

# Argyll and Bute Council

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Argyll and Bute Council and the Controller of Audit

24 September 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual accounts

- 1 Argyll and Bute Council (the council) and its group financial statements give a true and fair view of the state of affairs of the council as at 31 March 2019 and of its income and expenditure for the year ended and were properly prepared.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3 The statement of accounts of the eight section 106 charities administered by the council are free from material misstatement.

## Financial management

- 4 The council overspent its budget by £1.118 million primarily due to the overspend on the social work element of the Health and Social Care Partnership (HSCP). Renewed measures to control HSCP spending, in particular on social work services, are in place but appear to be meeting with limited success.
- 5 Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively.
- 6 There are no significant weaknesses in the system of internal controls, and actions have been agreed to further strengthen controls.

## Financial sustainability

- 7 The council's financial position is sustainable in the medium term although, in common with other local authorities, rising demand, increasing cost pressures and real term reductions to central funding continue to place a strain on capacity to deliver services at current levels.
- 8 The Council has a long-term financial strategy which is aligned to the Council's priorities, and demonstrates how it will address future budget challenges, but it could be further enhanced.
- 9 The Council has made significant savings over the past few years, but the size of the future funding gap means it will be more difficult to make those required savings in future years.

## Governance and transparency

- 10 The Council has appropriate governance arrangements in place that support decision making, accountability and scrutiny
- 11 The council is open and transparent in the way it conducts its business

## Value for money

- 12 The Council actively seeks to promote equal opportunities, inclusiveness and equality across its area, and has embedded consideration of users' needs, equalities and equal opportunities at the planning/budgeting stage of service redesigns.

- 13** Self-assessment and self-evaluation processes are applied consistently across the council. Good use is made of the Local Government Benchmarking Framework (LGBF) in analysing performance and identifying areas for improvement.

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# Introduction

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1. This report summarises the findings arising from the 2018/19 audit of Argyll and Bute Council and its group (the council).

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 19 March 2019 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:

- an audit of the council and its group 2018/19 annual report and accounts and the statement of accounts of the eight section 106 charities administered by the council including the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- audit work covering the council's arrangements for securing best value relating to (i) Fairness and Equality and (ii) Performance, Outcomes and Improvement
- consideration of the four audit dimensions

## Added value through the audit

4. We add value to Argyll and Bute Council through the audit by:

- early engagement with senior officers to identify and agree solutions to emerging issues, for example undertaking early Housing Benefit Subsidy testing to mitigate the impact of staff changes within the Council's benefits administration team.
- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- . In so doing, we aim to help Argyll and Bute Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

6. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- best value arrangements.

9. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

10. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its

responsibility to address the issues we raise and to maintain adequate systems of control.

**11.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £258,050 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank all management and staff for their cooperation and assistance during the audit.



# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

**Argyll and Bute Council (the council) and its group financial statements give a true and fair view of the state of affairs of the council as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared.**

**The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.**

**The statement of accounts of the eight section 106 charities administered by the council are free from material misstatement.**

The annual accounts are the principal means by which the Council and its wider Group account for the stewardship of its resources and performance in the use of resources.

### Audit opinions on the annual accounts

**15.** The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Audit and Scrutiny Committee on 24 September 2019. We reported, within the independent auditor's report that the:

- financial statements give a true and fair view of the state of affairs of the council as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance

**16.** Also, we considered the other information in the annual accounts, the adequacy of accounting records, the information and explanations we received and the achievement of prescribed financial objectives. Our audit did not identify any issues we need to report.

### Audit opinions on section 106 charities

**17.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Argyll and Bute Council are sole trustees, irrespective of the size of the charity.

**18.** We received the charities' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions on the 2018/19 financial statements of:

- Marquess of Bute Silver Wedding Dowry
- Baillie Gillies Bequest
- Kidston Park Trust

- Miss Annie Dickson Burgh Bequest
- Logie Baird Prize Fund
- McCaig Trust
- County of Argyll Education Trust Scheme, 1960
- Oban Common Good Fund

## Submission of the council and its group annual accounts for audit

**19.** We received the unaudited annual accounts on 28 June 2019 in line with the agreed audit timetable set out in our 2018/19 Annual Audit Plan.

**20.** The working papers provided with the unaudited accounts were of a satisfactory standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts ran smoothly.

## Whole of Government Accounts

**21.** In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 16 July 2019 in line with the deadline.

## Risk of material misstatement

**22.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have carried out to gain assurance over the outcome of these risks.

**23.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**24.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**25.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**26.** On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

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## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£4.2 million
Performance materiality	£2.5 million
Reporting threshold	£42 thousand

Source: Audit Scotland, Annual Audit Plan 2018/19

## Significant findings from the audit in accordance with ISA 260

**27.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**28.** The significant findings are summarised in Exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

### Qualitative aspects of the audit

**29.** We have no significant findings to report in relation to the qualitative aspects of the 2018/19 accounting practices.

## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1 Group Accounts</b></p> <p>The unaudited accounts did not include a Group Cash Flow Statement. A narrative explanation was provided, which noted that the impact of the inclusion of the Council's wholly owned subsidiary, LiveArgyll, would not have a significant impact on the group cash flow. However, as a primary statement, a Group Cash Flow should be included.</p>	<p>Management agreed to include a Group Cash Flow Statement.</p>

Source: Audit of 2018/19 annual accounts

### How we evaluate misstatements

**30.** There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements. The only such misstatement resulting in an adjustment to the principal financial statements was for a misallocation of non current assets, which required the transfer of £485k out of Assets under Construction into Other Land and Buildings (£474k) and Vehicles, Plant, Furniture and Equipment (£11k).

**31.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

### Amendments to the accounts arising from legal and other judgements made after the accounts had been submitted for audit

**32.** A legal judgement (McCloud/Sargeant case) was made regarding age discrimination arising from pension scheme transition arrangements. This was a national issue and affected all employees enrolled in defined benefit schemes. We advised management to request that the actuary (Hymans Robertson) to the Strathclyde Pension Fund re-run the IAS Report 19 (Employee benefits) to take account of McCloud / Sargeant judgement. The actuary calculated that the impact of this case would increase the council's pension fund liability by £7.515 million.

