



## **Argyll and Bute Council**

### **Annual report on the 2013/14 audit**

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

October 2014



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## Key messages

### Best Value, use of resources & performance

- The Accounts Commission considered a Best Value audit follow-up report at its meeting on 19 June 2014, and issued its findings.
- These reflected progress made but recognised that it is too early to assess the effectiveness and impact of the actions and plans being implemented.
- The council has much work to do, if it is to secure the improvements required by the Accounts Commission in October 2013, and meet its statutory duties on Best Value.

### Governance & accountability

- Key financial controls operated effectively during 2013/14 but weaknesses in governance arrangements were reported on a range of issues.
- Scrutiny still needs to demonstrate improvement under the new committee structure.

### Financial position

- Financial management has been strong in 2013/14 with close budget monitoring and regular reporting to members.
- Whilst the balance on the General Fund is reducing, it remains significant and in terms of uncommitted reserves, is considerably above the minimum target set by the council.
- There is short term stability but expenditure needs to be reduced over the period 2016/17 to 2019/20 by approximately £77 million in total.
- Achieving these savings will require fundamental decisions to be made by councillors about future service provision and delivery.

### Financial statements

- We have given an unqualified audit opinion on the financial statements of Argyll and Bute Council for financial year 2013/14.

### Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective arrangements for Best Value and strong governance and leadership will be essential to ensure the council can meet the challenges it faces, use available resources efficiently and achieve continuous improvement in its performance.

### Best Value, use of resources and performance

1. A Best Value audit follow-up report was considered by the Accounts Commission at its meeting on 19 June 2014. The Commission accepted the Controller of Audit's report and noted in its findings that it is encouraged that the council is making progress against its previous findings of October 2013.
2. However, the Commission also agreed that it is too early to assess the effectiveness and impact of the actions and plans being implemented, concluding that there is still much work to be done if the council is to secure the improvements required and meet its statutory duties on Best Value.

### Governance and accountability

3. The council recognises that governance and scrutiny arrangements are not effective in all areas.
4. The Best Value follow-up audit report says that scrutiny still needs to improve in its new committee structure.
5. The key controls within the council's main financial systems were operating effectively during 2013/14. However weaknesses in governance arrangements were reported relating to a range of issues, on the:
  - Sale of Kilbowie House, Oban
  - Helensburgh CHORD redevelopment project

- Funding for the Scottish Submarine Museum
  - Gourock to Kilcreggan Ferry Service.
6. The council's 2013/14 Corporate Governance Statement was revised to include some of these issues.
  7. Local interest in the council's activities leads to correspondence being sent to Audit Scotland, asking for issues to be considered as part of our audit. We have reflected the findings from any work that arises from this correspondence throughout this report.

### Financial position

8. The closing balance at the year end on usable reserves was £48.526 million representing a net decrease of £1.778 million from 2012/13. Whilst the balance on the General Fund is reducing, it remains significant and in terms of uncommitted reserves, is considerably above the minimum target set by the council.
9. The council estimates it will require to reduce expenditure over the period 2016/17 to 2019/20 by an average of around three per cent or £8 million per annum, building up to £28.565 million in 2019/20. This equates to approximately £77 million in total over the four-year period. Achieving these savings will require fundamental decisions to be made by councillors about future service provision and delivery.

## Key Messages

10. The council plans to use the two-year period of financial stability (2014/15 and 2015/16) to develop and put in place proposals to address the longer-term funding outlook and to consider how resources are aligned to the Single Outcome Agreement 2013-23 and council priorities, future savings and options for additional income.

## Financial Statements

11. We have given an unqualified audit opinion that the financial statements of Argyll and Bute Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
12. We have also given an unqualified audit opinion on the 2013/14 financial statements of the registered charities audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
13. Overall performance against budget was an underspend of £3.360 million, representing 1.33% of net service expenditure. The council underspent against its departmental controllable budget by £0.842 million (0.40% of the 2013/14 revenue budget).
14. Financial management remains strong with close budget monitoring and regular reporting to members.

## Outlook

15. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources, as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.
16. Given the outcome of the referendum there is the potential for even further change with significant impact likely on local services, governance and accountability.

# Introduction

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17. This report is a summary of our findings arising from the 2013/14 audit of Argyll and Bute Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model. The order of the sections reflect our assessment of the risk areas in the council.
18. Our responsibility, as the external auditor of Argyll and Bute Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
19. The management of Argyll and Bute Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
20. This report is addressed to the members of Argyll and Bute Council and the Controller of Audit and should form the basis of discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
21. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
22. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Argyll and Bute Council.
23. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

## Introduction

- 24. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
- 25. We recognise that not all risks can be eliminated or even minimised. What is important is that Argyll and Bute Council understands its risks and has arrangements in place to manage these risks. The council and senior officers should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
- 26. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
- 27. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

## Best value, use of resources and performance

28. Local authorities have a statutory duty to provide Best Value in carrying out their functions and delivering services, including those provided through Arms-Length Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also a duty to report performance to the public so that local people know what quality of service is being delivered and what they can expect in the future.

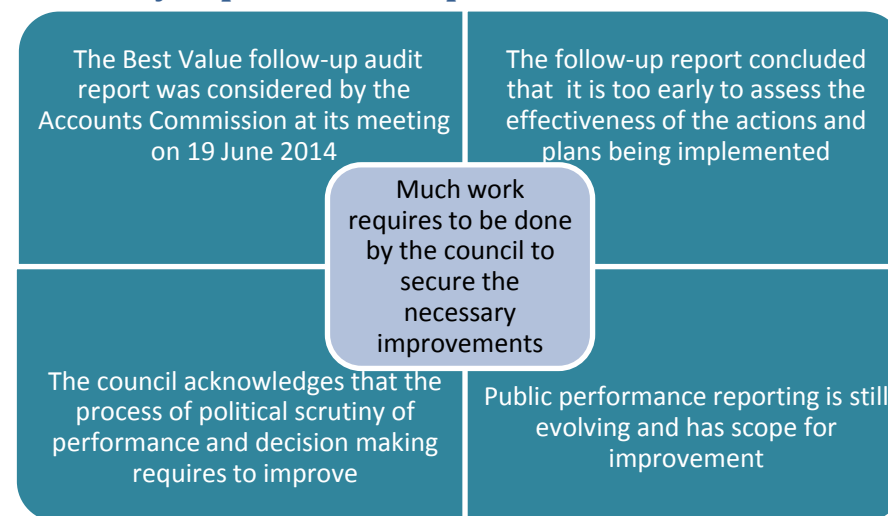
### Assurance and improvement plan 2014-17

29. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Argyll and Bute Council prepared by the Local Area Network (LAN) of scrutiny partners for the council, since the introduction of the shared risk assessment process. This has been published on Audit Scotland's website.
30. The LAN assessed all areas as 'no scrutiny required', with the

exception of leadership and direction which was assessed as 'scrutiny required'.

31. The AIP recorded that following submission of a statutory report to the Accounts Commission on leadership and culture at Argyll and Bute Council in October 2013, Audit Scotland would carry out Best Value follow-up work, examining the council's progress in responding to the Accounts Commission's requirement for urgent progress. The follow up work considered progress up to April 2014.

### Statutory report follow-up



32. The October 2013 statutory report was presented to the Accounts Commission by the Controller of Audit. It covered



leadership and culture at Argyll and Bute Council including the effectiveness of councillor to councillor and councillor to officer working relationships.

33. The Commission made findings on the report and asked the Controller of Audit to provide a further report on the progress made to improve over the following six months. The follow-up audit work reviewed progress made by the council over the six-month period between the publication of the statutory report at the end of October 2013 and April 2014. The follow-up audit report concluded that:

- Argyll and Bute Council has responded constructively to the Accounts Commission findings on the 2013 statutory report and it is making progress with improvement work. It is, however, too early to assess the effectiveness of the actions and plans being implemented.
- The leadership and political dynamics of the council are more stable but the situation remains fragile. The risk to the council is currently reduced but there are difficult circumstances ahead and tough decisions to be made that will prove challenging to political management and ongoing stability.
- New political management arrangements provide a foundation for improved governance. The council needs to ensure councillors and officers have a shared understanding in practice about the roles and responsibilities as well as effective links within and across

the new arrangements to ensure they meet their potential.

