

INTERNAL FINANCIAL CONTROL STATEMENT (IFCS)

FINAL DRAFT

To the members of Argyll & Bute Council, the Director of Finance and the Chief Executive

As Internal Audit Manager of Argyll & Bute Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Council for the year ended 31st March 2003.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Internal Audit Manager to provide an annual overall assessment of the robustness of the internal financial control system.

Sound internal controls

The main objectives of the Council's internal financial control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of financial control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal financial control.

The work of internal audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal financial control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal financial control as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The section undertakes an annual programme of work approved by the Audit Committee based on a 3-year strategic audit plan. The strategic audit plan is based on a formal needs assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters arising from internal audit work are reported to the Director of Finance and the Council's Audit Committee.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by internal audit during the year to 31 March 2003;
- The assessment of needs completed during the preparation of the strategic audit plan;
- Reports issued by the Council's external auditors, Audit Scotland.
- Internal Audit knowledge of the Council's governance, risk management and performance monitoring arrangements.

Opinion

Except for the following listed matters it is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31st March 2003:

- The capital investment control guidelines currently in place require review and amendment;
- The project management disciplines in use for controlling capital programmes are not sufficiently formalised;
- The Payroll system has inadequate written procedural instructions in place;
- Arrangements to prepare a Risk Register are in place and it is expected that a draft register will be prepared by May 2003. The final version is planned to be available by September 2003;
- An augmented Finance team is now located within Education headquarters in Dunoon with the objective of improving budgetary control procedures within the department. Regular progress reports are submitted to the Strategic Policy committee following meetings of the Education Financial Monitoring Group. A requirement to achieve savings of approximately £1.3m was identified and latest reports indicate that this objective will be achieved THIS STATEMENT TO BE REVISED; and
- The Council will be looking at a revised Business Plan for the Building Maintenance DLO. This follows comments made by Amey in their review of Council services and the Council's own awareness of a difficult situation in achieving the break-even requirement. The most recent Management Accounts show that a loss-making situation has been halted and there is a basis for projecting at least a break-even position for the future. THIS STATEMENT TO BE REVISED

Ian Nisbet, MBA MSc ACMA

Internal Audit Manager

HQ Kilmory

30/05/2003