**33.** Management adjusted the accounts resulting in an increase in the pension fund liability in the balance sheet from £106.253 million to £113.768 million, with a matching increase in the unusable pension reserve. Also, the pension cost charge within the Comprehensive Income and Expenditure Statement in the accounts was increased by £7.515 million. As these adjustments are fully mitigated by a statutory adjustment, they have no impact on the £0.862 million deficit reported in the general fund reserve balance in the unaudited accounts.

**34.** Also, the courts have ruled that the UK defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions (GMPs). The council's actuary had advised that there has been no 'trigger event' that allows them to make a reasonable estimate of the impact of GMP on pension liabilities. Management have added a non-quantifiable contingent liability note to the accounts to disclose and explain the GMP position.

### **Good progress had been made in implementing prior year audit recommendations**

**35.** The council has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

### **Integration Joint Board**

**36.** For the third year the council included its share of the financial transactions of Argyll and Bute Integration Joint Board (the IJB) within its group financial statements. We confirmed that the Council has processes in place for agreeing its transactions and year end balances with the IJB. In addition, we liaised with the auditor of the IJB to obtain assurances on the accuracy and completeness of IJB figures included in the accounts.

### **Other findings**

**37.** Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

### **Objections**

**38.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the accounts.

# Part 2

## Financial management



### Main judgements

The council overspent its budget by £1.118 million primarily due to the overspend on social work services within the HSCP. Renewed measures to control HSCP spending, in particular on social work services, are in place but appear to be meeting with limited success

Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively.

There are no significant weaknesses in the system of internal controls and actions have been agreed to further strengthen controls

Our consideration of financial management focusses on financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### The council overspent its budget by £1.118 million primarily due to the overspend on social work services within the Health and Social Care Partnership (HSCP)

39. In February 2018 the council approved a balanced expenditure budget of £241.988 million for 2018/19. The budget was aligned to the council's main priorities set out in the corporate plan. The council overspent against its budget by £1.118 million (0.46%). This was due largely to the council having to provide extra funding to cover an overspend of £3.127 million on social work services within Argyll and Bute Integration Joint Board (IJB)). This was in addition to the additional funding of £1.2m provided to cover the social work services overspend in 2017/18. The additional funding provided in both financial years is to be repaid to the Council by the IJB over the four-year period 2019/20 to 2022/23.

40. The budget overspend could have been significantly worse were it not for underspends elsewhere:

- an underspend of £0.600 million on loan charges
- a refund of overpaid VAT amounting to £0.767 million
- vacancies savings as well as an underspend on apprenticeship levy payment of some £0.5 million.

41. Social work overspends have become a significant budgetary pressure for the council. Efforts are being concentrated within the IJB to exert more control over spending generally, and in social work services specifically, where significant budget gaps are forecast in the short term. So far, these measures have had limited success. Also, current IJB financial projections are forecasting a £2.3 million overspend on social work services for 2019/20. There is a real risk that the IJB may be unable to repay the funding received from the council in line with the agreed timetable

## **Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively**

42. The *Local Government in Scotland: Financial overview 2017/18* (November 2018) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on. We noted that the council's budget and savings plans are aligned to the council priorities as set out in its Corporate Plan which is consistent with good practice.

43. Within the council, detailed scrutiny of financial performance is delegated to the Policy and Resources Committee which receives bi-monthly revenue and capital monitoring reports.

44. Financial forecasting is an embedded part of management and reporting. Budget monitoring reports provide an overall picture of the financial position at service level. The reports forecast the overrun position for the year-end and include narrative explanations for significant variances against budget. This allows both members and officers to carry out effective scrutiny and challenge of the Council's finances.

## **The level of reserves is in line with the council's reserves policy but has fallen steadily over the last five years.**

45. One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the council decreased from £56.183 million in 2017/18 to £55.528 million in 2018/19.

46. The general fund is the largest reserve and serves two functions; it provides a contingency fund to meet unexpected expenditure and it also forms a working balance to help cushion the impact of uneven cash flows.

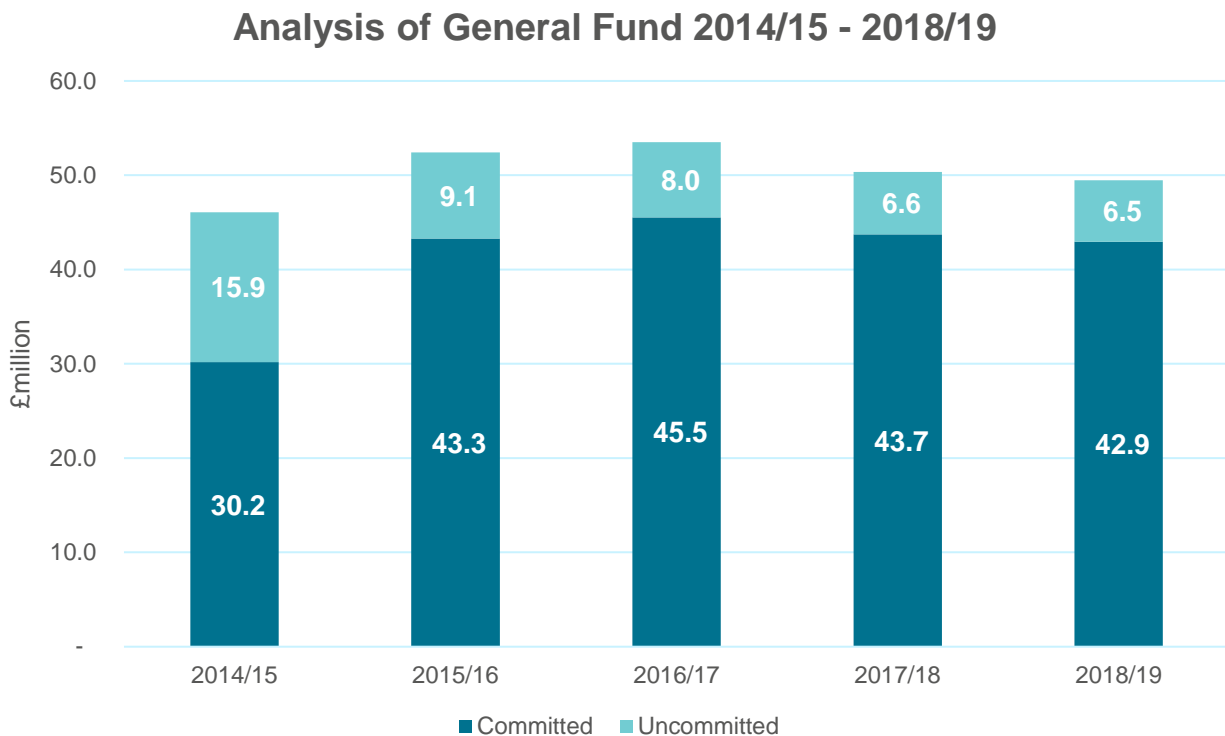
47. The council reviews the level of its uncommitted reserves when setting the budget each year. The council's reserves strategy specifies that there should be a contingency balance of 2% of its expenditure budget for the following year. For 2019/20 this equates to £4.838 million.