- Scrutiny still needs to improve. In particular, the council needs the commitment and engagement of councillors in the work of the Performance Review and Scrutiny Committee and the Audit Committee, if these are to make an effective contribution to governance and accountability. The role of senior management will also be crucial.

34. The follow-up audit report was considered by the Accounts Commission at its meeting on 19 June 2014. The Commission accepted the Controller of Audit's report and noted that it is encouraged the council is making progress against its previous findings of October 2013. The Commission also agreed that it is too early to assess the effectiveness of actions and plans being implemented and concluded that there is still much work to be done by the council to secure the improvements that were required in October 2013.

35. The Commission therefore requires the Controller of Audit to report on progress by the end of 2015, with particular focus on the effectiveness of the following:

- Political management arrangements
- Scrutiny
- Roles and relationships, including between members and officers.

36. At its meeting on 25 September 2014, the council agreed a further 10 actions points as a consequence of the follow-up

report in order to support continued improvement.

### Arrangements for securing Best Value

- 37. The Corporate Improvement Plan sets out the council's planned activity to improve service delivery and how the council works. It aims to drive out financial efficiencies to meet future budgetary constraints.
- 38. The Planning and Performance Management Framework (PPMF) remains a core component of the improvement process for the council, to help ensure delivery of the Corporate Improvement Plan. The Framework is designed to draw together improvement activities within the council to ensure that improvement is taking place in a coordinated manner.
- 39. At its meeting In November 2013, the Performance Review and Scrutiny Committee (PRSC) noted the results of a review of the Corporate Improvement Plan. The review identified that five of the original 12 projects (including Employee and Elected Member Development and Health and Social Care Integration) had now either come to a conclusion or will be monitored outwith the Corporate Improvement Board. The review also identified that the Productivity and Service Improvement Project will be split into four parts with the PPMF and Public Service Improvement Framework being monitored through the Strategic Management Team. Remaining within the Corporate Improvement Plan are Service Prioritisation and Business Process Re-engineering.

- 40. An update report submitted to the PRSC in May 2014 records that the Corporate Improvement Programme is making good progress against its targets. Of the seven projects in the programme, all are reported to be on track and green.
- 41. A review of the council's Planning and Performance Management Framework is currently ongoing and will be presented to the PRSC in November 2014.

### Use of resources

- 42. The council continues to identify savings through workforce management, asset management and procurement. In 2013 the council achieved a procurement capability assessment (PCA) score of 63%, which is classed as Level 2 'improved performance status' and demonstrates a further improvement on the 2012 score of 53%.

### Performance management

- 43. In 2012 the council established the Performance Review and Scrutiny Committee (PRSC), which is chaired independently. It met for the first time in February 2013 and meets quarterly. It reviews and scrutinises council performance with a structured agenda including quarterly and annual performance reports on service performance, financial performance, improvement and particular areas of strategic interest such as attendance management.

44. The council uses a performance management software system (Pyramid) to record performance information and generate performance scorecards. The PPMF sets out the structure and content of scorecards. The system includes council, department, service, thematic and area scorecards to provide the key management information required at all levels in the organisation and to measure achievement of Corporate Plan and Single Outcome Agreement deliverables.
45. Quarterly performance reports including council and departmental scorecards are presented to the PRSC. The reports outline performance during the period including a review of successes, key challenges and improvement actions for the coming period. Service annual performance reviews for all twelve services are also presented to the PRSC. These include key successes, key challenges and key improvement actions to address the challenges. An Annual Report is also produced as part of the public performance reporting strategy.
46. In a report to the August 2014 PRSC meeting, the Executive Director, Customer Services reported that; "Argyll and Bute Council has a well-established performance management process, underpinned by the Planning and Performance Management Framework. The process of political scrutiny of performance and decision making is less well established".
47. As a result, a number of measures are currently being introduced to improve member scrutiny of performance. In particular, from Quarter 1 2014/15, the new Strategic Service

Committees carry out review and scrutiny of departmental performance on a quarterly basis. Members will also continue to scrutinise performance for their specific local area at each of the four Area Committees on a quarterly basis.

48. An annual report on performance management processes and procedures is currently being developed. This will be presented to the PRSC in November 2014 as part of the PPMF review.

## Single Outcome Agreement

49. The SOA 2013-14 annual report details annual performance for 2013-14 by Community Planning Partners (CPP) against measures in the Argyll and Bute SOA 2012-13.
50. The overall reported performance in 2013/14 indicates that of the 105 measures 87.6% were green and 12.4% were red, highlighting an improvement in performance from 2012-13 (80.3% green and 19.7% red).
51. All CPPs in Scotland produced revised Single Outcome Agreements in 2013 based on guidance issued by the Scottish Government. These are ten year plans from 2013 to 2023. The main planned outcome in the SOA for Argyll and Bute is that "Argyll and Bute's economic success is built on a growing population". The 6 long term outcomes are:
  - The economy is diverse and thriving.
  - We have an infrastructure that supports sustainable growth.

## Best value, use of resources and performance

- Education, skills and training maximises opportunities for all.
- Children and young people have the best possible start.
- People live active, healthier and independent lives.
- People live in safer and stronger communities.

52. These six outcomes address the six national policy priorities that were set out in the national guidance on community planning.
53. Argyll and Bute CPP has developed a set of six Delivery Plans linked to each of the long-term outcomes within its SOA. These Delivery Plans identify short term outcomes for the ambition of the SOA and set out the way in which partners will action and monitor progress.
54. At its meeting in June 2014, the Council as lead partner endorsed the delivery plans for the Single Outcome Agreement and agreed that they be submitted to the Scottish Government.

## Overview of performance targets in 2013/14

55. As outlined at paragraph 44, performance is monitored via scorecards which report progress against a number of agreed success measures.
56. There are 299 success measures which were monitored through service scorecards in 2013-14. These were analysed for 2013/14 to show progress against target. The analysis

showed a slight overall improvement over the 2012/13 position with 78% of indicators meeting or exceeding target and 22% adrift of target (77% of indicators meeting or exceeding target and 23% adrift of target for 2012/13).

57. Of 102 Service improvement actions, 98 (96%) are reported as on track or complete at the end of the year.

## Statutory performance indicators

58. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.
59. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely:
- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity

## Best value, use of resources and performance

- SPI 2: covers a range of information relating to service performance
  - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
60. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014.
61. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for Argyll and Bute were mixed, with 43% fully, 48% partially and 9% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out in spring 2015.

## Local performance audit work

62. In 2013/14 we carried out two targeted follow-up audits to assess progress in areas that had been reported nationally by Audit Scotland, namely:

- Arm's-length external organisations (ALEOs)
- Major capital investment in councils.

63. The findings from these two pieces of work were included in our Progress Report to the September 2014 Audit Committee. These findings were:
64. **Arm's-length External Organisation (ALEOs):** This was a targeted follow-up study carried out across all local authorities in Scotland. A key aim of the study was to provide the Accounts Commission with a position statement on councils' use of ALEOs and, on progress since the '*Arms-length External Organisations: Are you getting it right?*' report published in 2011.
65. We concluded that the council does not have any ALEOs and accordingly no further work was required.
66. **Major capital investment in councils:** Audit Scotland's national report on *Major capital investments in councils* published in March 2013 assessed how well councils direct, manage and deliver capital investments. The report focused on major capital projects i.e. those with an individual value exceeding £5 million. Local follow-up audits were carried out at all 32 councils in Scotland.
67. In Argyll and Bute, we concluded that the council has made good progress in addressing relevant recommendations made in the report. The council's three year Capital Programme (2014/15 – 2016/17) generally meets the key features of good

practice outlined in Audit Scotland's report.

