practice on Local Authority Accounting in the United Kingdom (ACOP) states that *'Assets should not be included as non-operational where they are contributing to the achievement of one or more of the authority's policy objectives for a service.'* I have agreed with the Director of Finance that non-operational assets which are leased to external parties will be reviewed next year to assess whether these assets are contributing to the achievement of one or more of the Council's policy objectives for a service. If any assets are deemed to be contributing to the achievement of one or more of the Council's policy objectives for a service, they should be classified as operational.

Other issues

25. **Future funding of housing.** The Council commissioned external consultants – DTZ Pineda – to identify the options available to it for the management and maintenance of its housing stock. One of the options identified was the use of a housing stock transfer. It is the Council's intention that tenants would be fully consulted before deciding to progress the matter further. I will continue to note developments in this area.
26. **FRS 17 Retirement Benefits.** The Council agreed in response to the 2000/01 Final Report by the auditors to ensure that procedures would be implemented in readiness for the application of the Financial Reporting Standard 17 – Retirement Benefits in future years. I noted from my audit of the 2001/02 annual accounts that the Council has complied with the disclosure requirements of ACOP, which includes the requirement to include a note to the Consolidated Balance Sheet disclosing the Council's net asset/liability, in respect of its share in the Strathclyde Pension Fund. The CIPFA/LASAAC Joint Committee is proposing that the requirements of FRS 17 will be incorporated fully into ACOP by the 2003/2004 financial year. I will continue to monitor the Council's compliance with the disclosure requirements of ACOP in this area.

Governance

- ◆ Matters from previous years
- ◆ Systems of internal control
- ◆ ICT audit
- ◆ Fraud and corruption arrangements
- ◆ Internal audit
- ◆ Corporate governance arrangements
- ◆ Legality issues

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1. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
 2. As auditor, I have a responsibility to review and report on the Council's corporate governance arrangements.
 3. Performance issues are reported separately at section 5 following.

Matters from previous years

4. I am pleased to report that remedial action has been taken in regard to most of the matters raised in both management reports issued last year covering the main financial systems and general computer environment. Of the thirty nine agreed audit recommendations made last year, twenty seven had been implemented (69%), while plans have been put in place to recover slippage on the twelve remaining actions. We will follow up these remaining points at a later date to confirm full implementation of audit recommendations.

Systems of internal control

5. The Council has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance controls and risk management. This involves undertaking a proper assessment of the risks facing the Council and implementing systems and procedures to address those risks.
6. During the audit, a number of the financial systems were reviewed. The main findings to which I would direct members' attention are detailed overleaf. These have been restricted to the major matters raised.

7. **Payment of creditors.** Our audit testing of the creditors system indicated that most of the key internal controls were operating satisfactorily. A number of control weaknesses were reported to management and included the following:
- ◆ a review of the procedures used for the payment of invoices should be undertaken to ensure that value for money is being achieved
 - ◆ the payment date overwrite facility should be restricted to the Creditors Supervisor and the Senior Accounting Assistant
 - ◆ the 'pay all run' facility should only be used when there is a business need to do so e.g. at times of system upgrades. Excessive use of this facility could result in loss of interest to the Council and would distort its invoice payment performance
 - ◆ departments should be reminded of the need for consistent application of checks on orders and invoices prior to them being passed to the Creditors Section for payment
 - ◆ a review of suppliers on the creditors system should be performed. Where appropriate, duplicate entries should be removed.
8. **Payroll.** We carried out an audit of the payroll system which indicated that there are adequate controls to ensure that payments are only made to valid employees, all data input is properly authorised, standing data is complete and accurate, payments have been correctly calculated and payroll costs are correctly recorded in the financial ledger. However, there are some areas where we identified potential improvements. These relate to the need for formal written procedural instructions and the introduction of a list of authorised signatories.
9. Management have agreed an action plan that will address the weaknesses identified above. We will follow this up at a later date.
10. **Property Maintenance DLO.** Our review of the budgetary control system operating within the Property Maintenance DLO identified that management accounts for DLOs and DSOs are prepared on a monthly basis, with formal financial monitoring meetings being held quarterly. The minutes of the financial monitoring meeting held on 30 October 2001 show that a surplus position for the year was being projected for all DSOs and DLOs. However, the management accounts to 30 September 2001 disclose a work in progress balance of £800,000 in relation to the Property Maintenance DLO and prior to the 30 October meeting a review was undertaken which revealed that a number of jobs were in dispute, with other jobs reported as completed but which had not been invoiced.

