2003/2004 report on the audit of
Argyll & Bute Council
Convener and Members  
Argyll & Bute Council  
Headquarters  
Kilmory  
LOCHGILPHEAD  
PA31 8RT  

Controller of Audit  
EDINBURGH  

4 October 2004  

Ladies and Gentlemen  

Report on the Audit for the year ended 31 March 2004  

I have now completed my audit for the year ended 31 March 2004.  

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 2004.  

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 and members who have assisted my staff in the course of the audit.  

Yours faithfully  

David McConnell  
Chief Auditor  

Encs
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Executive Summary</strong></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Financial accounts and related matters</strong></td>
<td></td>
</tr>
<tr>
<td>♦ Auditor’s responsibilities</td>
<td></td>
</tr>
<tr>
<td>♦ Auditor’s report</td>
<td></td>
</tr>
<tr>
<td>♦ Submission of audited statements</td>
<td></td>
</tr>
<tr>
<td>♦ Financial position</td>
<td></td>
</tr>
<tr>
<td>♦ Statement of auditing standard 610</td>
<td></td>
</tr>
<tr>
<td>♦ Matters from previous years</td>
<td></td>
</tr>
<tr>
<td>♦ New issues arising</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
</tr>
<tr>
<td>♦ Matters from previous years</td>
<td></td>
</tr>
<tr>
<td>♦ Systems of internal control</td>
<td></td>
</tr>
<tr>
<td>♦ Information and communications technology (ICT) audit</td>
<td></td>
</tr>
<tr>
<td>♦ Fraud and corruption</td>
<td></td>
</tr>
<tr>
<td>♦ Internal audit</td>
<td></td>
</tr>
<tr>
<td>♦ Legality issues</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td><strong>Performance Management</strong></td>
<td></td>
</tr>
<tr>
<td>♦ Matters from previous years</td>
<td></td>
</tr>
<tr>
<td>♦ Centrally directed studies</td>
<td></td>
</tr>
<tr>
<td>♦ Local studies</td>
<td></td>
</tr>
<tr>
<td>♦ Best Value</td>
<td></td>
</tr>
<tr>
<td>♦ Statutory performance indicators</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td><strong>Concluding remarks</strong></td>
<td></td>
</tr>
<tr>
<td>Appendix A</td>
<td>18</td>
</tr>
<tr>
<td><strong>Action plan</strong></td>
<td></td>
</tr>
</tbody>
</table>

November 2004
Audit Services – Audit Scotland
Executive Summary

Introduction

This report summarises the auditor’s main responsibilities and duties and draws the attention of members to matters emerging from the audit of the Council for the year to 31 March 2004.

Main Findings

I am able to conclude that the Council’s financial statements present fairly its financial position as at 31 March 2004. I have however, made reference in my report to a failure to comply with a statutory requirement in respect of the supporting people grant of £16.6 million.

I can also confirm that the disclosures made in the Council’s Statement on the System of Internal Financial Control accord with relevant guidance and are not inconsistent with the information derived from other elements of my audit.

The “free” general fund balance now exceeds the level set within Council Policy by about £949,000. A further £994,000 underspend in 2003/2004 is committed as part of the 2004/2005 budget process. Financial plans for 2005/2006 should identify how the reserve position is to be managed downwards.

A review of title deeds has been commenced should be finalised in 2004/2005 to ensure the completeness of the Council’s asset register in respect of properties.

I have noted that the expected level of Council Tax collection, represented by a bad debt provision, does not reflect the collection rate achieved over the last three years. Officers expect reductions in collectability due to changes in legal debt collection processes.

The development of risk management processes is at an early stage in the Council, but a strategic action plan has been developed to introduce the principles of risk management during 2004/2005 and 2005/2006.

Systems for assessing whether expenditure on assets is revenue or capital (for accounting purposes) are not well-developed. This is combined with the absence of an ongoing process to determine whether capital expenditure results in enhancement to the value of each asset. Both of these areas should be developed in 2004/2005. These improvements should be contained within overall improvements required in asset management.