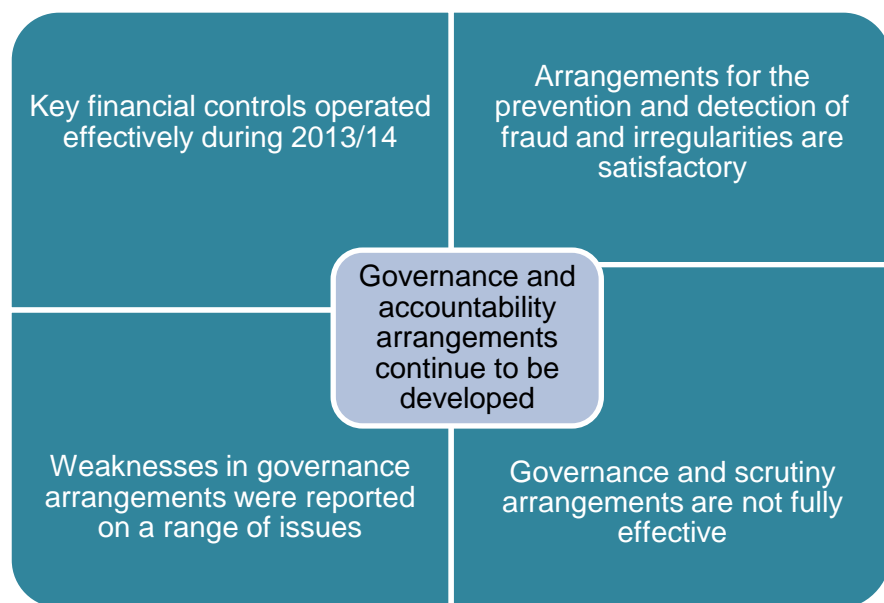
## **National performance audit reports**

- 68. The council has adequate arrangements for the consideration of national performance audit reports.
- 69. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

## **Outlook**

- 70. In common with other councils, Argyll and Bute Council faces the key challenges of reducing budgets, an ageing population and public expectations of high quality services. Savings have been made in recent years by identifying savings proposals and then setting out the service and staffing implications. However as choices on how to address funding gaps becomes increasing difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. An effective Best Value framework, alongside strong and effective performance management will be critical to the success of the council achieving its key priorities.

## Governance and accountability

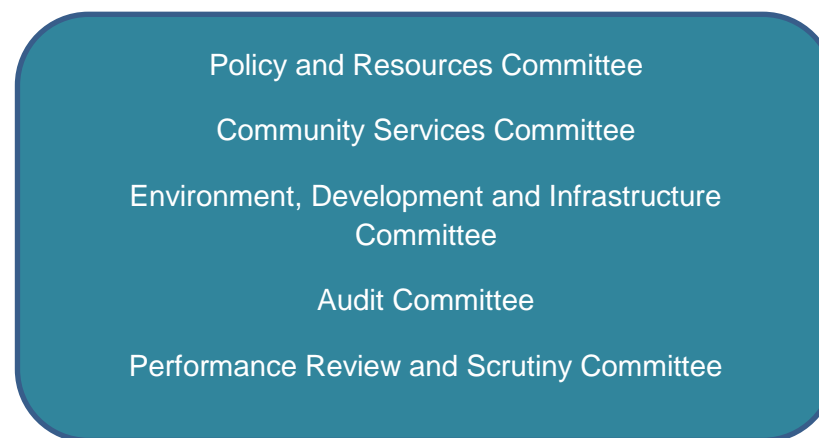


71. Members of the council and senior officers are responsible for establishing arrangements for ensuring the proper conduct of the affairs Argyll and Bute Council and for monitoring the

adequacy and effectiveness of these arrangements.

### Corporate governance

72. At its meeting in January 2014, the council agreed to move forward with a new committee structure recommended by the short life working group on political management arrangements. The first meetings under this new structure commenced in May 2014.
73. The corporate governance framework within Argyll and Bute Council is centred on the council supported by the following committees.



74. The effectiveness of the new committee structure was considered as part of the follow-up audit work to the statutory report presented to the Accounts Commission in October 2013. The results of the follow-up audit work are recorded at paras 32 to 35.



75. The follow-up work reported that scrutiny still needs to improve. In particular, the council needs the commitment and engagement of councillors in the work of the Performance Review and Scrutiny Committee and the Audit Committee, if these are to make an effective contribution to governance and accountability. The role of senior management will also be crucial. The Audit Committee is currently carrying out a review of its effectiveness. The council has also clarified that the area committees perform a scrutiny role by reviewing area performance scorecards.
76. Following a number of recent changes to the political composition of the council, the Executive Director of Customer Services presented a report to the council at its meeting of 25 September 2014 which records that 24 councillors (out of 36) now constitute the Administration of the council. The Administration consists of the members of the Argyll and Bute for Change Alliance in partnership with the members of the Argyll, Lomond and the Isles Group (TALIG).

### Internal audit

77. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. Following the retirement of the Chief Internal Auditor the council is recruiting a replacement.
78. In 2013/14 internal audit commenced a 3 year partnership contract with Grant Thornton and CIPFA to provide the council with high level support on development of the internal audit function. Our review of internal audit concluded that overall the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit in several accounting systems as detailed within our Annual Audit Plan.
79. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll and trade payables. We also relied on previous years' audit work in relation to trade receivables, general ledger, council tax billing and collection, non-domestic rates billing and collection, capital accounting, treasury management and cash & cash equivalents.
80. Our overall conclusion was that key controls within the council's main financial systems were operating satisfactorily during 2013/14 and no significant risks were identified. However during the year we carried out some targeted audit work on council activities where weaknesses in local governance arrangements were identified. We asked that the council revise the 2013/14 Corporate Governance Statement to include



## Governance and accountability

these issues. The process for ensuring the 2014/15 governance statement is complete is to be reviewed.

### *Recommendation 1*

81. A common theme of correspondence received by Audit Scotland is that people would like to see more information on key issues being discussed by the council in public. The council has a process in place, for considering which reports are to be discussed in private, due to inclusion of commercially sensitive information and other valid reasons. However the council should consider whether it is getting the balance right, in this area.

### *Recommendation 2*

## Governance issues reported

82. In September we reported to the Audit Committee on the findings from two pieces of audit work where weaknesses in governance arrangements were identified.

### Helensburgh Redevelopment Project

83. The Helensburgh CHORD Project is designed for the regeneration and economic development of Helensburgh Town Centre and West Bay Esplanade. Due to the profile of the CHORD project in the community and receipt of correspondence from members of the public, we carried out some targeted audit work reviewing the council's governance over the redevelopment project. In conclusion we reported that

elected members from the Helensburgh and Lomond Area Committee have overseen the redevelopment project. They have been involved in making decisions at key stages of the project.

84. The original target completion date for the Helensburgh redevelopment contract was May 2013. The original budget was £6.660 million. The latest target date for completion is April 2015. Delays in completion became inevitable due to the contract being retendered twice. The first retendering was due to poor procurement practices and the second retendering of the contract was approved by the council with an aim of better reflecting the views of the community. A consequence of both these retendering exercises was delays and increased costs. Having said that the project is still within the original budget allocation of £6.660m. Delays to the project were not solely due to the procurement processes but also due to a range of issues including failures on the part of the contractor and ground conditions.
85. The council has acknowledged that project governance arrangements needed to be improved and that the project has not progressed as planned. The council is to continue to review the effectiveness of its revised arrangements over similar projects. The council is also to complete its planned post implementation review to report on whether the objectives of the Helensburgh project have been realised.
86. The Head of Strategic Finance has confirmed that shortly after

the Council approved the CHORD projects, it agreed to carry out a baseline review to establish a comparator for assessing the success of the projects. It also agreed to carry out a post implementation review and then a longer term evaluation of success for each project. The Head of Strategic Finance has also confirmed that Socio- Economic Baseline and Perceptions studies were undertaken by economists in December 2010 and that in March 2011, an Economic Impact Assessment (EIA) was undertaken which outlines the EIAs likely to be generated within a 3 to 5 year time frame. An initial review of project implementation will be completed with 12 months of the project being completed – this will focus on project delivery and management.

### Scottish Submarine Museum

- 87. Following receipt of correspondence to Audit Scotland, we carried out some targeted audit work on the governance arrangements over the council's involvement with the proposed Scottish Submarine Museum in Helensburgh.
- 88. The council is of the opinion that this proposal has the potential to add a significant new visitor attraction to Helensburgh and support the investment made in the town through CHORD and proposed future works such as the regeneration of the Pier.
- 89. In February 2014, as part of the 2014/15 budget approval discussions the council made provision for £140,000 funding to the Scottish Submarine Trust to support the opening of a

Scottish Submarine Museum in Helensburgh. The funding request from an external organisation was included as a 'Cost and Demand Pressure.'