48. As at 31 March 2019 the council had £6.544 million in uncommitted reserves so that, excluding the contingency of £4.838m, the unallocated general fund balance was £1.706 million (£1.900 million in 2017/18). Although, reserves balances are in line with the approved strategy, the impact of, significant future IJB overspends, in respect of social work services, can only reduce uncommitted reserves further, meaning that the Council will be at risk of breaching its reserves policy.

49. [Exhibit 4](#) provides an analysis of the general fund over the last five years, split between committed and uncommitted reserves. Members have approved the managed reduction of uncommitted reserves to maintain financial balance which accounts for the changes illustrated below.

## Exhibit 4

### Analysis of general fund over last five years



Source: Argyll and Bute Audited 2018/19 Accounts

### The council has a good track record in delivering savings on a recurring basis

**50.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

**51.** Recurring savings are savings that, once achieved, recur year-on-year from that date. In achieving a balanced budget for 2018/19, the council planned to achieve savings and other measures of £5.987 million, only £0.249 million of which was non-recurring. The Council has not been required to rely on non-recurring savings to achieve financial balance in recent years. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

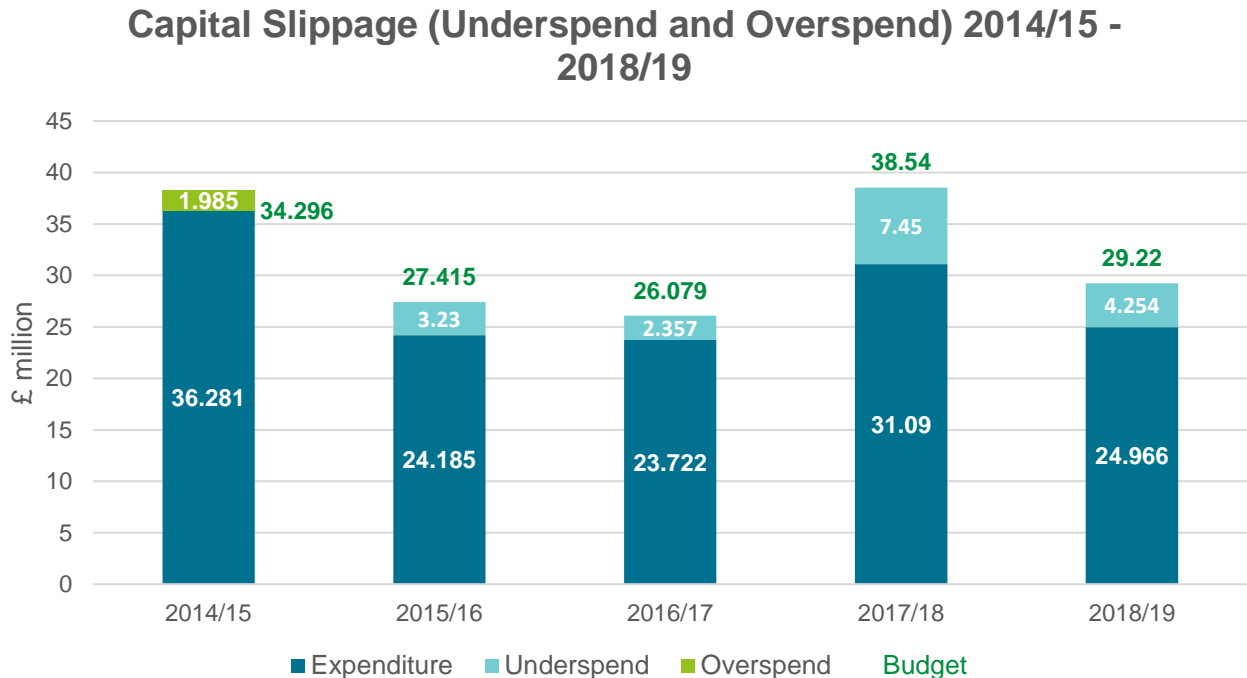
**52.** Regular monitoring reports to Policy and Resources Committee confirmed that progress in delivering the planned savings for 2018/19, and future years, was good with the vast majority of savings already delivered or on track to be delivered.

### There is no evidence that slippage in the 2018/19 to 2012/2 capital plan will impact on future service delivery

**53.** Capital expenditure in 2018/19 was £24.966 million compared to the annual budget of £29.220 million, resulting in an underspend of £4.254 million (14.6%). The slippage related principally to CHORD (Campbelltown, Helensburgh, Oban, Rothesay, Dunoon) Oban development projects, Street Lighting LED replacement project, Harbour Investment Programme, Helensburgh Public Realm, Early Learning and Childcare developments and capital works within schools. The council has a history of slippage in its capital programme as outlined in [Exhibit 5](#).

## Exhibit 5

### Capital slippage compared to budget



Source: Argyll & Bute Annual Audit Reports 2014/15-2017/18, Argyll & Bute Unaudited Accounts 2018/19.

**54.** Slippage was due to uncertainties around timing of works when capital budgets were being profiled, delays in obtaining statutory consents and unanticipated contract delays on older properties. There is no evidence of slippage impacting on future service delivery or resulting in increased project costs.

**55.** The Council's capital plan is funded from various sources including capital grants from Scottish Government and other bodies, capital receipts, contributions from reserves and the revenue budget, borrowing and funding from the Scottish Futures Trust. In 2018/19, the council received £3.023 million from the sale of its assets against a budget of £3.100 million.

**56.** The June 2019 capital monitoring report shows that, from a total of 179 projects within the capital programme, 21 (37%) are not on track. However, management consider all but one of these to be recoverable with no special actions considered necessary. Forecast total project cost on the total capital plan is £226.246 million, compared to a total budget for all projects of £226.202 million, giving an expected overspend for the overall capital plan of £0.044 million (0.02%).