A framework for setting activity and income levels for the Council’s trading activities needs to be defined. This is necessary to ensure appropriate target setting and performance reporting processes exist.

Options for improving the ICT Network infrastructures are being considered, as there is some evidence that existing capacity may be reaching its limit.

There has been a significant improvement in the overall assessment of the internal audit service since our original study of this service in 2001.

A number of good practice areas have been identified, together with areas for improvement within our transitional review of Best Value. These should be further considered and internal actions developed.
Introduction

1. 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. I have significantly wider responsibilities than would be expected of external auditors in the private sector. This report on the 2003/2004 audit is a summary of audit activity for the year, and reflects those wider responsibilities.

2. 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.”

3. 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 accounts and related matters

- Auditor’s responsibilities
- Auditor’s report
- Submission of audited statements
- Financial position
- Statement of auditing standard 610
- Issues from previous years
- New issues arising

Auditor’s responsibilities

1. 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 and I am required to review the statement on the system of internal financial control (SSIFC) and consider the completeness of the disclosure.

Auditor's report

4. I am able to conclude that the Council’s financial statements present fairly its financial position as at 31 March 2004. I have however, made reference in my report to a failure to comply with a statutory requirement in respect of the supporting people grant of £16.6 million.

5. This grant has been used to fund expenditure on housing support services, both directly and by making payments to other providers. Housing support services\(^1\) require to be registered with the Care Commission. An Order made under that Act required applications to register to be made before 1 October 2003. However, it took some time for the Care Commission and individual providers to agree on the number of applications required and no valid applications were made before this date. As a result, expenditure funded by supporting people grant since 1 October 2003 for services that required to be registered is not in compliance with the statutory requirement. The Council estimates that the sum involved for the period from 1 October 2003 to 31 March 2004 is in the region of £9.4 million.

\(^1\) As defined in the Regulation of Care (Scotland) Act 2001
Submission of audited statements

6. **Quality of accounts and working papers.** The financial statements were submitted for audit, within the required timetable, on 17 June 2004. A high standard of accounts and accompanying working papers has been provided by Council officers and the audit report on the financial statements was provided on 30 September 2004.

7. **Significant changes to the financial statements.** Following the audit of the financial statements, audit adjustments have been identified and discussed with officers. These increased the net general Fund Surplus by £412,000. The most significant changes incorporated in the audited financial statements concern changes to disclosures brought about by

- the introduction of Financial Reporting Standard 17 covering pensions, which were not fully reflected in the draft accounts;
- increases in the pensions provision for the costs of early retirement of teaching staff arising from the McCrone deal; and
- revisions to the classification of expenditure on the face of the Consolidated Revenue Account and the Housing Revenue Account to ensure that these comply with the Accounting Code of Practice and categories defined in BVACOP.

Financial position

8. The Net General Fund Surplus disclosed in the Consolidated Revenue Account in 2003/2004 is £1.605 million greater than budgeted. £0.975 million is attributed to local tax income, £0.385 million from external loan charges and £0.245 million to departmental budget savings.

9. The Surplus increases the General Fund Reserve, which stood at £5.707 million at the start of the year, to a total of £12.193 million at 31 March 2004.

10. **Capital.** In the case of the housing programme the Section 94 consent was underspent by £359,000, represented by unapplied capital receipts carried forward to be applied in 2004/2005. The composite programme was also underspent by £1.034 million.

