

# Argyll and Bute Council

## Report to those charged with governance on the 2013/14 audit



Prepared for Argyll and Bute Council  
September 2014

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# Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit Committee's consideration of the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Argyll and Bute Council and no responsibility to any third party is accepted.

## Status of the audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were discussed with officers at regular intervals during the course of the audit. The more significant issues arising were discussed with the Head of Strategic Finance at a meeting on 16 September 2014.
4. We received a full set of the unaudited financial statements on 30 June 2014 and this was accompanied by a comprehensive working papers package. The working papers package was of a good standard and finance staff dealt with audit queries promptly thereby enabling us to complete our on-site fieldwork by 5 September 2014.

## Matters to be reported to those charged with governance

### Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 15 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan.

### Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any

instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

## Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 30 September 2014 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed with our view and have amended the unaudited financial statements. There were two monetary adjustments arising from an increased provision relating to equal pay and recognition of a provision relating to call-out payments. This had the effect of worsening the position recorded in the comprehensive income and expenditure account by £0.498 million. The general fund has decreased by £0.498 million. The net assets as recorded in the balance sheet have also decreased by £0.498 million.
11. In addition, a number of monetary errors were identified which were not processed through the financial statements by management. If adjusted these would have a net effect of increasing expenditure and decreasing net assets by £0.011 million in 2013/14. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these adjustments were not material to the financial statements. The effect of these unadjusted errors on the council's financial statements is detailed in [Appendix C](#).
12. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Head of Strategic Finance with the signed financial statements prior to the independent auditor's opinion being certified.

## Accounting and internal control systems

13. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

- 14. Statement of Governance and Internal Control:** Our audit work identified a number of issues that were not included in the 2013/14 statement that were governance weaknesses in the year and in our opinion should be included.
- 15.** In addition, last year comparison of the council's Statement of Governance and Internal Control with CIPFA's Delivering Good Governance in Local Government Framework identified some key elements of an authority's governance arrangements which were not referred to. These were:
- arrangements for preventing fraud and corruption
  - defining and documenting the respective roles and responsibilities of executive officers and elected member functions, delegation arrangements and protocols for effective communication
  - identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
  - incorporating good governance arrangements in respect of partnerships and other joint working and reflecting these in the authority's overall governance arrangements.

**Resolution:** The council has now updated the statement in response to our comments. The scope of the statement and the process for identifying issues for inclusion should be reviewed for 2014/15.

## Significant findings from the audit

- 16.** In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
- 17. Landfill sites:** The council owns three active landfill sites. As a result it has responsibilities regarding the restoration and aftercare costs of the sites. To comply with accounting requirements, International Accounting Standard (IAS) 37 Provisions, contingent liabilities and contingent assets, the council should recognise these costs as a provision in its Balance Sheet. This would result in an equivalent increase in the value of long term assets based on the accounting requirements. At 31 March 2014 the Valuation Office Agency placed a value of £1.595 million on the necessary works for a period of 60 years, following the cessation of tipping operations. However finance officers have stated that they do not have all of the necessary information to accurately account for these obligations in 2013/14, in relation to the requirement to establish the changes in the discounted cash flow valuation of these costs since the sites became operational. The council has provided evidence to support their view that this is not material to the accounts. Due to statutory mitigation there would be no impact on the general fund balance if these entries had been made. The decision has been taken not to amend the accounts. This amount is reflected as an unadjusted error at [Appendix C](#).

**Resolution:** The council will process an adjustment in the 2014/15 accounts to recognise a provision for the restoration and aftercare costs of the three landfill sites in line with IAS 37.

**18. Equal pay claims:** As reported in previous years, the ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer. During the course of our audit and following receipt of updated information from the council's legal department, finance officers increased the council's Equal Pay provision at 31 March 2014 by £368,000 to adequately reflect the potential liability. Actual settlements are subject to the outcome of several national test legal cases. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases.

**Resolution:** The equal pay provision was amended to take account of information supplied by the legal department. The potential equal pay liability will be reviewed on an annual basis.