- 90. In a report to the council meeting in March, senior officers acknowledged that the council did not follow its own procedures in considering the submarine museum funding request, from an external organisation.
- 91. In response to concerns raised by members regarding the evaluation of this funding request, officers presented a supplementary report to the council meeting in March. Members agreed that a number of additional conditions would need to be satisfied prior to any release of the funding, in three tranches.
- 92. The Head of Strategic Finance has confirmed that the evidence has now been reviewed, required to satisfy the conditions set by the council for the release of the first funding instalment of £50,000.
- 93. The funding for the museum was approved to facilitate early release of the funds so that the museum could be opened to coincide with the Commonwealth Games. However the museum was not opened at all during the period of the games and it is still not open to visitors. Accordingly there is a risk that it may not attract the visitor number required for it to be sustainable. The council recognise this risk and have recently received a revised business plan incorporating revised visitor

expectations. Based on this revised business plan, officers have taken the decision to release the first tranche of funding.

94. Following discussion of our findings in relation to this funding request, the council agrees that there needs to be a more formalised process for considering external funding requests.

### *Recommendation 3*

## **Gourock to Kilcreggan Ferry Service**

95. Following receipt of correspondence to Audit Scotland, we carried out some targeted audit work on the governance arrangements in place relating to the Kilcreggan Ferry service.

96. The Gourock to Kilcreggan ferry service is operated by Clydelink Ltd behalf of Strathclyde Partnership for Transport (SPT). Officers acknowledge that from the start of the ferry contract in April 2012, they relied solely on data provided by SPT to check the payments remitted from Clydelink and that controls could be improved,

97. An internal audit Review of Fish Landing Dues & Other Harbour Income in November 2011 identified significant weaknesses in the procedures for collecting berthing or landing fees at the council's harbours and piers. The resultant recommendation to implement a register of berthing at each port is recorded as complete as at 30 November 2012. However we have identified that improved procedures for the collection of fees were not introduced at Kilcreggan Pier until August 2013. At

that time, arrangements were put in place for the Piermaster to maintain his own record of berthings and passenger numbers which were used as a basis for submitting invoices to Clydelink.

98. The time taken to implement improved procedures arising from the internal audit review, at Kilcreggan Pier is outwith the timetable agreed with the Audit Committee.
99. Our review also established that as a result of late payment, most invoices issued to Clydelink for berthing dues have been subject to follow up action through the corporate sundry debtor process. The current position is that the last 3 invoices issued to Clydelink (£8,869.00) remain unpaid and these are also being pursued through the corporate sundry debtor process.
100. Officers have confirmed that there has been ongoing discussion with SPT about unpaid berthing dues by Clydelink at Kilcreggan Pier and SPT have stated that they are prepared to take punitive action if necessary by deducting money at source. An alternative would be for the council to get a signed agreement from Clydelink, enabling SPT to pay monies due directly to the council. This course of action should be considered by the council.

### *Recommendation 4*

101. A Clyde boatyard company related to Clydelink, Silvers Marine (UK) Ltd, ceased trading on 29 October 2012 and the business was taken over by GRM Marine Ltd. Officers have confirmed that the Silvers Marine (UK) Ltd 2012/13 NDR account was

passed to sheriff officers on 3 December 2012 as a result of non payment. Officers have also confirmed that a suspend was placed on the Silvers Marine (UK) Ltd account with the sheriff officers following a notice in the Edinburgh Gazette of 8 March 2013 advising that a petition for liquidation had been served.

**102.** The council's Non Domestic Rates section were unaware of any further changes to liability in relation to Silvers Marine (UK) Ltd until 25 Sept 2013. This information was then acted upon with 2012/13 and 2013/14 NDR Initial Notices being issued to GRM Marine Ltd on 10 October 2013.

**103.** GRM Marine Ltd was placed in provisional liquidation on 6 February 2014. At that date, all NDR debt relating to 2012/13 (£9,983.15) and 2013/14 (£21,136.93) remained outstanding. The Head of Strategic Finance has confirmed that the council's current arrangements with sheriff officers ensure that they have access to appropriate information on the status of companies who are being pursued for non payment. It is acknowledged however that this process is dependent upon publicly reported information on a company's status being available.

### Rockfield Primary School

**104.** As a result of local interest in the sale of the former Rockfield Primary School in Oban, we have included an update on the current position in relation to the sale.

**105.** The property is a listed building and has been for sale by the council for a number of years (marketed on the basis of retention and redevelopment only). At its meeting on 24 January 2013 the council approved a recommendation to fund a feasibility study by Argyll Community Housing Association (ACHA) from the Strategic Housing Fund to examine possible development options covering retention and conversion of the school building and also demolition and new build on the site. Our work concluded that utilisation of the fund for a feasibility study to explore the development of a site for affordable housing is a legitimate use of these resources.

**106.** At its meeting on 11 June 2014, Oban, Lorn & the Isles Area Committee (OLIAC) agreed to recommend to the council the sale of the property to ACHA for the sum of £1 on the basis of a new build development of thirty seven dwellings. However prior to the meeting of the Council on 26 June 2014 a new offer to purchase Rockfield was received and the Council agreed that in light of the new information, a closing date be set for offers to be reported back to the next OLIAC. The marketing of the property that took place arising from the decision taken by the Council in June 2014 confirmed the general presumption against the demolition of listed buildings but also directed potential bidders to the Scottish Historic Environment Policy which stipulates the criteria under which consideration may be given to demolition

**107.** The property was re-advertised for sale and by the closing date

of 8 August 2014, a number of offers had been received. These were considered by OLIAC in private session at its meeting on 14 August 2014. The Committee agreed to continue consideration of this matter to a Special Area Committee held on Wednesday 10 September 2014.

108. The current position is that at the September meeting, a preferred bidder was agreed. Although the preferred bidder has been asked to submit their business plan by the end of December 2014, it will not be considered by the Area Committee until their next scheduled meeting which is in February 2015. We will continue to monitor the sale of this property.

### Follow up on the Sale of Castle Toward

109. Our Annual Report on the 2012/13 Audit reported on the council's sale of Castle Toward. At that time we reported on an informal expression of interest from the South Cowal Community Development Company (SCCDC) in relation to a potential registration of a community interest and/or buy out of Castle Toward in terms of the Land Reform (Scotland) Act 2003.
110. Since then SCCDC formally submitted a Community Right to Buy application to Scottish Ministers in March 2014 in respect of Castle Toward which was subsequently approved. The Scottish Government appointed the District Valuer to assess the market value of the property who returned a property

valuation of £1.75 million.

111. At its meeting of 26 June 2014 the Council was advised that SCCDC had lodged a formal appeal to the District Valuer's valuation. As a result of the appeal the Council were advised that the date by which SCCDC has to complete the sale and take possession had been extended by an extra 2 months until 5 November 2014.
112. To support the acquisition, SCCDC have been awarded a grant of £0.750 million from the Scottish Land Fund. A request for the Council to consider applying a discount to the valuation provided by the District Valuer has also been made by SCCDC.
113. At its meeting on 21 August 2014, the Policy and Resources Committee agreed to extend the Right to Buy deadline for the conclusion of the purchase of the Castle Toward estate until 31st December 2014 in order to allow SCCDC time to provide additional information in relation to their Business Plan and in relation to State Aid. We will continue to monitor the sale of this property.

### Lease Agreements for Council Properties

114. In 2012/13 we reported that the council planned to undertake a review to confirm that all properties leased to or occupied under license by outside parties are covered by valid legal agreements. This was to ensure that all parties have clarity over maintenance and occupancy responsibilities. Internal

Audit has reported that this review has been completed. No new legal agreements were required following this review.