**Exhibit 1: Reserve balances**

<table>
<thead>
<tr>
<th>Reserve</th>
<th>At 1/4/03</th>
<th>Additions</th>
<th>Utilised</th>
<th>At 31/3/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Earmarked Reserves</td>
<td>905,000</td>
<td>546,000</td>
<td>642,000</td>
<td>809,000</td>
</tr>
<tr>
<td>“Committed” General Fund2</td>
<td>1,671,000</td>
<td>5,521,000</td>
<td>848,000</td>
<td>6,344,000</td>
</tr>
<tr>
<td>“Free” General Fund</td>
<td>4,036,000</td>
<td>1,813,000</td>
<td>-</td>
<td>5,849,000</td>
</tr>
<tr>
<td>HRA Balance</td>
<td>423,000</td>
<td>198,000</td>
<td>143,000</td>
<td>478,000</td>
</tr>
<tr>
<td>DLO/DSO</td>
<td>111,000</td>
<td>0</td>
<td>111,000</td>
<td>0</td>
</tr>
<tr>
<td>Revenue Earmarked Reserves</td>
<td>844,000</td>
<td>28,000</td>
<td>44,000</td>
<td>828,000</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>7,990,000</td>
<td>8,106,000</td>
<td>298,000</td>
<td>14,308,000</td>
</tr>
</tbody>
</table>

12. The vast majority (85%) of distributable reserves and balances is held in the General Fund. The increase in the “Committed” element of the General Fund is attributed to four main areas.

- the Council has identified budget underspends of £0.994 million from 2003/2004 which are to be used to fund savings schemes in 2004/2005;
- there is £2.71 million of Social Work expenditure which has been unspent in 2003/2004, but which is committed to be applied in 2004/2005;
- there is a reserve balance (£586,000) which is to be used to meet the cost of first year costs of teaching staff early retirements arising from the McCrone Report; and
- £1.1 million represents a reserve balance attributable to the Waste Management PPP.

13. Earmarked or committed amounts within the General Fund are generally attributable to commitments to expenditure that have not crystallised in the current financial year, but will be met in the following financial year. The Council adjusts the individual budgets of departments to reflect this commitment.

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2 This includes £994,000 identified as departmental savings in 2003/2004 and carried forward to 2004/2005.
14. Consideration should be given by the Council to identifying actions which would prevent or minimise significant residual commitments to programme expenditure at the year end, particularly in respect of the £2.7 million attributed to Social Work.

15. The Waste Management PPP reserve occurs because in the initial phase of the contract the Council resourcing and government funding exceeds the payments made under the PPP scheme. This position will be reversed from 2016. At its peak the Waste Management PPP Fund is expected to total approximately £5 million. This reserve acts to smooth the effect, on local taxation, of changing cashflows throughout the term of the PPP.

16. The Council has an agreed policy to increase the “Free” General Fund balance to a position where contingency and development funds of approximately 3% (£4.9 million) of net operating expenditure are maintained. The “free” General Fund Reserve at 31 March 2004 now exceeds this requirement by approximately £949,000 (with a further £994,000 identified within the committed sums to be set against 2004/2005 budgets). In order to avoid the build-up of “free” reserves beyond the levels described, the Council should consider proposals for applying this resource as part of the next round of budget estimates for 2005/2006.

Statement of auditing standard 610

17. Statement of Auditing Standard 610 (SAS 610). The main requirements of the SAS centre on the need for auditors to communicate matters relating to the audit of financial statements to those charged with governance of a body in sufficient time to enable appropriate action. This has been completed by issuing a letter to the Head of Strategic Finance (as Section 95 Officer). The issues contained in this letter will also be reported to the Audit Committee following 30 September 2004. The main issues identified include:

♦ my proposed auditor’s report on the Accounts;
♦ comments on the bad debt provision for Council Tax ; and
♦ that the accounts exclude valuations in respect of 85 identified property assets. These are predominately minor ancillary assets.