**19. Reduction in net assets - Due to changes in assumptions about Employee Benefits - Pension fund liabilities:** There has been a further increase in the pension liability of £18.473m from £99.864m at 31 March 2013 to £118.337m at 31 March 2014. This has been due to falling bond yields being only partially offset by better than expected investment performance. The falling bond yields lead to a lower discount rate (i.e. the net price of inflation) which leads to a higher value being placed on liabilities. The pension liability represents the difference between the expected future payments to be made to former employees of the council and their beneficiaries in the form of pension payments and the underlying value of pension fund assets to meet this cost on 31 March 2014.

**20.** The calculation of the liability is assessed by professional actuaries each year and is an estimated figure. The increase in the pension liability in 2013/14 is part of a complex calculation which is subject to estimation and assumption about a range of factors which affect the valuation of the underlying assets and liabilities. 2014 is a triennial valuation year and therefore the council will be updated on its long term position both in terms of its funding position and contribution rates. Although the liability will continue to vary, this information will be vital for the council and its pension fund partner councils to ensure the pension fund remains affordable and adequately funded.

**Resolution:** Assurance is obtained from the triennial valuations of the pension fund carried out by Strathclyde Pension Fund, which assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions

**21. Heritage Assets:** Heritage Assets include two art collections valued in total at £1.140 million. The Argyll Collection (£0.649 million) was last valued in February 2010 however the other collection, held at various libraries and at the Campbeltown Museum (£0.491 million), was last valued in March 2004. The council also own museum exhibits (insured for £0.520 million) which are not included within Heritage Assets as no detailed inventory exists. In 2012/13, officers stated that the art collections will be revalued and plans are in place to catalogue and value all museum artefacts. This has not yet been completed.

**Resolution:** Progress is to be made in 2014/15 towards cataloguing and valuing all museum artefacts by 31 March 2015.

22. **Police and Fire:** Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board no longer form part of the council's group accounts in 2013/14 following the formation of Police Scotland and the Scottish Fire and Rescue Service on 1 April 2013. The non inclusion of these bodies in 2013/14 has the impact of increasing the group Movement in Reserves Statement and Group Balance Sheet by £263.112 million to reflect the write off of the council's share of these bodies' net liabilities.

**Resolution:** For information only due to the significance of this change to the Group Accounts.

23. **Sale of Kilbowie House, Oban:** Kilbowie House is a surplus asset and is being marketed for sale. The council appointed an external firm of surveyors and estate agents, to apply a commercial approach to marketing the property, with a view to obtaining best consideration. Only one company, Bell Ingram responded to the council's tender to market Kilbowie House. As they met the selection criteria they were appointed as the marketing agents. They provided the valuation on which the property was marketed, £450,000.
24. During 2014 several bids were received for the property and considered by the Oban, Lorne and the Isles Area Committee (OLIAC) in accordance with the Corporate Asset Management Strategy. The OLIAC rejected the offers as they were significantly below the marketing valuation, and would not represent best value for the council. In considering the bids submitted, the committee also considered the wider economic benefits of the offers made.
25. However we identified that Kilbowie House is included in the council's fixed asset register and accounts with a value that is lower than the £450,000. The council's figure reflects the latest valuation of the property at March 2013, as part of the council's rolling asset revaluation programme. The valuation included in the council's fixed asset register for the property has been included in the balance sheet asset values. We consider this treatment is appropriate.
26. When evaluating the bids for Kilbowie House the OLIAC were made aware of the marketing valuation but not the asset register value. In our opinion members should be provided with this information to enable them to consider the range of valuations placed on assets when they are evaluating offers. How these valuations have been determined should be explained where they are prepared on a different basis or at a different date.
27. The property is currently back on the market with a closing date to be set once it is considered sufficient expressions of interest have been received. Progress on this sale will be reported in the Annual Report on the 2013/14 Audit.

**Resolution:** We recommend that members are advised of both the marketing valuation and the asset register value for assets when they are evaluating offer bids.

## Acknowledgements

28. We would like to express our thanks to the staff of Argyll and Bute Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.



