

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:

- There are capital control guidelines in place but they are inadequate and therefore require amendment. Management is currently addressing this issue;
- There are capital project management disciplines in place, but on the basis of audit work carried out in this financial year these disciplines need to be more formal. Management is currently addressing this issue;
- Arrangements to prepare a Risk Register are in place and it is expected that a draft register will be prepared by June 2003. The final version is planned to be available by September 2003;
- A finance team has now been in place within the Education Department for a full financial year and the outturn, for 2002/2003, is within budget. The Council external auditors, Audit Scotland have recently undertaken an examination of the revenue budget monitoring process, now in place, and their initial view is one of satisfaction with the improvements. It is recognised that further improvements have to be made and these have been built into an ongoing Action Plan for 2003/04; and
- The Building Maintenance DLO came to prominence in the early part of the 2002/03 financial year when a projected loss of substantial proportions in the Building Services Direct Labour Organisation was identified. There then followed a programme of actions to ensure that losses were stemmed, performance reported and structural changes made to seek a sustainable future for the Building Services DLO. The Operational Services Department as the successor in large measure to elements of TPS and DES proposes, over the coming year, to take steps to continue to address 'hot spots' of concern and ensure overall financial success.

Ian Nisbet, MBA MSc ACMA

Internal Audit Manager

HQ Kilmory

30/05/2003