Matters from previous years

18. A number of action plan points were included in the 2002/2003 Report to Members. I have summarised below those significant remaining issues that I would draw to the attention of members.
19. **Fixed asset register.** In 2002/2003, I noted that a number of assets did not originally appear on the fixed asset register. Further audit activity in 2003/2004 identified general concerns with the completeness of the existing asset register and this resulted in a series of audit recommendations to improve the accuracy and completeness of records. Officers have confirmed that the majority of time-critical actions have now been completed, however I am concerned that a review of title deeds, which should be completed to ensure that all property assets owned by the Council are reflected in the asset register is not yet fully complete. All operational land and buildings included on the asset register have been cross-checked to title deeds, but checking is still to be completed to ensure that all title deeds have been included in the asset register. On the basis of Council actions taken prior to 30 September and further assurances received from officers, we are satisfied that the asset register is now materially correct, however I recommend that a review of title deeds and the valuation bases used should be completed in 2004/2005.

20. **Bad Debt Provisions.** I reported in 2002/2003 that the provision for bad debts for Council Tax and Non-Domestic Rates would appear to be higher than that suggested as appropriate based on the record of collectability in the previous year. Officers identified that they believed the existing bad debt provision to be appropriate and that the level of collectability of debt in 2002/2003 would not be reproduced in future years. However, they also agreed to review the suitability of the current levels of provision during 2003/2004. Our audit review has again identified issues with the provision for bad debt, in relation to Council Tax. The provision of £11.1 million could be overstated by as much as £2.65 million. I note that:

- The existing provision does not reflect the collection rates achieved in 2003/2004, 2002/2003 and 2001/2002. In fact collection rates would have to fall to about 16% of those achieved in 2003/2004 to be in line with the provision;

- The Council has achieved above-budget levels of income from local taxation (as reported in the Foreword by the Head of Strategic Finance) for the last two years (2002/2003 = £978,000 and 2003/2004 = £975,000)).

- Amongst a selection of nine West/ Central Scotland council’s, Argyll & Bute has the highest provision as a percentage of council tax debtors at 94.9%.

- The collectable property charge reflected in the accounts at 31 March 2004 of £524,896 does not appear to be consistent with the collections achieved in 2004/2005 to 6 September 2004 through the Sheriff Officer. After adjusting for potential recoveries for water charges, I estimate that recoveries attributable to property charges could already total between £520,000 and £622,000.
21. Echoing my previous recommendations in this area, I recommend that the bad debt provision for Council Tax is further reviewed by the Council in 2004/2005.

22. **Impairment.** The Council only conducts impairment reviews when it suspects that there has been a permanent reduction in the carrying value of the asset. No reviews were undertaken by Officers during 2002/2003 and we again found, in 2003/2004, that no formal process for considering whether there are any “trigger” events which would indicate the need for an impairment review of assets. Practical methods for adopting a process include circularisation of assets (to ensure they are still in use), a review of new schemes to identify replaced assets and examination of any impact of gains or losses on sales to continuing valuations.

**Statement on the System of Internal Financial Control**

23. I am required to review the statement and consider the completeness of the disclosure. This includes identifying any inconsistencies between the disclosures and the information of which I am aware as a result of our audit work.

24. Overall, Argyll & Bute Council can demonstrate the existence of a robust financial control framework. I can also confirm that the disclosures made in the Council's Statement on the System of Internal Financial Control accord with relevant guidance and are not inconsistent with the information derived from other elements of my audit. The Council has disclosed a number of issues within its Statement, including the absence of formal capital project management disciplines; fully developed risk management processes; the need to revise Contract Standing Orders and Financial Regulations and weaknesses in the systems for managing operating leases and for accounting for property assets.

**Risk Management and Review**

25. Although the Council has made improvements in its risk management processes, these were not fully in place during 2003/2004. However, a Risk Management Strategy and Policy have been prepared in July 2004. The Strategy identifies a plan which will identify risks within the Council by 31 March 2005 and develop and implement control actions during 2005/2006.

**New issues arising**

26. 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 items of 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.
27. **Accounting for Retirement Benefits.** In accordance with the requirements of the Code of Practice on Local Government Accounting in the UK, the Council has incorporated changes to the accounting for retirement benefits in its audited accounts. Argyll & Bute Council's liability in respect of this Pension Fund is £26.794 million. This is reflected by a reduction in the Council's Total Net Worth.