### The council's borrowing is prudent and sustainable

**57.** The council's external borrowing as at 31st March 2019 was £183.476 million, an increase of £4.988 million on the previous year. A total of £2.7 million of PWLB loan repayments were made during the year and £7.7 million of new temporary loans were taken out. The Council was "overborrowed" at the yearend due to slippage on capital projects described elsewhere, and because a large loan repayment (£3m) due 31 March 2019 did not process until 1 April 2019 due to the year-end falling on a weekend. The situation will be corrected as the capital slippage is resolved.

**58.** Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary as set out within the treasury



management strategy. When compared to other Scottish councils, the current borrowing position appears prudent and sustainable, and the council continues to actively consider the affordability of future borrowing.

### **There are no significant weaknesses in the system of internal controls and actions have been agreed to strengthen controls in a several areas**

**59.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to producing the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**60.** Our audit findings were included in a management report presented to the Audit and Scrutiny Committee on 18 June 2019. We concluded that there was no significant control weakness which could affect the council's ability to record, process, summarise and report financial and other relevant data so to result in a material misstatement in the financial statements. Also, the report included an agreed action plan for strengthening controls in a number of areas i.e. payroll validation and changes to supplier details.

### **Management do not believe the council is exposed to any risk from dependency on key suppliers**

**61.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts, or disruptions in the continued provision of vital services.

**62.** The council is not significantly dependent on any key suppliers and robust contract management arrangements are in place which mitigate any risk of over reliance on key suppliers.

**63.** The Council follows Scottish Procurement Directorate procurement methodology. The level of contract and supplier management is determined as High Level/Medium Level/Low Level based on a Contract Management Assessment Tool. Management processes include Supplier Review Meetings, Benchmarking of performance against KPIs, Financial Monitoring and Performance Monitoring. Depending on the level of management being applied, the Council's Procurement and Commissioning Team may be involved in addition to service management. The arrangements in place enable issues to be anticipated and corrective measures to be taken.

**64.** No significant supplier failures have occurred in recent years, other than recent independent care home closures in the HSCP, where there are clear protocols which were applied.

# Part 3

## Financial sustainability



### Main judgements

**The Council's financial position is sustainable in the medium term although, in common with other local authorities, rising demand, increasing cost pressures and real term reductions to central funding continue to place a strain on capacity to deliver services at current levels.**

**The Council has a long-term financial strategy which is aligned to the Council's priorities and demonstrates how it will address future budget challenges. but it could be further enhanced.**

**The Council has made significant savings over the past few years, but the size of the future funding gap means it will be more difficult to make those required savings in future years.**

Financial sustainability looks to the medium and long term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial planning

**65.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies, and which reflect the impact of future pressures on the council.

**66.** The Council has good financial planning arrangements in place based around its medium to long term financial strategy 2018/19 to 2027/28 approved mid-way through 2017/18. We reviewed that strategy against the requirements set out in [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014), noting some scope for improvement, but confirming that most requirements were present in the Council's strategy.

**67.** The strategy includes forecasts for revenue, capital and treasury management and details of plans to mitigate future budget gaps. The underlying principles previously agreed by the Council provide a flexible framework within which the Council can react to changing financial challenges. Assumptions used in making financial projections are based on best estimates as at September 2017, and scenario planning was utilised to reflect the expected impact of changes in those assumptions.

**68.** The council should consider enhancing the long-term strategy when next it is reviewed. In particular it should consider providing detailed financial plans for up to five years, providing details of changes in assets, liabilities and reserves over time and including an analysis of levels of service demand. We recognise that this will be difficult to achieve given the annual funding cycle and the relatively late timeline of national budgets being agreed. This is an issue for bodies across the public sector.



### Recommendation 1

**The council should enhance its long-term strategy when next it is reviewed. In particular it should consider providing detailed financial plans for up to five years, providing details of changes in assets, liabilities and reserves over time and including an analysis of levels of service demand.**

#### Funding position and savings plans

**69.** The council is facing a number of challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services, including social care, increasing cost of services and reductions in local government funding.

**70.** The Council approved a balanced budget for 2019/20 at its meeting held on 21 February 2019, however, a funding gap of £4.847 million was identified for 2020/21 rising to £11.352 million by 2021/22. As at August 2019, the Council forecast a higher funding gap of £5.158 million for 2020/21, rising to a cumulative funding gap of £11.702 million by 2021/22, and £18.090 million by 2022/23, based on its mid-range scenario assumptions.

**71.** The measures to balance the budget over the three years 2020/21 to 2022/23 include agreed management/operational savings options based around efficiency savings and policy savings options including service reductions. Savings agreed when determining the funding gap highlighted previously are £1.907 million in 2020/21, rising to £2.464 million in 2022/23. The Council's savings plans are built up in detail from service level management input and are based on reasonable assumptions regarding future funding and service demand. Assumptions used are consistent from year to year and have been proven to be reliable over a number of years, as the Council has been successful in delivering the planned savings. There are no apparent gaps in the savings plans, and all elements within the plans are subject to appropriate tracking and reporting within the Council.



### Recommendation 2

**The council should continue to develop its savings plans, and any other initiatives, to address the significant funding gaps forecast for the three years 2020/21 to 2022/23.**

#### Changing landscape for public financial management and medium to long term financial planning

**72.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity

**73.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government (SG) published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**74.** The Council has identified the potential implications of the MTFS for their own finances and financial planning, when updating its 3 Year Budget Outlook Reports. It has been noted that the SG has utilised a three-scenario approach similar to the

Council's when estimating future funding levels, and when estimating future public sector pay award scenarios.

### **The Council is proactive in planning for EU withdrawal and has established a Tactical Group to oversee preparations for withdrawal including a specific risk register**

**75.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact of withdrawal on their business.

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**76.** Using available Scottish Government Readiness Criteria for EU Withdrawal, the Council carried out a self-evaluation at the end of 2018, and established that “ready status” had been met based on the criteria.

**77.** The council's Chief Executive is the Strategic Lead for EU withdrawal. He is supported by a Tactical Group (BTG) which was established in January 2019 and includes representatives from across the council. The Group's role is to maintain the EU withdrawal risk register, evaluate risks and ensure that all risks have mitigating actions identified. Key risks include exports, food insecurity and communications, and action plans are still being developed.

**78.** Also, the BTG provides regular updates on EU withdrawal to the Senior Management Team. Additionally, the council's website has a dedicated page on EU withdrawal where the public and businesses can find out more information on preparing for EU withdrawal.