11. The Commercial Operations Board, at their meeting on 15 November 2001 were informed that all DLOs and DSOs were in a financially stable position as at 30 September 2001 and on target to break even by the end of the financial year. Management consider that problems arose during the second half of the financial year.
12. Our consideration of the Property Maintenance DLO's activities identified that the DLO's reported deficit of £85,000 at 31 March 2002 arose mainly from those individual schemes which are separately tendered pieces of work. For this work, the volume was higher than anticipated and subsequently did not achieve a reasonable overall return. The costing system proved not to be particularly effective and this led to pricing being unrealistic, and ongoing cost control measures were insufficiently robust. In addition, the DLO underwent internal reorganisation during the year with changes in key staff, which may have contributed to the problems encountered.
13. We understand that the DLO/DSO Financial Monitoring Group, which meets on a quarterly basis, is continuing to rigorously review the management accounts of the DLO and that job costing is being reviewed to ensure prices are more realistic. Despite the continuing review, the statutory objectives were not achieved. Auditors will continue to monitor progress in this area and review the financial position of DLO/DSOs during 2002/2003.
14. **Unified benefits.** We carried out an audit of the benefits system which encompassed both housing and council tax benefits. Our testing focused on transactions processed in the Campbeltown, Dunoon and Oban offices. Overall, we concluded that most internal controls were operating as intended although a number of control weaknesses were identified and the more significant of these are outlined below:
 - ◆ the Council complies with accepted good practice and has issued a Benefits Procedure Manual to all staff involved in the processing of all benefit claims. However, our review of the Manual identified that it does not make reference to the fact that staff should not process their own benefit applications or those of relatives and friends. Also, the Manual does not cover the procedures to be followed by staff processing backdated applications and when dealing with the non-return of review forms
 - ◆ Council Tax Benefit claimants not returning review forms are not followed up after a reminder is sent out, for both owner occupiers and tenants. Benefit is withdrawn from the review date and no attempt is made to determine when entitlement to the benefit ceased in these instances

- ◆ the Benefits System is only reconciled with the financial ledger on a yearly basis at the financial year end. This increases the risk that material errors remain unidentified throughout the year
 - ◆ not all area offices operate a rotation of duties and workload system, which may lead to a decrease in staff motivation where workloads are unevenly distributed amongst staff
 - ◆ a data matching exercise for all Council employees has not been carried out to identify staff who may be fraudulently claiming benefits
15. Our findings have been to be reported in draft to management for their consideration. Any comments received will be reflected in the formal report to be issued in early course.
16. **Council Tax Income.** Our review of the Council Tax Income Account, which was conducted as part of the 2001/2002 annual accounts audit, noted that a reconciliation between the number of properties held within the Council Tax system and those properties held within the assessors' system is not carried out regularly. We note that this reconciliation process was commenced by the Council in July 2002 and is now carried out on a regular basis.

Information and communications technology (ICT) audit

17. Our planned programme of work for 2001/2002 included two information and communications technology audit exercises.
18. **Pathfinder diagnostic review (PDR).** A PDR exercise is carried out in year one of our audit appointment and is intended largely to inform our audit planning process and as such, no report is prepared for management. The PDR exercise covers six key themes: - accountability, acquisition, service management, project and change management, inventory control and risk and security.
19. **Computer Services Review (CSR).** A computer services review was planned for 2001/2002. However, an Internal Audit review of Information Technology was carried out during the year. We have considered the content of this report and have amended our CSR programme accordingly to minimise any potential areas of overlap. It is intended that this work be reported by the end of November 2002.
20. A draft report outlining our findings will be issued in early course for management's consideration.