# Appendix A: Proposed Independent Auditor's Report

## **Independent auditor's report to the members of Argyll and Bute Council and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Statements of Movement in Reserves, Statements of Comprehensive Income and Expenditure, and Balance Sheets, the authority-only Cash Flow Statement, the Council Tax Income Account, the Non-Domestic Rates Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent

with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the group and the body for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records
- I have not received all the information and explanations I require for my audit
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA  
Assistant Director, Audit Services  
Audit Scotland  
4th Floor, The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

30 September 2014

# Appendix B: ISA 580 - Letter of Representation

Fiona Mitchell - Knight  
Assistant Director  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
Nelson Mandela Place  
Glasgow  
G2 1BT

30 September 2014

Dear Fiona

## **Argyll and Bute Council Annual Accounts 2013/2014**

1. This representation letter is provided in connection with your audit of the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Argyll and Bute Council and its group as at 31 March 2014 and its income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Strategic Management Team and the council, the following representations given to you in connection with your audit of Argyll and Bute Council for the year ended 31 March 2014.

## **General**

3. I acknowledge my responsibility and that of Argyll and Bute Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Argyll and Bute Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the explanatory foreword and remuneration report, presents a balanced picture of Argyll and Bute Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected

misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

### **Financial Reporting Framework**

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Argyll and Bute Council and its group for the year ended 31 March 2014.

### **Accounting Policies & Estimates**

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

### **Going Concern**

10. The Senior Officers have assessed the ability of the council to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

### **Related Party Transactions**

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **Remuneration Report**

12. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.
13. All exit packages agreed in 2013/14 and included in the accounts were notified to Strathclyde Pension fund to enable complete information to be provided to the actuaries for the IAS19 disclosures.

### **Events Subsequent to the Balance Sheet Date**

14. There have been no material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
15. Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

### **Corporate Governance**

16. I acknowledge, as Section 95 Officer, my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
17. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2014 which require disclosure.

### **Fraud**

18. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

### **Assets**

19. The assets shown in the Balance Sheet at 31 March 2014 were owned by Argyll and Bute Council other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.
20. At 31 March 2014, title deeds for properties owned or mortgaged to Argyll and Bute Council were held by the council and all such deeds were in order.
21. The council's inventories have been valued at cost or, where appropriate, average cost. All inventories are included in the financial statements other than those considered to be obsolete.

### **Liabilities**

22. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014.
23. The costs of all employee terminations that were committed to during 2013/14 have been charged in the comprehensive income and expenditure account in 2013/14 and were either paid during the year or are included within provisions or accruals at the year end.

### **Carrying Value of Assets and Liabilities**

24. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

### **Provisions**

25. Provisions have been made in the financial statements for all material liabilities, including claims arising from equal pay legislation, which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2014 and of which Argyll and Bute Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2014.

### **Contingent Liabilities**

26. There are no significant contingent liabilities, other than those disclosed at note 34 to the accounts, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided for under the Code and IAS27.

### **Common Good Account and Trusts and Bequests**

27. In my opinion the common good assets, liabilities and revenue transactions within the financial statements are materially complete. All common good assets and liabilities and revenue transactions have been properly separated from the council's single entity accounts and are reflected within the common good accounts in accordance with LASAAC guidance issued December 2007. Similarly, all assets and liabilities and revenue transactions relating to charitable trusts managed by the council have been properly separated from the council's single entity accounts and are reflected within the trusts and bequests accounts

Yours sincerely

**Bruce West**  
**Head of Strategic Finance**

# Appendix C: Non-Adjusted Errors within the 2013/14 Financial Statements

Below is a summary of the non-adjusted error which has not been processed in the financial statements, with an explanation.

2013/14 Financial Statements	DR £000	CR £000
<b>Comprehensive Income and Expenditure Statement</b>		
Cost of Services	11	
<b>Overstatement of debtors and understatement of creditors</b>		
Total	11	
<b>Balance Sheet</b>		
Property, Plant and Equipment	1,595	
Provisions		1,595
<b>Non recognition of provision for restoration and aftercare costs</b>		
Debtors		6
Creditors		5
<b>Net total</b>		<b>11</b>

The total unadjusted error is not material to the financial statements and does not impact on our audit opinion.