28. **Assessments of capital expenditure.** The Council’s processes do not adequately assess whether expenditure schemes contribute to the enhancement of existing assets or the creation of new assets and can therefore be treated, for accounting purposes, as capital expenditure. A year-end review following audit enquiries, has resulted in assurances from the Head of Strategic Finance that a range of Education schemes “are substantially capital in nature and although minor areas of expenditure may be revenue they will be difficult to identify at this stage”. We also note that no adjustment is made to capital expenditure to reflect the actual value added to individual assets (as the cost may not equate to an increase in valuation). Neither of these issues is considered material to the asset valuations or the revenue expenditure recorded in the accounts, but we recommend that processes of reviewing capital schemes and expenditure are improved in 2004/2005.

29. **Trading Activities.** The income levels attributable to trading activities were not clearly supported by service level agreements or other documents setting out how income for each activity should be determined. The income actually attributed in 2003/2004 is made up of a combination of historic budget information and other miscellaneous adjustments. This needs to be better defined. Wider governance issues related to trading activities are identified briefly in paragraph 9 of the following section in this report.
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 management reports issued last year covering the main financial systems and general computer environment. Outstanding issues from internal and external audit reports are regularly reviewed by the Audit Committee and this helps to ensure that actions are implemented.

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 below. These have been restricted to the major matters raised.

7. **Property Asset Management.** A joint review of this area with the Council’s Internal Auditors identified that the Estates and Finance Sections maintain separate registers, but these systems do not have a consistent reference number for the same property. This, and the fact that the quality of the description and address of a property can vary significantly, means that the two systems have not been previously reconciled. Our review identified significant differences between the two sets of records and also with a sample of Title
Deeds held by the Council. We recommended that either a single unified asset and property management record is developed or that the reconciliation procedures and cross-referencing of the properties is improved and that identified differences were resolved.

8. Based on key data requirements outlined by the Audit Commission, in England and Wales, in 2000, the adequacy of existing non-financial aspects of the asset management planning data held by Argyll & Bute Council was variable and additional data is required. Data, where available, are held across a number of Council systems and in some cases data are inconsistent between systems. A comprehensive single source should be developed to provide the information required to support an Asset Management Plan.

9. **Trading Accounts.** Argyll & Bute Council has made significant progress in preparing for trading accounts. Extensive criteria have been developed for identifying service areas where trading accounts should be prepared. However, the format and content of the reporting and monitoring processes remain to be agreed and implemented. Budgetary targets should be set for the next 3 years to ensure that the current and projected financial position may be monitored against the statutory requirement for trading accounts to breakeven over the 3-year period. We also noted that the Financial Regulations require to be updated to reflect management duties and responsibilities.

10. **Governance Framework.** We undertook an overview of the corporate governance arrangements in place. We were assisted by audit activity undertaken by Internal Audit. Overall, the Council was able to provide evidence of the existence and adequacy of the arrangements in place. Significant control weaknesses are disclosed in the Council’s Statement on the System of Internal Financial Control. A summary of the main issues is identified in paragraph 24 of this Report.

**Information and communications technology (ICT) audit**

11. **Networking Overview.** The Modernising Government Agenda increases the use of electronic communication and the demands placed on the network. The network infrastructure of the Council appears to be reaching capacity at times. Options for increasing the capacity are under consideration, including Broadband and Voice over Internet Protocol (new technology that can carry voice communications over data networks). The Strategic Policy Committee has recently given approval to tender for an increase in network capacity, although appropriate funding will be considered as part of the 2005/2006 budget approval process.

**Fraud and corruption**

12. 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 however, we also noted that the Council's policy regarding the arrangements for prevention and detection of fraud has not yet been incorporated into the Standing Orders. The policy also requires to be updated to define the arrangements for receiving and investigating complaints of fraud, corruption and improper financial conduct.