### **Workforce planning has identified the council has an ageing workforce with challenges around succession planning**

**79.** Audit Scotland's [\*Local government in Scotland – challenges and performance 2019 \(April 2019\)\*](#) report highlighted the need to plan and manage reductions to council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**80.** The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

**81.** The Council approved its Strategic Workforce Plan 2018-2022 in April 2018. The Plan develops themes from People Strategy 2016-2020 and highlights eight key outcomes including the need to ensure the Council's workforce reflects the future needs of the Council's services. The plan aligns directly to relevant parts of the Local Outcome Improvement Plan and the Corporate Plan 2018-22 and is intended to support the transformation agenda which underpins the medium to long term financial strategy.

**82.** The plan is a high-level document supported by underlying detailed service specific workforce plans. These more detailed plans, in conjunction with the strategic

workforce plan, enable the Council to define and develop its future workforce to meet the recognised challenges and transformation agenda.

**83.** The main issues identified by the council relating to workforce are potential lack of succession planning because of the overall age profile of staff, and the difficulty experienced in filling vacancies in professional posts and senior management, due to geographic and infrastructure factors. The situation is further exacerbated by national shortages in several professions such as teachers, environmental health officers and social workers.

# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate governance arrangements in place that support decision making, accountability and scrutiny.**

**The Council is open and transparent in the way it conducts its business**

Good governance and transparency is derived from effective scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

#### **The Council has appropriate governance arrangements in place which support decision making, accountability and scrutiny**

**84.** The Council has a committee structure in place which is supported by clear roles for officers and members. The committee structure is supported by a governance framework that includes Standing Orders, a Scheme of Delegation, Codes of Conduct and Financial Regulations. Also, the Council's decision and delegation arrangements, and its organisational structure are reviewed on an annual basis by the full Council.

**85.** Papers provided by officers to support full Council and Audit Committee meetings are of a good standard, cover issues in appropriate detail and are provided sufficiently in advance of meetings for members to review in detail.

**86.** Appropriate time is made available in full Council and Audit Committee meetings to discuss issues on the agenda in sufficient detail and it is clear that members are well-prepared for the meetings and asked pertinent and probing questions. Relevant officers attend the committee to present reports and to respond to questions from members.

#### **The council is open and transparent in the way it conducts its business**

**87.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**88.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets

**89.** There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full Council, the Audit and Scrutiny Committee and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website which is easy to navigate.

**90.** Also, the council's website allows the public to access a wide range of information including the register of members' interests. The '*Have your say*' section of the website provides details on how to make a complaint and how to use social media (e.g. Facebook and twitter) to access information about the council's decision-making processes. Additionally, the Council is proactive in encouraging the public to get involved work and welcomes suggestions how services could be made more efficient and effective.

### **The management commentary clearly explains the council's financial performance**

**91.** The management commentary that accompanies the financial statements clearly explains the council's financial and non-financial performance for the year. There is a good analysis of the financial outturn against budget with reasons for significant variances. Also, the outturn reported in the narrative is reconciled to the movement in the General Fund contained in the financial statements. As part of our audit, the finance staff agreed to update the management commentary to provide details of planned savings and progress with implementation.

**92.** Overall, the management commentary clearly explains the council's financial performance although better use could be made of infographics to present information in a more user-friendly way.

### **Internal audit operates in accordance with Public Sector Internal Audit Standards**

**93.** A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. We carry out an annual assessment of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS). These standards apply to all internal audit service providers and cover areas of issues such as planning, risk assessment, audit documentation, reporting and quality monitoring.

**94.** Our assessment of the internal service was partly informed by an independent review of the service carried out by a team from the Fife, Tayside and Forth Valley (FTF) Internal Audit Consortium. They concluded that the Council's internal audit function was able to demonstrate overall compliance with PSIAS requirements. Also, they highlighted a small number of areas for improvement. We confirmed that the chief Internal Auditor had taken steps to implement FTF's recommendations. Overall, we concluded that internal audit operates in accordance with PSIAS.

**95.** Auditing standards also require internal and external auditors to work closely together to make best use of available audit resources. We meet regularly with the Chief Internal Auditor to discuss issues and exchange information. Also, we consider internal audit work as part of our own risk assessment processes. Additionally, where appropriate, we use internal audit findings to inform our wider dimensions audit responsibilities.

### **The Council is proactive in following-up matches identified by the National Fraud Initiative and reporting findings to the Audit and Scrutiny Committee**

**96.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**97.** NFI activity is summarised, as at 11 September 2019 in Exhibit 6. Our latest review of the NFI process at Argyll and Bute Council was completed in June 2019, and no issues were identified.



## Exhibit 6 NFI activity



7,991

**Matches**

2,645

**Recommended for  
investigation**

1,576

**Completed/closed  
investigations**

Source: Argyll and Bute Council; Internal Audit

**98.** The Council actively reviews and investigates data matches with findings reported to the Audit and Scrutiny Committee.

**99.** The Council uses a number of other agencies to provide data matches in high risk areas. For example, the Revenues Section use Datatank to highlight potential single person discount fraud. Similarly, the Accounts Payable Section use an external agency, Fiscal Technologies, to highlight duplicate supplier payments for further investigation.

### Integration of health and social care

**100.** The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

**101.** The Argyll and Bute Integration Joint Board (IJB) is provided in partnership with NHS Highland and became fully operational on 1 April 2016. The IJB has appropriate governance arrangements in place, and financial management and monitoring arrangements are of a high standard.

**102.** Partner bodies within the Health and Social Care Partnership are working well in providing the healthcare services required, however, the IJB continues to have significant financial sustainability issues. Financial recovery plans have till now been unsuccessful in delivering necessary savings, and the IJB is facing significant budget gaps in 2019/20 and 2020/21, with savings plans to cover these still to be agreed.

### The Council has appropriate arrangements in place to maintain standards of conduct and for the prevention and detection of fraud and error

**103.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, an anti-money laundering procedure, anti-fraud strategy and codes of conduct for members and officers.



# Part 5

## Value for money



### Main judgements

The Council actively seeks to promote equal opportunities, inclusiveness and equality across its area, and has embedded consideration of users' needs, equalities and equal opportunities at the planning/budgeting stage of service redesigns.

Self-assessment and self-evaluation processes are applied consistently across the council. Good use is made of the Local Government Benchmarking Framework (LGBF) in analysing performance and identifying areas for improvement.