### ICT audit

- 115. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non compliance issues.
- 116. The council carried out a substantial programme of work in 2013/14 (approximately £0.230 million including staff costs) to bring its network into a position of compliance with the PSN security requirements and thereby achieve unconditional PSN accreditation. This required investment in new hardware and software as well as diverting staff resources from planned tasks.
- 117. Investment is being sustained with a budget of £0.133 million earmarked for PSN activity in 2014/15 to maintain a compliance standard. Changes to work practices such as the introduction of a more rigorous software patching / upgrade

regime is impacting upon workload and has increased out of hours working for support staff. Also, to maintain a risk profile in line with accreditation standards, work was needed to harden the interface between the education service network and the corporate network.

- 118. Looking forward, health and social care integration is likely to create new challenges relating to PSN requirements particularly if the NHS continues to be outwith the PSN compliance framework. We will continue to monitor developments in this area.

### Arrangements for the prevention and detection of fraud

- 119. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
- 120. Argyll and Bute Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
- 121. The Council input to the NFI exercise is largely complete with only a few areas still to be finalised or further investigated. Housing benefit match testing identified 3 cases where fraud had already been uncovered by the fraud department. These



amounted to £24,316. These cases have been referred to the Procurator Fiscal.

122. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

### Arrangements for maintaining standards of conduct and the prevention and detection of corruption

123. The arrangements for the prevention and detection of corruption in Argyll and Bute Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

### Integration of adult health and social care

124. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. This will require a change in the council's governance arrangements over a range of services.
125. NHS Highland and Argyll and Bute Council have agreed the services that will come together as Argyll and Bute's Health and Social Care Partnership. The chosen model is that of an enhanced strategic partnership building on the current partnership strengths – this aligns with a "body corporate"

model as the preferred delivery vehicle.

126. The statutory implementation date is April 2016, however it is planned that from 1 April 2015 all NHS services in Argyll and Bute (planning, delivery and commissioned services), and Adult and Children and Families Social Work Services of Argyll and Bute Council will deliver a single, integrated service. The proposed budget for the new Health and Social Care Partnership includes around £160 million Health Board and £50 million council funding. The scope of services was agreed by NHS Highland Board on 3 June and by the council at its meeting on 26 June.
127. Integration will be complex and challenging to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:
- The establishment of a local integrated partnership and related governance arrangements.
  - Integrated budgets for health and social care.
  - Joint responsibility for strategic and locality planning in the area served.
128. The council is continuing to monitor progress in this area.

### Welfare Reform

129. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision.

2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reforms after the Scottish independence referendum.

130. Throughout 2013/14 the council's multi discipline Welfare Reform Working Group (WRWG) has provided regular updates to Strategic Management Team (SMT) on progress in respect of the council's delivery of DHP and Scottish Welfare Fund (SWF) services.
131. The council is in communication with the DWP to become a pilot site for the delivery of a 'triage' service which provides support, training, work preparation and job opportunities to help people in receipt of benefits back to work.
132. Overall, we concluded that Argyll and Bute council is well sighted on the welfare reform agenda and is proactive in putting in place arrangements to mitigate the impact of welfare reform locally.

### Housing and council tax benefits performance audit

133. A risk assessment of the council's housing benefit service was carried out by Audit Scotland in May 2014 with the results reported in July 2014. The report noted significant changes and

improvements since our last risk assessment in June 2011. Of the original 17 risks identified in 2011 some 13 have been fully completed, 2 actions are ongoing and 2 actions remain outstanding.

134. In completing or partially completing 15 of these risks, the council has made a positive contribution to the delivery of the benefit service.
135. Although the council demonstrates awareness of what constitutes an effective, efficient and secure benefits service, there are two risks outstanding and two risks where action is ongoing from our previous risk assessment and, a number of new risks have been identified. The new risks include:
- updating key council documents to ensure that they reflect current policy and procedures
  - ensuring that appropriate evidence is requested by staff at the first point of contact to enable claims to be processed
  - addressing the reasons why the council has failed to meet its financial accuracy target of 95% since 2010/11
  - determining the effectiveness of the approach for linking intervention outcomes to the value of overpayment/underpayment to inform future intervention strategies
  - addressing the reasons for the declining trend in the percentage of sanctions arising from completed investigations.



## Governance and accountability

136. Management have agreed an action plan to address these issues and these will be followed-up a future date to confirm implementation.

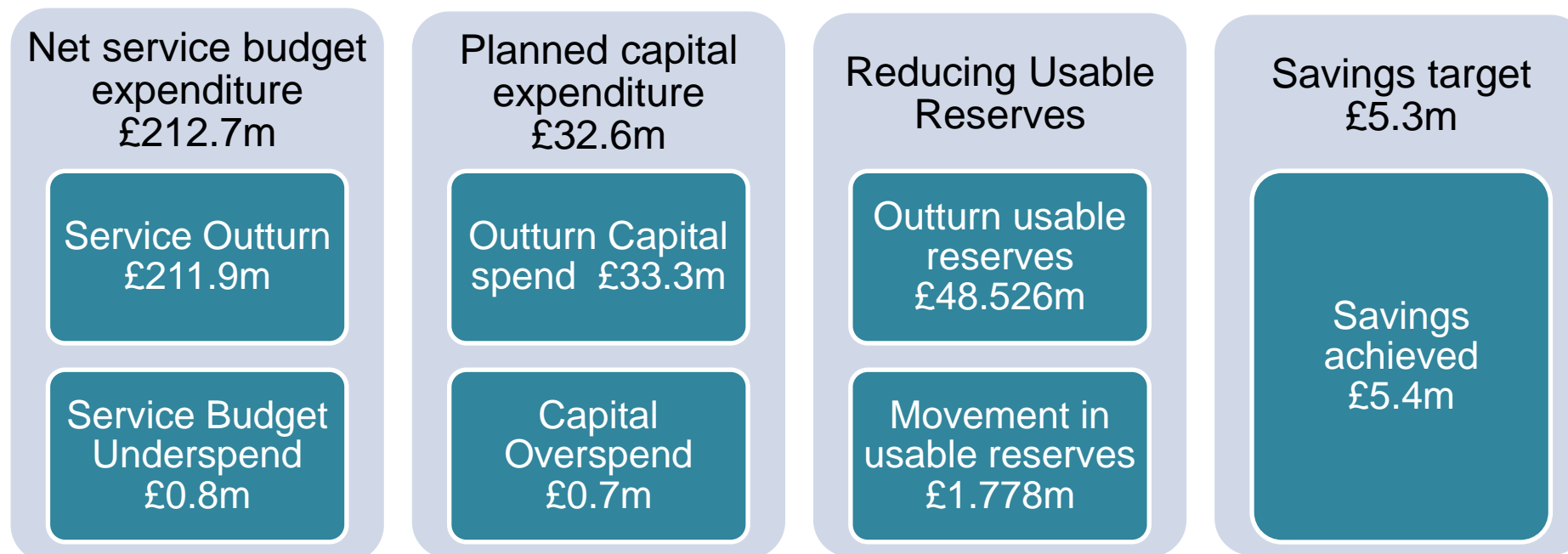
## Outlook

137. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. Improved scrutiny of policy and services will also be central to ensuring the effective use of resources
138. Relating to specific service areas, there are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for

the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils.

139. Responsibility for the investigation of Housing Benefit fraud is currently being planned to transfer to a new Fraud and Error Service (FES) nationally. This will be administered by the Department of Work and Pensions. The roll-out of this new service will be implemented across councils on a phased basis during the period July 2014 and March 2016.

## Financial position



**140.** In 2013/14 the council spent £256.765 million on the provision of public services. It achieved a surplus on the provision of services of £1.694 million and an accounting deficit of £5.917 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is a decrease in the general

fund balance of £2.097 million.

**141.** Overall the performance against budget was an underspend of £3.360 million, representing 1.33% of net service expenditure. The council underspent against its departmental controllable budget by £0.842 million (0.40% of the 2013/14 revenue budget).

**142.** Usable reserves are part of a council's strategic financial

## Financial position

management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council decreased by £1.778 million compared to the previous year and totalled £48.526 million. The main reason for this is a decrease in the General Fund balance of £2.097 million.