Internal audit

13. My responsibility includes reviewing the application of internal audit within Argyll & Bute Council.

14. Argyll & Bute Council’s Internal Audit section was comprehensively reviewed as part of a national performance audit study in 2003/2004. The results of this review were very positive with significant improvement in this area since the previous review. More detailed findings are contained in paragraph 6 of the next section of this Report.

15. In 2003/2004 reliance has been placed on the work of the Internal Auditor in a number of areas including the coverage of Housing Benefit systems, a joint approach to review of asset management and statutory performance indicators.

Legality issues

16. 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.

17. 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
♦ Local studies
♦ Best value
♦ Statutory performance indicators

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. The comments that follow represent a brief summary of the performance audit work carried out in 2003/2004.

Matters from previous years

3. Matters from previous years' performance audit reports have been subject to follow-up reviews throughout the year. Generally, progress against agreed action plans is determined by the Internal Auditor and reported to the Council's audit committee at regular intervals. There are no outstanding matters that I would specifically identify to members at this time.

Centrally directed studies


5. In addition, we also made resources available to HM Inspectorate of Education to undertake joint inspections in accordance with a Memorandum of Understanding. These resources have not yet been called on, but as Argyll & Bute Council has not been subjected to an INEA (Inspection of Education Authorities) inspection yet it is likely that this could result in selection during 2003/2004.

6. Internal Audit. The results of the national assessment shows councils generally have made improvements in all aspects of internal audit since the original study in 2001, although there is still scope for further improvement. The performance of councils was split into 4 bands and Argyll and Bute Council is included in band one. This is a significant improvement from band four in 2001. This banding includes those councils that most fully comply with the CIPFA Code.
Local studies

7. **Prudential Code.** Argyll & Bute Council has made progress in setting its Prudential Indicators, revising the capital programme and agreeing its Treasury Management Strategy. To comply with the relevant governance requirements however, the Council requires to amend its financial regulations, scheme of delegation and risk management strategy. The Council also requires to develop an asset management planning system, incorporating an appropriate system of options appraisal.

8. Monitoring procedures for prudential indicators have been identified and it is expected that these will be introduced during 2004/2005. The draft Prudential Indicators submitted to the Council on 12 February 2004 contained a number of errors. These have since been revised, following audit review, and resubmitted to the Council on 31 March 2004, when the capital programme was considered and approved.

9. **Education PPP.** As part of our audit work in 2003/2004 we will be considering the PPP/PFI projects for the Council. Our role in the review of the PFI/PPP process will involve a review of the project management arrangements, including procurement. This process has just begun and we expect to report to Council in autumn 2004.

Best Value

10. The commencement of the Local Government in Scotland Act 2003 has introduced new responsibilities for the Accounts Commission in relation to auditing Best Value (BV). Full audits will take place on a cyclical basis, at present expected to be once every three years. Only a limited number of councils will be subjected to a full BV audit in year one. All other councils, including Argyll & Bute, were subject to transitional audit work in 2003/2004.

11. There are four main objectives in carrying out the transitional work at the councils not being covered in year one of the audit of Best Value:

   ♦ to help councils develop their response to the new legislation and to prepare for the full audit;
   ♦ to provide the Best Value audit team with background information on key areas, helping to inform the full audit in subsequent years;
   ♦ to contribute to the selection of councils for the 2005 programme of Best Value audits; and
   ♦ to identify possible examples of good practice.

12. To complete the transitional work, auditors have drawn on their existing knowledge of the Council and on information readily available, and then produced a position statement on five selected areas:

13. Areas of good practice include:
14. **Performance Management System.** The Council has an approved Performance Management System and a formally documented Service planning system. A Citizens Panel has been set up and benchmarking mechanisms put in place.

15. **Elected Members and their Scrutiny Role.** An Audit Committee meets regularly and reviews progress on internal and external audit reports and a programme of formal scrutiny and service reviews has recently been re-established.

16. **Service Performance.** A Best Value network exists.