Fraud and corruption

21. The Council has the responsibility to establish arrangements to prevent and detect fraud and corruption. As part of our audit we considered the adequacy of these arrangements using a standard checklist approach. Overall, we noted a number of good practices, including the following:
- ◆ an 'Anti-Fraud and Anti-Corruption Strategy' which aims to promote the Council's culture of honesty and integrity;
 - ◆ the Strategy also contains defalcation reporting procedures which outline the arrangements for reporting suspected frauds/irregularities and the role of internal audit in any investigation;
 - ◆ a 'whistle blowing policy' that is consistent with the provisions of the Public Interest Disclosure Act 1998;
 - ◆ in relation to housing and council tax benefits, the Council has documented procedures for the prevention and detection of fraud and corruption, staff training on anti-fraud measures and a proactive approach to fraud prevention and detection.

Internal audit

22. Internal audit is a key element of the internal control framework established by management. A strong internal audit function is essential for the effectiveness of the internal control systems.
23. Argyll & Bute Council's Internal Audit section was comprehensively reviewed as part of a national value for money study undertaken by Audit Scotland in 2000/2001. This resulted in a local report, which concluded that the Council's Internal Audit section did not comply with a number of requirements of the CIPFA Code of Practice for Internal Audit in Local Government. Our follow up audit work (outlined in more detail at Section 5 of this report) in the current year confirmed that the internal audit service has implemented most of the local report's recommendations and the head of the section is committed to continuous improvement.
24. Internal audit and external audit co-ordinate their work at the planning stage, and throughout the audit, to ensure there is no duplication of effort. In financial year 2001/2002, we formally relied on aspects of work undertaken by internal audit on:
- ◆ performance indicators;
 - ◆ housing and council tax benefits.

25. In future years we intend, where possible, to further rely on internal audit. However, our assessment of the Internal Audit function during 2001/2002 noted the following:
- ◆ Historically the Internal Audit Manager has had responsibility for the Council's fraud officers and has spent a fair proportion of his time managing and performing benefit fraud investigations. Such work was not part of the Internal Audit plan. We understand that a fraud manager has recently been appointed and for the remainder of 2002/03 there will be a reduction in input required from the Internal Audit Manager
 - ◆ Internal Audit suffered from a shortage of resources during 2001/02 and two members of staff were recruited in July 2002. The section now comprises two internal audit managers one of whom is designated as the lead, two auditors and two audit assistants. We feel that the Council should consider whether this is the most appropriate structure
 - ◆ There is some question as to whether Internal Audit is appropriately independent of line management. In practice, Internal Audit report to the Head of Accounting, who is ultimately responsible for many of the systems that Internal Audit review. Although it is acknowledged that Internal Audit do have access to the Director of Finance, the Chief Executive, Chairman of the Audit Committee and the audit partners KPMG, it may be more appropriate for Internal Audit to report directly to the Director of Finance and have direct access to the Chairman of the Audit Committee.

Corporate governance arrangements

26. An overview of the Council's corporate governance arrangements was carried out using a standard checklist approach. We noted that most the elements necessary to ensure that the Council applies the three fundamental principles of corporate governance (i.e. openness, integrity and accountability) are in place. These include the following areas:
- ◆ the operation of an Audit Committee;
 - ◆ a comprehensive set of approved financial regulations and standing orders;
 - ◆ a comprehensive scheme of administration and delegations;
 - ◆ a Risk Management Strategy for the Council which has been prepared and approved by elected members;
 - ◆ the formal adoption of a number of codes of practice, including Codes of Conduct for both Members and Employees and a Local Code of Corporate Governance based on CIPFA guidance.

27. We note that the Council does not have a detailed corporate plan incorporating each of the Council Services' three-year service plans. The Council's current corporate aims and objectives are based on the Community Planning partnership objectives and associated action plans which lead to the three corporate priorities of promoting health and well being, improving opportunities for learning, employment and skills development and sustaining and developing communities, culture and environment. In addition, the Council has three "strategic methods" of:
- ◆ developing our people;
 - ◆ working in partnership;
 - ◆ improving services and containing costs.
28. As part of the 2002/2003 service planning process, the Council intends to produce a corporate plan which will bring together in a more explicit and quantified manner, relevant service and strategic issues. We will continue to monitor developments in this significant area.