### Exhibit 1: Usable reserves

Description	31 March 2013 £million	31 March 2014 £million
General Fund	46.1	44.0
Capital Funds	3.3	3.5
Repair and Renewal Fund	0.9	1.0
<b>Total Usable Reserves</b>	<b>50.3</b>	<b>48.5</b>

*Source: Argyll and Bute Council 2013/14 financial statements*

143. The closing balance General Fund balance at 31 March 2014 is made up of earmarked commitments of £30.372 million and an unallocated balance of £13.669 million, or 5.6% of the net revenue expenditure (2012/13: 4.1%). The council's policy is to maintain uncommitted reserves at a minimum of 1.5% of budgeted net revenue expenditure.
144. The main earmarked balances include £7.484 million for the Strategic Housing Fund generated from Council Tax on second homes, £3.0 million earmarked as a revenue contribution to

capital as a contribution to Dunoon and Campbeltown Schools, £9.5 million contribution to investment in affordable housing and £7.298 million earmarked from service budget underspends to support corporate and service improvement plans.

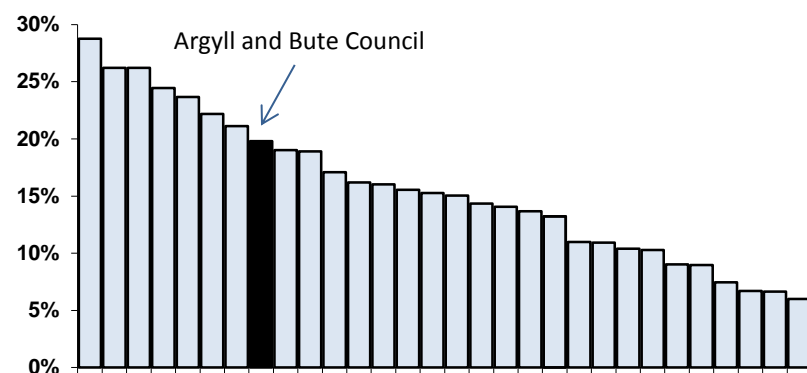
145. Whilst the balance on the General Fund is reducing, it remains significant and in terms of uncommitted reserves, is considerably in excess of the minimum target set by the council. The budgetary outlook is one of significant longer term savings. In his Revenue Budget Outlook Report submitted to the Council in February 2014, the Head of Strategic Finance informed members that they may wish to consider how best to utilise the General Fund Balance in due course given the various financial pressures the Council faces and any cost and investment requirements arising from the development of the delivery plans for the SOA.
146. The use of the 'free' balance on the General Fund Reserve was considered by the Policy and Resources Committee at its August 2014 meeting. The Committee agreed that use of the free balance on the general fund be directed exclusively to the theme of economy and jobs and proposals to increase income / reduce costs for the Council. The committee also agreed that further investigation be carried out on the scope to undertake further borrowing which would create further investment in the these areas but which would not result in a net increase in the burden on the council's revenue budget.

## Financial position

147. Exhibit 2 below presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). Argyll and Bute Council's position is higher than the median level (15%).

148. The council therefore needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and possible reductions in funding. This is discussed further at paragraphs 155 to 159 below.

**Exhibit 2: Total usable reserves as a proportion of net revenue stream (%)**



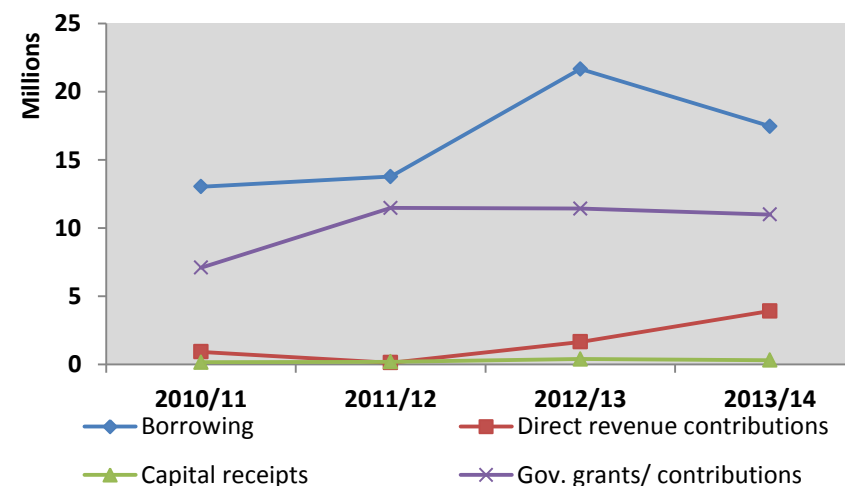
Source: Scottish councils' unaudited accounts 2013/14

## Capital investment and performance 2013/14

149. Total capital expenditure for 2013/14 was £33.285 million. Investment during the year included £20.073 million on asset sustainability, £3.575 million on service development and £9.637 million on strategic change. The capital programme was funded as shown at Exhibit 3 below:

150. The council has reported an overspend against the planned level of capital expenditure of £0.697 million or 2.1% of the total programme for 2013/14.

**Exhibit 3: Sources of finance for capital expenditure 2010/11 – 2013/14**



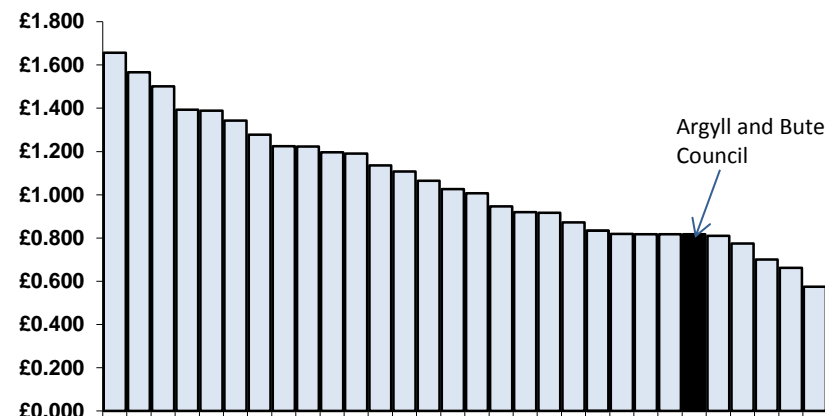
Source: Argyll and Bute Council 2010/11 to 2013/14 financial statements

## Treasury Management

151. Levels of debt may impact on any council's budget flexibility going forward as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
152. Argyll and Bute Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £256.463 million while net external borrowing was £161.181 million.
153. As shown at Exhibit 3, capital spend in the year was mainly funded through borrowing. The council's level of net borrowing in 2013/14 has increased marginally. As shown in Exhibit 4, the council's net external debt as a proportion of net revenue stream continues to remain in the lower range relative to other Scottish councils.
154. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015. We will provide members with a summary of the key findings as part of

our audit progress reports to Audit Committee.

### Exhibit 4: Net external debt as a proportion of net revenue stream (£m)



Source: Scottish councils' unaudited accounts 2013/14

## Outlook

155. The political leadership has focussed on maintaining financial stability. At its February 2014 meeting, the council approved its budget for 2014/15 in accordance with its new budget approach, agreed in November 2013. The new approach aims to maintain stability and to preserve services where possible by seeking one per cent savings (£1.8 million) across all service areas in 2014/15 and 2015/16, from a total annual revenue budget of £245 million. At the time of approving the budget for

## Financial position

2014/15, there was a projected funding surplus of £1.02 million in 2014/15 and £3.1 million in 2015/16.

- 156.** The latest projected year end outturn at 31 August 2014 is an overspend of £1.384 million. This is mainly due to overspends in adult care, refuse collection and coastal protection works, shortfall in car parking income, unrecoverable costs for dangerous buildings and inability to realise service review saving within music instructors offset by savings with school and public transport.
- 157.** A report presented to the Policy and Resources Committee in October 2014 updated members on changes to the budget assumptions used when preparing the 2015/16 budget and providing an assessment of the impact. The main change to the budget update is the reduction in grant funding of £2.557 million due to updating the finance settlement indicators rather than the flat cash approach. There are further funding adjustments of £0.963 million relating to Children and Young Persons (Scotland) Act and also the transfer of the A83. There are adjustments to the base budget of £1.228 million, employee cost pressures of £0.400 million and cost and demand pressures of £0.566 million. The overall impact is a projected surplus for 2015/16 of £0.343 million.