Value for money is concerned with using resources effectively and continually improving services.

### Best Value work focused on Fairness & Equality and Performance, Outcomes and Improvement in 2018/19

**104.** Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for Argyll and Bute Council is planned for spring 2020, although the main fieldwork phase will be carried out from October to December 2019.

**105.** In advance of the BVAR, we examined the council's arrangements for demonstrating best value in:

- Fairness and Equality.
- Performance, outcomes and improvement.

**106.** The findings from this work are reported in paragraphs 107 to 123 following and will inform the scoping of the BVAR audit which we will undertake later in 2019/20.

### The council is pro-active in promoting equality and fairness and equality is embedded throughout the work of the council

#### Commitment to Equal Opportunities

**107.** The Council actively seeks to promote equal opportunities across its area and demonstrates a consistent theme of seeking to promote inclusiveness and equality. This can be seen from the Council's decision to automate the entitlement to free school meals and clothing grant. The aim of this is to remove the stigma surrounding the grant and provide a level playing-field for children from socio-economically disadvantaged backgrounds.

**108.** A further example is the Council's services for British Sign Language (BSL) users and people who are visually impaired. The Council provides the Sensory Impairment Service through their Joint BSL Plan with the HSCP. The service offers

support to people of all ages who are deaf or hard of hearing; blind or partially sighted, or both (deafblind or dual sensory impaired). The Team works with people and their families/carers to identify care needs and help maintain or regain independence and quality of life. In addition to this and the Browsealoud/Video Relay Service, the Council promotes BSL awareness training to regulated transport service providers, such as taxi provision and patient transport. This demonstrates a willingness to help people access services unavailable to them without such intervention.

**109.** The Council has a comprehensive process of carrying out impact assessments on how projects or service changes affect those with protected characteristics. This process incorporates the Islands Act and the Fairer Scotland Duty into one integrated approach. Equality and Socio-Economic Impact Assessments (EqSEIAs), are completed to a good standard and where there is an impact on equalities, it genuinely affects the final decision.

**110.** The council engages with communities through a variety of techniques and groups. The Equality Forum allows external partners to share good practice and allows various groups to be better represented. We will explore this in greater depth during the BVAR.

**111.** The council has embedded consideration of users' needs, equalities and equal opportunities at the planning/budgeting stage of service redesigns and there is good coverage of equality issues in reports to the public. Reports are widely accessible and show progress against the organisation's equality objectives. Improvements could be made by:

- showing clearer links between key policies and strategies and the equality outcomes; and
- making readers aware that documents are available in other formats upon request.

**112.** The detailed findings from our audit will be used to inform the BVAR report to be published in Spring 2020.

### **The council's performance reporting links well with corporate and business outcomes, and good use is made of Local Government Benchmarking to identify areas for improvement.**

#### **Performance Monitoring and Reporting;**

**113.** Six monthly Performance Reporting provides clear links between corporate outcomes and business outcomes and includes measures to ensure progress is tracked. However, it is difficult to connect service plan performance reports to corporate outcomes and the Corporate Plan, as service reporting only references related business outcomes. The transparency of service area performance reporting could be improved if it were easier to attribute actions towards an outcome directly back to the Corporate Plan.



#### **Recommendation 3**

**The council should consider developing clearer links between service area performance reporting and the corporate outcomes contained in the Corporate Plan.**

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**114.** In terms of how the Council's performance, as well as that of individual services, is reported back to relevant committees and published on the website, the method of reporting is satisfactory, as are the Area Scorecards. However, there are

inconsistencies across services as to how detailed the timescales require to be for achieving actions and performance measures.

**115.** A minor point is that the Council's six-monthly report provides for Audit and Scrutiny Committee (ASC) comments and feedback regarding challenges faced in the relevant 6 months, and how these have been dealt with. This important aspect of the reporting cycle does not appear to be utilised.



#### Recommendation 4

**Formal feedback from the Audit and Scrutiny Committee on the Council's six-monthly performance report should be built into the ASC's workplan.**

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#### Approach to Continuous Improvement;

**116.** The approach and framework the Council have for carrying out self-assessment is sufficient and detailed and includes both internal and external improvement tools and inspections to drive improvement.

**117.** Internally, the main approach is the Argyll and Bute Improvement Framework (ABIF) which sets out the Council's approach to self-evaluation, provides a programme of self-evaluation workshops and sets out a structure to ensure that any department of the Council that does not have its own specific evaluation programme follows the same structure to carry out self-evaluation activities. The ABIF gives detailed guidance on ABC's approach to self-evaluation with a focus on 'how we do things' and 'what we achieve'. Areas for improvement identified in the workshops are translated into improvement actions, which are then added to the Service Improvement Plans. Anything identified across several departments will be taken into the Corporate Improvement Plan.

**118.** An external initiative is the Scottish Local Government Innovation Exchange (managed by the Improvement Service) - this is to share good practice and improve service delivery. The Innovation Exchange includes case studies of changes and improvements the Council has made to service delivery which has been identified as exemplary good practice.

#### Local Government Benchmarking Framework;

**119.** There is evidence of appropriate benchmarking work, and consideration is given both to factors which have contributed to performance levels and intended improvement actions. The council is transparent about areas where performance could be improved.

**120.** The Council publishes its analysis of the LGBF data on their website, and reports this in detail to the Audit & Scrutiny Committee in June of each year. The report provides a detailed account of Argyll & Bute Council's performance relative to other councils and against the average for Scotland. It provides an initial quartile analysis on 74 of the 81 LGBF Measures and also looks at each indicator in detail. This detail considers current performance compared to a baseline year and compared to the prior year. It also considers family group and Scotland ranking, commenting on any trends observed.

**121.** There is a section on 'telling our story' which provides narrative on performance and any actions that have attributed to current performance levels, and a section on 'looking forward' which provides some insight into possible future directions for the indicator and what is expected. The report provides a comprehensive account of the LGBF measures, seeks to put these in their A&B context, and it is evident that substantial benchmarking work has taken place.

#### Community Planning Partnership;

**122.** The Community Planning Partnership (CPP) has detailed objectives within the Argyll and Bute Outcome Improvement Plan (ABOIP), aligned with the council's objectives and plans, and with a clear view on how this will contribute to achieving the 6 long term outcomes and the overarching Outcome of the ABOIP. It is well documented within the plans how performance against these objectives is to be monitored and reported to the CPP.