Legality issues

29. While the responsibility for ensuring the legality of all activities and transactions rests with the management of the authority, the auditor is required to keep under review the legality of significant transactions and events, and have an awareness of the key requirements of relevant statutory provisions.
30. In order to discharge my responsibilities in this area, the legality of items in the accounts are considered by the inclusion of all significant legal requirements in audit programmes and checklists used in the conduct of the audit and by the deployment of staff who have substantial experience of the public sector's legal framework.
31. I also review the Council's minutes for items where the Council's Monitoring Officer has raised concerns to ensure that these are adequately followed-up and resolved. In addition, I obtain from the Director of Finance written confirmation for each annual audit that the Council's officials are not aware of any possible non-compliance with the law or regulations which could have a material effect on the authority's operation.
32. In the current financial year there have been no legal issues brought to my attention, of which I require to apprise elected members.

Performance Management

- ◆ Matters from previous years
 - ◆ Centrally directed studies
 - ◆ Performance management and planning (PMP)
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1. As part of my statutory responsibilities I have to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Also, the Council has a statutory duty to develop proper management arrangements for value for money.
2. In fulfilling that responsibility, external auditors carry out a range of work. For Argyll & Bute Council, this consisted of the following main elements:
 - ◆ follow-up audits of value for money studies undertaken by the previous auditor and outlined in last year's Final Report;
 - ◆ centrally directed studies identified by the Accounts Commission;
 - ◆ performance management and planning (PMP);
 - ◆ statutory performance indicators.
3. The comments that follow represent a brief summary of the performance audit work carried out in 2001/2002 and significant future developments.

Matters from previous years

4. **Property risk management in schools.** A follow up audit was carried out to monitor progress in implementing agreed recommendations arising from the 2000/2001 audit report on property risk management in schools. This report compared Argyll & Bute Council's performance against good practice as reported in Audit Scotland's national report '*A safer place: revisited*' (June 2001). Our follow-up audit highlighted that all of 7 agreed audit recommendations are currently being progressed. Although, the date for implementation of all 7 improvement actions has not yet been reached, we did note that progress is being made and that the target date for implementation should be achieved.

5. **Benchmarking internal audit.** In August 2001, Audit Scotland at the request of the Accounts Commission prepared a national report 'A Job Worth Doing' – Raising the Standard of Internal Audit in Scottish Councils. A local report was issued on the basis of the national report and this included an agreed action plan of improvements. Following this report the Council chose to seek a suitable partner to establish an internal audit partnership. After a tendering exercise, KPMG were appointed to provide 390 days internal audit input over a three year period. As part of our 2001/02 audit activity, a follow up audit was carried out to assess progress made by Argyll & Bute Council's Internal Audit service in implementing the agreed action plan from the local report.
6. Overall, we concluded that Argyll & Bute Council's Internal Audit service has made good progress in implementing improvements recommended in last year's local report. The service also complies with many of the key areas of good practice highlighted in 'A Job Worth Doing' although there is still some scope for improvement including the following areas:
 - ◆ appropriate staff training has yet to be agreed and delivered;
 - ◆ the introduction of the latest technology for planning and reporting audit work has still to be considered;
 - ◆ formats for files, reports and working papers have still to be finalised.

Management have agreed to take steps to address these issues and we will monitor progress in implementation in our 2002/2003 review.

Centrally directed studies

7. Audit Scotland required auditors to carry out two centrally directed national studies in 2001/2002:
 - ◆ a performance audit of trading standards; and
 - ◆ managing pre-school provision.
8. **Performance audit of trading standards services.** This exercise involved piloting 'a tailored performance audit' approach with trading standards services across all Scottish councils during 2001/02. The performance audit model was designed to enable trading standards services to self-assess their performance against identified good practice and, where necessary, take action to improve.
9. The study methodology was based on a self-assessment process involving three main strands:

- ◆ *service profiles and activity analyses* – using data already gathered nationally for trading standards services
- ◆ *management arrangements* – covering PMP issues (e.g. understanding stakeholders' needs, managing staffing, performance monitoring and control, etc)
- ◆ *service performance* – including a series of good practice self-assessment guides covering elements of trading standards work (e.g. programmed inspections, consumer advice, animal health and debt counselling).