17. **Public Performance Reporting.** The Council’s website contains performance indicator information and a Public Performance Report is produced.

18. **Community Planning.** A Community Planning Partnership was launched in 2001 and a Community Plan Action Plan has been agreed with formalised monitoring arrangements. There is ongoing development of a new Community Planning Partnership framework.

19. However, there are a number of areas where action should be taken to ensure that the frameworks in place are effective in demonstrating a positive impact on service delivery. The main areas where action is planned or where action should be considered by the Council are:

20. **Performance Management System.** Closer alignment of service plans to budgets; a review mechanism for updating service plans; implementation of a balanced scorecard approach across services; a mechanism to monitor overall performance against corporate objectives and clearer links between corporate and service objectives.

21. **Elected Members and their Scrutiny Role.** Scrutiny by elected members and a performance reporting system to provide a single report containing both financial and performance information.

22. **Service Performance.** standardised format and content of the service plan performance reports.

23. **Public Performance Reporting.** Publishing Public Performance Reports timeously; incorporating service objectives and local indicators;

24. **Community Planning** Implementing a revised community planning structure.

**Statutory performance indicators**

25. Each year audit activity is directed towards ensuring the accuracy and reliability of Statutory Performance Information produced by the Council.
26. In 2003/2004, as a result of our review, we have graded five of the Council’s Performance Indicators as an “X” due to the lack of suitable systems or reliable data, two of the Social Work Performance Indicators (PIs) were found to be unreliable and the Library and Housing systems continued to provide the remaining three qualifications. In 2003/2004 the Council successfully introduced a process of analytical review to ensure that adequate explanations are provided for managers and auditors to significant year-on-year changes in the individual indicators. It should be noted that the submission of one of the Corporate Management performance indicator - “Litigation Claims” is outstanding, due to late changes in the definition. The Council has agreed to submit this in a timescale agreed with Audit Scotland centrally.
Concluding remarks

1. I am pleased to be able formally to conclude the audit of the Council for 2003/2004.

2. The key issues that require action are set out in the form of an Action Plan at Appendix A.

3. 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

<table>
<thead>
<tr>
<th>Final Report</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Page/ Paragraph Reference</td>
<td>Issue to be addressed by the Council</td>
</tr>
<tr>
<td>8/14</td>
<td>Consideration should be given to identifying actions which would prevent or minimise significant unspent programme expenditure at the year end.</td>
</tr>
<tr>
<td>8/16</td>
<td>The Council should consider proposals for applying the excess “free” reserve as part of the next round of budget estimates for 2005/2006.</td>
</tr>
<tr>
<td>10/19</td>
<td>A review of title deeds should be completed to ensure that the fixed asset register is complete and reflects all the property assets owned by the Council.</td>
</tr>
<tr>
<td>12/20 -12/21</td>
<td>The level of bad debt provision for Council Tax should be reviewed, based on collectability rates achieved.</td>
</tr>
<tr>
<td>12/22</td>
<td>The practical steps for demonstrating annually that assets have been systematically reviewed for impairment should be documented and implemented. This will be built in to the Council’s developing asset management strategy and plan. The first run of which will influence the review of the capital programme in 2004/05</td>
</tr>
<tr>
<td>13/25</td>
<td>Risks should be identified and assessed as part of the Risk Management Strategy.</td>
</tr>
<tr>
<td>Final Report</td>
<td>Action</td>
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<tr>
<td>Page/Paragraph Reference</td>
<td>Issue to be addressed by the Council</td>
</tr>
<tr>
<td>14/28</td>
<td>Processes should be introduced to review the nature of expenditure on assets and to ensure that of the capital expenditure identified from this process only the value added element is reflected in year-end fixed asset balances.</td>
</tr>
<tr>
<td>14/0, 16/0</td>
<td>Business Plans and Service Level Agreements should be developed for trading activities to ensure that agreed activity and income levels are defined.</td>
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