**123.** The introduction of area community action plans as a result of recent Community Empowerment legislation has introduced changes to performance management, monitoring and reporting within the CPP. We will assess the impact and effectiveness of these changes within the upcoming BVAR work.

### **The council has good performance management arrangements in place with regular reports to officer and members**

**124.** The current Performance and Improvement Framework (PIF) was introduced for 2017/18, and monitors performance against 32 business outcomes. Three-year service plans are integrated with the performance management system to generate service scorecards, which highlight key successes, challenges and improvement actions, and are reported quarterly to Policy and Resources Committee.

**125.** The PIF is currently being further enhanced through the development of a smaller range of 17 business outcomes, considered by management to be more appropriate to current circumstances. When implemented for 2019/20 these will align to the ABOIP and the Corporate Plan.

**126.** The council has an established performance management framework that managers and councillors clearly understand, and which provides a sound base for improvement.

### **Overview of performance targets**

**127.** The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**128.** The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service was submitted to the Audit and Scrutiny Committee (ASC) in June 2019. Based on the data reported for 74 indicators compared to the Scottish average, the council was performing better than average in 21 (28%), around average in 12 (16%) and worse than average in 41 (56%).

**129.** The Audit and Scrutiny Committee referred the report to the Strategic Committee for scrutiny and agreement of associated performance improvements. Also, the report will be presented to a members' seminar to raise awareness of performance issues among elected members and to assist them in scrutinising performance.

### **The council has good arrangements for collecting and recording performance information and reporting the findings in public**

**130.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**131.** For 2018/19 two Statutory Performance Indicators (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value

- SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#).

**132.** The Council has appropriate and effective arrangements for collecting, recording and publishing SPI data.

### **The Audit and Scrutiny Committee receives and reviews Audit Scotland's National performance audit reports**

**133.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports which are of direct interest to the council. These are outlined in [Appendix 3](#).

**134.** The Council's Chief Internal Auditor internal audit section reviews Audit Scotland's and other national reports and passes them to the appropriate senior officer for consideration and action where appropriate. A quarterly report is provided to Audit and Scrutiny Committee which provides details of those national reports, which senior officers receive the reports, details of key reports' recommendations and the senior management response.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial Strategy</b></p> <p>The current medium to long term financial strategy does not contain detailed financial plans beyond 3 years.</p> <p>There is a risk that the impact of changes in funding or expenditure scenarios beyond three years are not fully taken into account across all aspects of the Council's activities.</p>	<p>The council should enhance its long-term strategy when next it is reviewed. In particular it should consider providing detailed financial plans for up to five years, providing details of changes in assets, liabilities and reserves over time and including an analysis of levels of service demand</p> <p><a href="#">Paragraph 68</a></p>	<p>The Council will give consideration to enhancing its long-term strategy when it is reviewed during 2019-20.</p> <p><b>Kirsty Flanagan, Head of Financial Services</b></p> <p><b>31 March 2020</b></p>
2	<p><b>Financial Sustainability</b></p> <p>The council is forecasting significant funding gaps for the three years 2020/21 to 2022/23, which have still to be addressed by identified savings.</p> <p>There is a risk that savings or other measures to bridge the forecast funding gaps may not be identified.</p>	<p>The council should continue to develop its savings plans, and any other initiatives, to address the significant funding gaps forecast for the three years 2020/21 to 2022/23.</p> <p><a href="#">Paragraph 71</a></p>	<p>The Council will continue to actively pursue savings options, income generation options and other innovative solutions to address future funding gaps.</p> <p><b>Kirsty Flanagan, Head of Financial Services</b></p> <p><b>31 March 2020</b></p>
3	<p><b>Performance Reporting</b></p> <p>It is difficult to connect service plan performance reports to corporate outcomes and the Corporate Plan, as service reporting only references related business outcomes.</p> <p>There is a risk that the link between service performance and the Corporate Plan is not sufficiently transparent.</p>	<p>The council should consider developing clearer links between service area performance reporting and the corporate outcomes contained in the Corporate Plan.</p> <p><a href="#">Paragraph 113</a></p>	<p>Consideration will be given to including clearer links as part of ongoing improvements.</p> <p><b>Jane Fowler, Head of Customer Support Services</b></p> <p><b>30 June 2020</b></p>
4	<p><b>Performance Reporting</b></p> <p>The provision within the six-monthly performance reporting process for feedback and comment from the Audit and Scrutiny Committee is not being utilised.</p>	<p>Formal feedback from the Audit and Scrutiny Committee on the Council's six-monthly performance report should be built into the ASC's workplan.</p> <p><a href="#">Paragraph 115</a></p>	<p>Performance Reporting to the Audit and Scrutiny Committee has been on an improvement journey. This action will be picked up as part of ongoing improvement.</p>


**No. Issue/risk**

**Recommendation**

**Agreed management action/timing**

There is a risk that the six-monthly performance reports are not subject to adequate scrutiny on behalf of the full council.

Jane Fowler, Head of Customer Support Services

31 December 2019

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**Follow up of prior year recommendations**


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**5 Review of Assets Under Construction**

70 assets under construction, of cumulative value of £6.498 million in the fixed asset register, had no movement in value over the year. On review of all assets under construction with the value of over £0.25 million, management established that a number of these assets, valued in the fixed asset register at £3.4 million were operational.

There is a risk that the asset value and classification may not be appropriately reflected in the accounts.

Management should undertake a revaluation of assets moved from assets under construction into the operational assets. This is to ensure that they are accurately reflected in the accounts and appropriate depreciation is charged going forward.

Furthermore, management should extend the review of the assets under construction to all assets currently valued under £0.250 million to ensure all items are appropriately classified and treated in the accounts.

A review of assets under construction has been carried out for 2018-19, and for those assets identified as complete an impairment review or revaluation has been carried out.

**Action complete**

**6 Common Good Assets**

Oban swimming pool with a net book value of £3.5 million was included appropriately in the Council's group accounts but was incorrectly omitted from the Council's asset register.

Two other common good fixed assets have been included in the accounts with a net book value of £0.2 million, based on an incorrect treatment of these assets on the asset register. The last valuation of these assets was undertaken in 2013, although the valuation movement had not been appropriately reflected on the asset register.