The self-assessment carried out by Argyll & Bute Council trading standards officers was subject to an independent peer review by a trading standards officer from Falkirk Council although with external audit taking a lead role.

10. The main output from the audit was a draft improvement action plan (IAP) highlighting areas where the trading standards service could improve its management arrangements and service performance as appropriate. The IAP is being reviewed by ourselves and a formal report on the Trading Standards audit will be issued in early course.
11. **Managing pre-school provision.** This audit consists of two elements as follows:
 - ◆ *Mandatory element.* This part of the audit reviewed the Council's arrangements for completing the Pre-School Education Grant and the Disbursement of Funds in terms of Sections 23 and 25, respectively, of the Education (Scotland) Act 1996. The main objectives were to confirm that Argyll & Bute Council had robust arrangements in place for managing its contracts with partner organisations and ensuring grant monies were used to provide a quality service
 - ◆ *Discretionary element.* This element of the audit will be carried out at a later stage. The key objective of this element of the audit will be to review pre-school education provision within Argyll & Bute Council and compare it against the good practice framework contained in Audit Scotland's publication '*A good start: Commissioning pre-school education*'. The aim will be to highlight good practices and identify areas with scope for improvement.

12. In our report to management we concluded that procedures for the commissioning of partners appear to be soundly based, and the current contractual arrangements generally provide for adequate agreement between the Council and the partner providers for the provision of a high standard of service and compliance with all statutory registration requirements. However, we did highlight some areas for improvement, including that the Council should review the adequacy of current procedures for review and monitoring of the financial viability of partner providers.

Management have agreed an action plan of improvements that will address the relevant areas.

Performance management and planning (PMP)

13. The initial report of the Best Value Task Force issued in July 1997 laid out the principles of a Best Value approach to managing and delivering services in local government. The Task Force's second report issued in July 1998 required councils to develop a performance management and planning (PMP) framework to deliver continuous improvement.
14. The objectives of the PMP audit are to provide independent external assurance that the Council is making progress in implementing a PMP framework and committed to continuous improvement.
15. For 2001/02 there were three components to the PMP audit, as outlined below:
 - ◆ a service level PMP 3 audit carried out in two services – Community Care and Roads and Transportation – which were selected in consultation with the Chief Executive;
 - ◆ a follow-up audit of the corporate and service level audits (Personnel, Registration and Transport Services) carried out in 2000/2001 (PMP 2);
 - ◆ further follow-up as necessary of the 1999/2000 service level audits (PMP 1) which included Sheltered Housing, Non-Domestic Rates and Estates Management services.

16. In our summary report to the Chief Executive we concluded that the Council was able to demonstrate a clear commitment and progress in implementing a Best Value PMP framework. We also found that services had made significant progress in implementing previously agreed improvement actions and could also provide evidence of tangible service improvements. We also identified key issues that require input at a corporate level:
- ◆ the need to develop and implement a corporate asset management strategy. The current position provides a means to manage assets but could be more efficient;
 - ◆ the need to consider the introduction of commitment accounting. Budget monitoring on a full accruals basis would be facilitated by the introduction of a system of commitment accounting. This would allow services to monitor and control their budgets more effectively; and
 - ◆ the requirement to review Public Performance Reporting (PPR), to ensure a wider range of local measures are included in the PPR. Attainment of strategic objectives, achievement of value for money and communication of future plans are all areas which could be considered for inclusion in future PPRs.
17. We were also able to report that a number of tangible achievements have been made by all services subject to a PMP audit since the introduction of the Best Value regime. Some of the more significant are summarised below:
- ◆ ***Estates Management:*** the service has introduced the Performance Review and Development system to ensure staff skills develop in tandem with changes and improvements to service delivery;
 - ◆ ***Non Domestic Rates:*** regular consultation exercises are being undertaken and clear objectives have been set;
 - ◆ ***Sheltered Housing:*** increased levels of satisfaction expressed by tenants who appreciated involvement in the service standards adopted;
 - ◆ ***Corporate:*** joint working has been established throughout the Council. Partnerships with various groups including the NHS, Keep Scotland Beautiful (KSB) and a Public Private Partnership (PPP) with Shanks have ensured that a number of initiatives have succeeded;
 - ◆ ***Corporate:*** the implementation of a Social Inclusion Policy has reduced the exclusion from the workforce of the five most socio-economically deprived areas by providing improved education, training and employment opportunities.