- 158.** The longer-term budgetary outlook is more challenging. The council estimates it will require to reduce expenditure over the period 2016/17 to 2019/20 by an average of around three per cent or £8 million per annum, building up to £28.565 million in 2019/20. This equates to approximately £77 million in total over the four-year period. This is around 7.5 per cent less across those years than the £1.033 billion expenditure currently forecast by the council. Achieving these savings will require fundamental decisions to be made by councillors about service provision and delivery.
- 159.** The council plans to use the two-year period of financial stability (2014/15 and 2015/16) to develop and put in place proposals to address the longer-term funding outlook and to consider how resources are aligned to the Single Outcome Agreement (SOA) 2013-23 and council priorities, future savings and options for additional income.

### *Recommendation 5*

# Financial statements

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## Audit opinion

**160.** We have given an unqualified opinion that the financial statements of Argyll and Bute Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

## Other information published with the financial statements

**161.** Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

## Legality

**162.** Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

## The audit of charities financial statements

**163.** The Charities Accounts (Scotland) Regulations 2006 (the 2006

Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

**164.** Argyll and Bute Council had 11 funds which were subject to the full charities financial statements audit for 2013/14.

**165.** Auditors of registered charities' statement of accounts have responsibilities to:

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

**166.** We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the eleven charities registered by Argyll and Bute Council.

**167.** In our report to trustees we highlighted that:

- There are no trust deeds or governing documents available for two of the Trusts and three of the component Trusts within Argyll and Bute Council Charitable Trusts.
- Eight of the Trusts remained dormant, with no donations, expenditure or payment of grants.

## Financial statements

- The council were unable to locate certificates in support of investments held by three of the Trusts.
- The Oban Swimming Pool (Atlantis Leisure) asset was revalued during the year but the revaluation was not reflected in the financial statements.

### 168. In resolution of these issues:

- The council is to provide a copy of relevant documentation, to support the purpose and terms of all Trusts. If unable to be traced, the trustees should liaise with OSCR, as appropriate, and consider preparing new governance documents.
- The council is in discussion with OSCR to progress reorganisation proposals to wind up dormant trusts and redistribute the funds.
- The council has written to stock investor intermediaries to request duplicate investment certificate.
- The revalued asset figure for Oban Swimming Pool is disclosed in the financial statements.

## Group accounts

169. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
170. Argyll and Bute Council has accounted for the financial results of three associates and the Common Good Funds in its group

accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £7.562 million.

171. The net assets of the group at 31 March 2014 totalled £182.387 million, compared to a net liability position of £77.873 million in 2012/13. The positive movement is mainly due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of their pension liabilities from the group accounts.

## Accounting issues arising

### *Presentational and monetary adjustments*

172. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase expenditure and decrease net assets by £0.500 million. These related to an increase in the Equal Pay provision and the recognition of a provision for retrospective disturbance allowance payments for Roads and Amenity Services staff.
173. In addition, a small number of other unadjusted errors (totalling £1.609 million) were identified during the course of the audit, where if adjustments had been made they would have increased expenditure and decreased net assets by £0.011



million.

### *Whole of government accounts*

- 174.** The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. This has been audited and submitted to the Scottish Government.

### **Report to those charged with governance**

- 175.** We presented to the Audit Committee, on 26 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.
- 176. 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 IAS 37, Provisions, contingent liabilities and contingent assets, the council should recognise these costs as a provision in its Balance Sheet. 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. The council has provided evidence to support their view that this is not material to the accounts and the decision has been taken not to amend the accounts. This amount is therefore reflected as an unadjusted error. 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.

- 177. Equal pay claims:** 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. 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. The potential equal pay liability will be reviewed on an annual basis.
- 178. Reduction in net assets - Due to changes in assumptions about Employee Benefits - Pension fund liabilities:** There has been an increase in the pension liability of £18.473 million from £99.864 million at 31 March 2013 to £118.337 million at 31 March 2014. This has been due to falling bond yields being only partially offset by better than expected investment performance. 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.

- 179.** 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.
- 180. Sale of Kilbowie House, Oban:** Kilbowie House is a surplus asset and is being marketed for sale. During 2013, 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. They provided the valuation of £450,000 on which the property was marketed. 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. However we have established that Kilbowie House is included in the council's

fixed asset register and accounts with a value that is significantly lower than the marketing valuation. The council's figure reflects the latest valuation of the property at March 2013, as part of the council's rolling asset revaluation programme. 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.

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

## Outlook

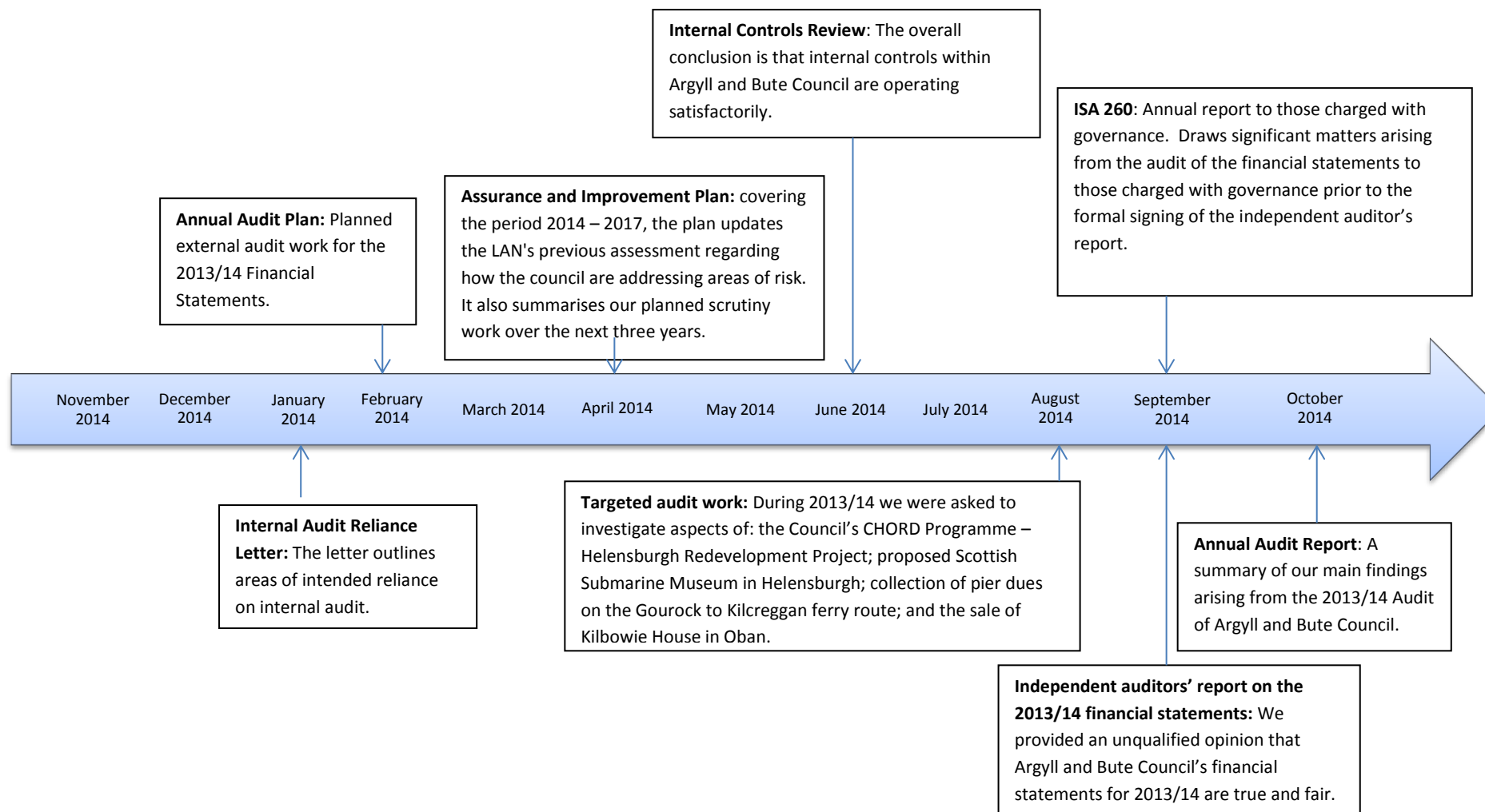
- 182.** The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). New standards apply from 2014/15 which will affect the group financial statements and include a change to the definition of control. This will require a reassessment of the group boundary and potentially further consolidations and disclosures.
- 183.** In the longer term The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost

basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.