There is a risk that common good asset values are not supported by appropriate accounting records and are misstated within the group accounts and the value of

A valuation of common good assets should be undertaken in 2018/19 and these should be appropriately reflected in the asset register and in the annual accounts.

Valuation of common good assets has been carried out for 2018/19, and valuations appropriately reflected in annual accounts.

**Action complete**

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**No. Issue/risk**
**Recommendation**
**Agreed management action/timing**

misstatement cannot be estimated.

**7**
**Heritage Assets**

Heritage assets in Campbelltown Museum and the Argyll Collection have not been valued and included within the council's accounts.

There is a risk that heritage asset are misstated in the accounts and the value of the misstatement cannot be estimated.

Heritage assets should be valued and reflected in the accounts from 2018/19.

The heritage assets in question have been appropriately valued as at 31 March 2019 and included in the overall valuation for heritage assets in the council's accounts.

**Action complete**

**8**
**Financial Planning**

We were pleased to note that the Council prepared a medium to long-term financial strategy which includes forecasts for revenue, capital and treasury management, and details of plans to mitigate future budget gaps. Scenario planning was also utilised. However, the strategy could also include changes in assets, liabilities and reserves over time, and an analysis of levels of service demand. Additionally, the supporting detailed financial plans could be prepared for three rather than five years.

There is a risk that the current medium to long-term financial strategy and the supporting financial plans do not provide elected members with a full picture of potential financial challenges in the future years.

The Council should consider producing detailed financial plans, extending to five years from the current three years. The medium to long-term strategy could be enhanced by including details of changes in assets, liabilities and reserves over time, and. an analysis of levels of service demand.

Agreed that the medium to longer term financial strategy will be further developed as part of its next review.

**Kirsty Flanagan, Head of Financial Services**

**31 March 2020**



# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA (UK) 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Substantive testing of transactions around the year end to confirm income and expenditure is accounted for in the correct period.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Focused testing of accruals and prepayments.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>No significant issues were noted in our testing of accruals and prepayments.</p> <p>Income and expenditure was accounted for in correct financial year.</p> <p>No significant transactions outside the normal course of Council business were identified.</p> <p>Overall, there was no evidence of management override of controls at the Council.</p>
<p><b>2 Revenue recognition</b></p> <p>Argyll and Bute Council receives a significant amount of income in addition to Scottish Government funding. Under ISA (UK) 240, there is a presumed risk of fraud in relation to revenue recognition.</p>	<p>Testing of high-level controls over income and receivables by means of a 'walk through test'.</p> <p>We will carry out testing to confirm that the council's revenue recognition policy is appropriate and has been applied consistently throughout the year.</p> <p>Review of arrangements to prevent and detect fraud.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions, including cut-off testing, focusing on the areas of greatest risk.</p>	<p>Key controls over receivables were operating effectively.</p> <p>Internal audit has not raised any risks of fraud in relation to income controls.</p> <p>The Council's fraud arrangements were found to be satisfactory.</p> <p>We found no issues during our detailed testing of income</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3 Risk of fraud in the recognition of expenditure</b></p> <p>The Public Audit Forum issued Practice Note 10; it recognises that most public-sector bodies are net spending bodies and there is an increased risk of material misstatement due to improper recognition of expenditure.</p> <p>Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations on the public purse.</p>	<p>Testing of high-level controls over expenditure and payables by means of a 'walk through test'.</p> <p>We will carry out testing and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.</p> <p>Review of arrangements to prevent and detect fraud.</p> <p>Analytical procedures on expenditure transactions.</p> <p>Detailed testing of expenditure transactions, including cut off testing, focusing on the areas of greatest risk.</p>	<p>Key controls over payables were operating as intended.</p> <p>Internal audit has not raised any risks of fraud in relation to expenditure controls.</p> <p>The Council's fraud arrangements were found to be satisfactory.</p> <p>We found no issues during our detailed testing of expenditure transactions.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:</p> <ul style="list-style-type: none"> <li>• non-current assets (including heritage assets)</li> <li>• provisions (including equal pay claims)</li> <li>• pension liabilities.</li> </ul> <p>These areas represent an increased risk of material misstatement in the financial statements.</p>	<p>Completion of "review of the work of an expert" for the professional valuers and actuaries.</p> <p>Review of accounting estimates and disclosures.</p> <p>Additional assurances obtained from legal and HR officers in relation to provisions.</p> <p>Focused substantive testing of non-current assets, provisions and pension liabilities including data submitted by the council to actuaries.</p>	<p>We did not find any issues with the reliability of these experts.</p> <p>We agreed samples of accruals and provisions to appropriate back up evidence.</p> <p>Pension disclosures, and the net pension liability, required amendment to reflect outcomes from legal cases ongoing at year end, and an updated year end valuation of pension assets by scheme actuaries was considered.</p> <p>Estimates and judgements included in the accounts are supported by appropriate audit evidence.</p>

### Wider dimensions issues and risks

<p><b>5 Financial sustainability</b></p> <p>Councils continue to face significant financial challenges with pressures on funding and increasing demand for services, so must continue to radically and sustainably reconfigure service provision.</p> <p>As at February 2019, the mid-range scenario of the council's three-year Budget Outlook from 2019/20 to 2021/22 estimates a budget gap of £5.56 million for 2020/21, rising to £7.083 million in 2021/22, with a balanced</p>	<p>Review of the council's annual budget setting arrangements.</p> <p>Assessment of the council's medium to long term financial strategy.</p> <p>Review and assessment of budget monitoring arrangements with a focus on reports to senior officers and members on financial position.</p> <p>On-going review of the council's financial position and delivery of planned savings.</p>	<p>Budget setting arrangements were appropriate.</p> <p>The council's medium to long term financial planning was assessed. We found that the council had appropriately planned for the range of scenarios, but the strategy could be further enhanced.</p> <p>Budget monitoring reporting to members and budget managers was of a high standard and enabled corrective action to be taken timeously should</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>budget position, after implementation of all measures available, forecast for 2019/20 (Surplus £1.032 million). Beyond this there remains a significant budget gap in future years.</p> <p>This represents a financial sustainability risk for the council as the level of necessary budget savings may adversely affect the level and quality of service provision.</p>		<p>overspends develop during the year.</p> <p>Savings plans to date have been delivered successfully and plans for future savings are in development.</p> <p>Financial sustainability risks facing the council are being appropriately managed.</p>

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Source: Audit Scotland

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# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

# Argyll and Bute Council

## 2018/19 Annual Audit Report

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