18. **PMP 3 service audits.** Overall we concluded that both services covered by the PMP 3 audit in 2001/2002, i.e. Community Care and Roads and Transportation, each had a sound PMP framework in place although with scope for improvement including:

Community Care Services

- ◆ the need to ensure that Best Value principles and approach are implemented throughout the service particularly those areas of activity which have yet to receive a Best Value review;
- ◆ ensuring action plans are prepared as a result of each Best Value review. A monitoring system is also required to ensure that progress can be evaluated;
- ◆ the requirement to fully implement the agreed performance management planning (PMP) framework. This will allow performance on a range of topics to be reported systematically to management and members.

Roads and Transportation Service

- ◆ the need to ensure that future consultation exercises include an appropriate range of participants;
- ◆ the requirement to develop a range of efficiency reviews to be undertaken within the service. These should be incorporated into future service plans;
- ◆ ensuring that future Public Performance Reports contain performance measures more relevant to the service's activities. Alternative methods (other than statutory performance indicators) of reporting need to be considered.

An improvement agenda has been agreed with the management of each service to further strengthen their PMP framework. This will be followed up by us at a later date.

19. **PMP 2 follow up audits.** A total of 52 improvements were agreed for the PMP 2 service level audits and PMP 2 corporate audit completed in 2000/2001. Of these agreed improvements, thirty (58%) have been implemented as planned. Overall, we were satisfied with the reasons provided by services for not fully implementing all improvement actions and plans have been put in place to recover any slippage. The outstanding improvement actions will be followed up by us at a later date to confirm full implementation.
20. **PMP 1 follow up audits.** Our follow up audit work confirmed that the majority of improvement actions had been fully implemented, with the residual issues outstanding being substantially complete.

Statutory performance indicators

21. The Local Government Act 1992 requires the Accounts Commission to issue directions to local authorities to publish information relating to their activities in any financial year which the Commission consider will facilitate the making of appropriate comparisons (by reference to cost, economy, efficiency and effectiveness) between:
 - (a) the standards of performance achieved by different authorities in that financial year; and
 - (b) the standards of performance achieved by such bodies in different financial years.
22. The Commission's ninth Direction was issued in December 2000 requiring the publication, by 30 September 2002, of specified performance data in relation to the 2000/2001 financial year in the form of a 'statutory advertisement'.
23. We are pleased to record that the authority achieved publication of the advertisement within the statutory timetable and that, generally, the published performance information complied with the relevant Direction.
24. However, we noted that in 2001/2002, four of the Social Work Performance Indicators (PIs) were found to be unreliable, compared to three in 2000/2001. This was due to the fact that the Council was unable to provide a complete audit trail between working papers and the reported PIs. In addition, one PI within each of the areas of Libraries, Housing and Planning was found to be unreliable. These PIs were deemed unreliable as the systems used to collect the required data were flawed. It was necessary to draw attention to these matters in our report and further development is required by the Council to secure full compliance with the Direction.

Concluding remarks

1. I am pleased to be able formally to conclude the audit of the Council for 2001/2002.
2. The key issues that require action are set out in the form of an Action Plan at Appendix A.
3. This is the first year of my audit appointment, and I should like to take this opportunity to record my thanks to those officers and members of the Council with whom we have had contact during our audit for their courteous and helpful co-operation.

