

APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2007-2008 AND ACTION BEING TAKEN BY THE COUNCIL

Ref	Matter Identified by External Audit	Action Being Taken by Council
1	Financial Statements – To provide an opinion on the Council’s financial statements for the year ended 31 March 2008.	
1.1	We gave an unqualified opinion on the Council’s 2007-08 financial statements on 30 September 2008.	Noted
1.2	<p>The Council’s catering and cleaning trading operation has recorded a £3.7million deficit over a rolling 3 year period and has, therefore, failed to meet its statutory financial target for the third successive year.</p> <p>The Council should:</p> <p>Continue to progress the action plan to reduce the significant deficits recorded by the Catering and Cleaning Trading Account and ensure it delivers best value.</p>	Noted
1.3	<p>We note that the Council’s target level for reserves has not been calculated as part of a risk based assessment of the balances required to be held to meet contingencies and respond effectively to unforeseen events. In addition, the revised target is unlikely to be achieved for the 2008-09 financial year, and this could represent a risk to the achievement of corporate objectives.</p> <p>The Council should:</p> <p>Review the appropriateness of the financial assumptions contained within the three year budget plan to ensure it continues to be achievable.</p>	This is carried out as part of the budget process each year.
1.4	<p>The Council will be required to adopt International Financial Reporting Standards (IFRS) in the preparation of the 2010-11 accounts. The Council’s 2009-10 accounts will also require to be restated under IFRS accounting rules to provide appropriate comparative information.</p> <p>The Council should:</p> <p>Take early action to prepare for the implementation of International Financial Reporting Standards.</p>	The Council has already started to prepare for the implementation of International Financial Reporting Standards and has just finished a review in conjunction with CIPFA of the implications of IFRS on PFI schemes and leases.

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2	<p>Governance – 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>	
2.1	<p>We have concluded that the Council’s systems of internal financial control and governance arrangements are generally operating adequately.</p>	<p>Noted</p>
2.2	<p>The Council generally has good arrangements for financial management and budgetary control. However, we noted that there is scope to align departmental budgets more clearly with corporate priorities.</p> <p>The Council should: Align departmental budgets more clearly with corporate priorities.</p>	<p>Planning and budgeting arrangements will be further developed in the coming planning and budgeting exercise. The Council agreed a Planning and Performance Management Framework at its meeting in October which assists in addressing this point.</p>
2.3	<p>There is scope for greater challenge in the plans the Council has to apply all earmarked reserves, including those currently earmarked within departmental budgets.</p> <p>The Council should: Ensure plans to utilise earmarked reserves within departmental budgets are challenged effectively.</p>	<p>The report submitted to the Council with the unaudited accounts lists the department, description and reason for carry forward for each element of unspent grants, unspent contribution and budgetary underspends to be carried forward. Whilst consideration will be given to what form of challenge there should be on proposed carry forwards the Council should avoid the situation whereby it is setting the budget on a 3 year basis but enforcing annuality in terms of allowing the carry forward of underspends (or overspends). Further consideration will be given to how this recommendation might or might not be implemented.</p>
2.4	<p>We reviewed the Council’s overall arrangements for contract management, including an overview of the Oban Airport contract. Our review found significant scope for the Council to improve its arrangements for project and risk management in relation to large capital projects.</p> <p>The Council should: Undertake a review of its approach to project management in relation to major capital projects to</p>	<p>A detailed response to this will be submitted to the Audit Committee once the report on Oban Airport is received.</p>

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	ensure it meets good practice consistently.	
2.5	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.	Noted
2.6	<p>As part of our 2007-08 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.</p> <p>The Council should: Develop a longer term plan for internal audit to ensure it remains fully resourced to meet audit plan commitments.</p>	Recruitment to vacant posts is being undertaken and this is being supported by employment of contractors and use of KPMG as internal audit partners.
3	Performance – To review and report on the Council’s arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators.	
3.1	We undertook a review of the Council’s progress in addressing the recommendations made in the 2006 Best Value report. We completed our review in June 2008 and reported the draft findings to the Council in August 2008. Audit Scotland’s report will be considered by the Accounts Commission in November 2008 and is expected to be published in early December 2008.	Following the completion of our audit work, the Council have introduced a Planning and Performance Management Framework and decided to take forward the opportunities identified in the shared services diagnostic project. The Council considers these projects will contribute positively to their approach to Best Value. An Improvement Plan for the Council will be prepared. This will set the improvement agenda for the Council as well as addressing issues from the BV Follow Up report.
3.2	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%	

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	<p>cash-releasing savings by 2010-11. For Argyll and Bute this equates to a savings target of around £4million over the three year reporting period.</p> <p>In order to claim an efficiency service outcomes need to be maintained or improved, this can only be achieved through a robust performance management system. The Council is currently at an early stage in developing such a system.</p> <p>Forecasts for the 2008-09 financial year estimate that additional savings of up to £3.553m will be required. The financial constraints referred to above highlight the priority need to bring forward a programme of efficiency reviews across all Council operations.</p>	<p>The Council recognises the need to further develop its performance systems to support the 'efficiency statement' and arrangements are being developed through the PPMF and development of monitoring reports.</p> <p>The Council has agreed to take forward the shared service diagnostic and develop the high level design for the 7 key themes identified.</p>
3.3	<p>The Council has generally satisfactory arrangements for producing SPI information, but has been unable to produce reliable information for one SPI.</p>	<p>The Council has agreed to ensure this information is available for reporting on its SPI performance for 2008-09.</p>
3.4	<p>The Council has prepared an action plan to identify the key recommendations for improvement in SWIA report and both SWIA and Scottish Ministers have commented favourably on the Council's progress to date.</p>	<p>Noted</p>
3.5	<p>The follow-up report of Her Majesty's Inspectorate of Education (HMIE) reported that 'the authority had taken very effective action to implement the recommendations and showed clear capacity for improvement'.</p> <p>The Council should:</p> <p>Continue to build on the progress made in addressing the recommendations made in inspection reports to build on the progress made in addressing the recommendations made in inspection reports and share the lessons learned from the improvement in education more widely across Council Services.</p>	<p>Noted</p>