Action Plan

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
4/8 & 9	Matters from previous years. The Council should ensure that all outstanding issues from the 2000/2001 Final Report are implemented.	The issues raised will be addressed prior to the completion of the 2002/03 annual accounts. Members received full details of the 2000-2001 PI's via the "Councillors' Noticeboard" newsletter. Audit Scotland were correct to say it was not reported to committee as such. However the 2001-2002 PI's have been reported to both the SPC(3 October 2002) and to the Audit Committee(8 November 2002).	B West A Bovaird	31/03/2003 for 2002/03 Annual Accounts Already done
6/14	Education Department expenditure. The Council should continue to monitor the Education Department's financial reporting and budget position.	This is currently being addressed. An action plan has been prepared to address the improvements required in financial control within Education. The action plan is currently being progressed by an augmented finance team for Education. A monitoring group of members and senior officials has	Education Finance Monitoring Group	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
6/14 contd		been established to review progress against the action plan. The Group is reporting progress to the Strategic Policy Committee. The action plan continues until March 2003.		
7/18	Waste management PPP. The Council should ensure that the final residual value of assets reverting back to the Council at the end of the agreement is recognized from 2002/03 onwards.	The view on this is that the final residual value of the assets reverting back at the end of the PPP should be regarded as zero. We will have paid for their provision and the services involved over the past year and the next 24. At the end of the contract the physical assets will have 5 years' capacity or operational life (excepting moveable plant, which is simply to be operational at the time). That 5 years, however, is offset by the potential environmental liability, which will last possibly up to 30 years after site closure. I think it too early to second guess the asset value vs liability cost argument.	B West	31/03/2003 for 2002/03 Annual Accounts

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
7/21 & 22	Central support recharges. The Council should ensure that the central support recharge process is improved to allow overhead charges to be allocated in a realistic and timely manner.	This will be addressed prior to the completion of the 2002/03 annual accounts.	B West	31/03/2003
8/24	Non-operational assets. The Council should review all non-operational assets to assess whether these assets are contributing to the achievement of one or more of the Council's policy objectives for a service.	Finance and Estates will review the non-operational assets with a view to reclassifying those assets which are to contribute to a service's objectives.	M Miller	31/03/2003 for 2002/03 Annual Accounts
11/13	Property maintenance DLO. The Council should continue to review the financial position of the Property Maintenance DLO on a regular basis.	This is being done on a regular basis: Quarterly reporting to the Commercial Operations Board of the Council, which in turn reports to the Strategic Policy Committee. Monthly monitoring of Management Accounts, which in turn is reported to the Chair of COB, the Council Leader and the Spokesperson for Resources.	DLO/DSO Finance Monitoring Group	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Management response	Action	
			Who by	When by
11/13 contd		Weekly review at a management level of worker productivity and work in progress. These processes will continue, with the possible exception of reporting to Chair of COB, etc as regularly, while there is any problem with the DLO's financial position.		
14/25	Internal audit. The Council should review the current structure and reporting arrangements of Internal Audit.	The Council recently reviewed the structure and reporting arrangements of Internal Audit and entered into a partnership for Internal Audit with KPMG for a 3 year period. It is not proposed to review the structure prior to the end of the partnership.	S McGregor	January 2005
15/27 & 28	Corporate plan. The Council should develop and approve a detailed corporate plan which reflects both the Council's corporate priorities and objectives	There is not a single document called the "Corporate Plan". Service plans bring together a 3-year cycle of planning on financial and service issues – with corporate priorities fully incorporated within individual	A Bovaird	Ongoing

Final Report Page/Paragraph Reference	Issue to be addressed by the Council	Action	
		Management response	Who by When by
20/16 contd		<p>developments. Without e-procurement progress it is not possible to give target date for implementation.</p> <p>The Council's PPR process is kept under constant review. The development planned for 2001-02 was to circulate a Public Performance Report to all house holds in Argyll and Bute. This was not possible since the requirement to advertise PIs in the local press had no, despite expectations, been repealed and we did not have the money to do both.</p>	<p>A Bovaird</p> <p>Ongoing</p>

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