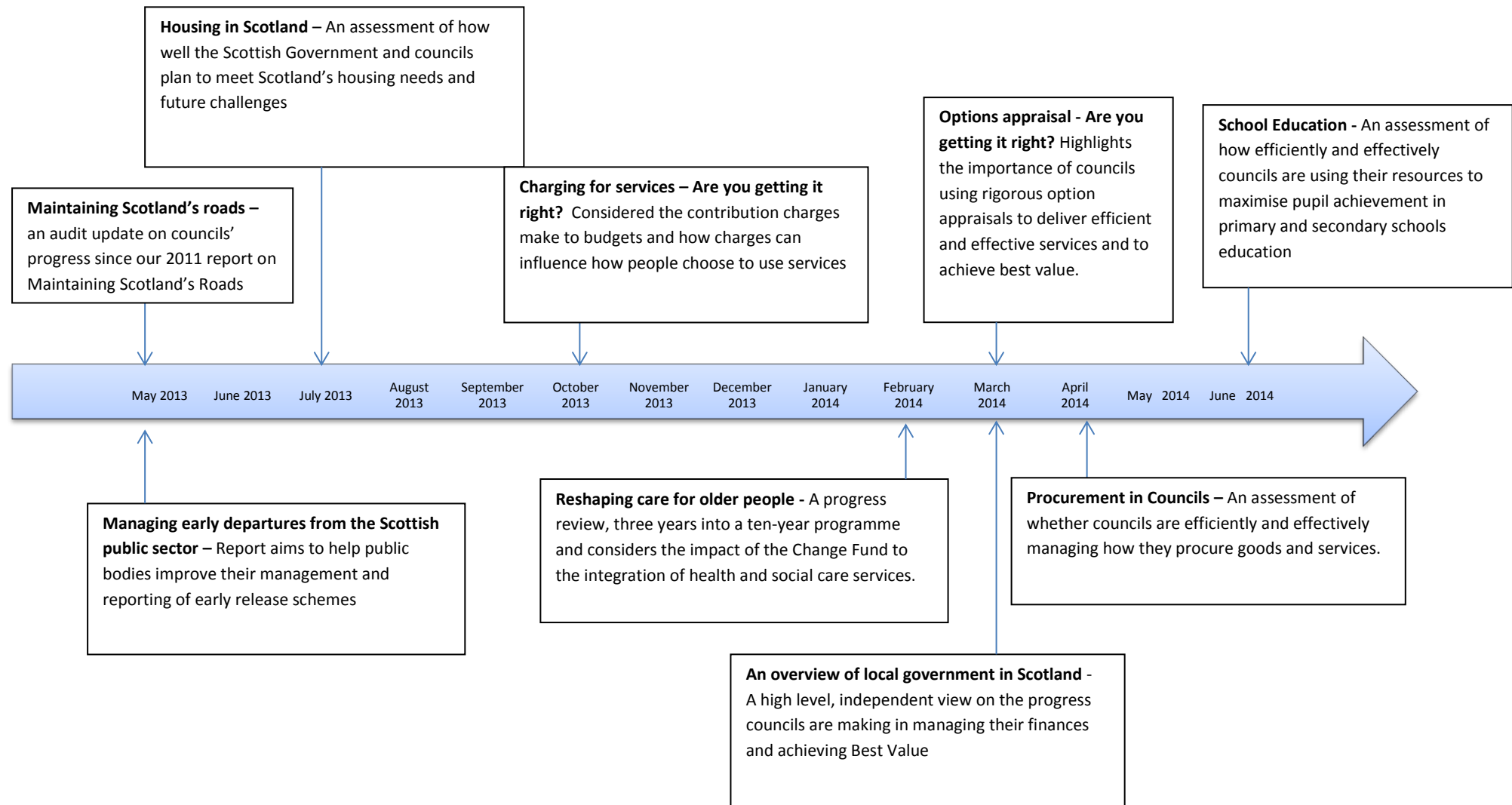
- 184.** The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit Committee. This can take place following submission

to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Audit Committee by 30 September with publication on the council's website by 31 October.

## Appendix I – Summary of Argyll and Bute Council local audit reports 2013/14



## Appendix II – Summary of Audit Scotland national reports 2013/14



## Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p><b>Financial management and sustainability</b></p> <p>The council will continue to face increasing demand and cost pressures for its services in the foreseeable future. It is facing a significant funding gap over the next seven years.</p> <p><i>Risk: the council may be unable to achieve the required savings without compromising service delivery.</i></p>	<p>The council has an unallocated balance of £13.669 million in the General Fund balance at 31 March 2014.</p>
	<p>Review of budget setting and budget strategy papers.</p>
	<p>On going review of budget monitoring arrangements and reports.</p>
	<p>The council plans to use the two-year period of financial stability (2014/15 and 2015/16) to develop and put in place proposals to address the longer-term funding outlook.</p>
	<p>Management are aware that difficult decisions will need to be made going forward, and will continue to monitor and scrutinise progress against savings targets.</p>

## Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Equal pay claims</b></p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><i>Risk: there is a risk that the ultimate cost to the council is greater than anticipated and that the year end provision may be materially mis-stated.</i></p>	<p>The year end equal pay provision was audited as part of the financial statements testing. This identified the requirement for a provision of £0.400 million in its 2013/14 financial statements in respect of potential expenditure arising from outstanding equal pay claims.</p> <p>The council has included a contingent liability for a small number of remaining claims where the outcome of the applications is unknown and there is insufficient information to allow the potential cost to be provided for.</p> <p>The potential equal pay liability is reviewed on an annual basis.</p>
<p><b>Health and social care integration</b></p> <p>The council and NHS Highland have yet to agree an appropriate model for taking forward integration.</p> <p><i>Risk: plans to support health and social care integration are not sufficiently developed to support effective implementation of new arrangements by 1 April 2015, impacting health and social care service delivery.</i></p>	<p>Argyll and Bute Council and NHS Highland agreed in May 2014 to progress health and social care integration based on a body corporate model.</p> <p>Progress on health and social care integration was monitored during the year.</p> <p>The Chief Executive of Argyll and Bute Council is working closely with the Chief Executive of NHS Highland to oversee the work required to deliver the new partnership arrangements in line with the statutory timescales outlined in legislation.</p> <p>The scope of services was agreed by NHS Highland Board on 3 June and by the council at its meeting on 26 June.</p>

## Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>New committee structure</b></p> <p>In June 2013 the council set up a short life working group to review political management arrangements and structures. In January 2014 the Council approved their recommendation to adopt a service committee model with separate committees for Policy and Resources, Community Services and Environment Development and infrastructure.</p> <p><i>Risk: until the new committee structure is fully embedded across the council there is a risk that inappropriate decisions may be made.</i></p>	<p>The new committee structure has been operating from May 2014 onwards.</p> <p>On going review of governance and accountability arrangements.</p> <p>Documented review of committee minutes.</p> <p>The statutory report follow up concluded that the new political management arrangements provide a foundation for improved governance but that it was too early to assess their effectiveness.</p>
<p><b>Statutory report follow up</b></p> <p>A statutory section 102 report was submitted by the Controller of Audit to the Accounts Commission in October 2013. Follow up work will be carried out to assess the progress made in addressing the report findings.</p> <p><i>Risk: insufficient progress in addressing the findings from the statutory report could hamper the decision making process and result in corporate objectives not being met.</i></p>	<p>Follow up work has been carried out with a report issued in June 2014. The follow-up audit report was considered by the Accounts Commission at its meeting on 19 June. The Commission accepted the Controller of Audit's report and is encouraged that the council is making progress against its previous findings of October 2013. It agreed however, that it is too early to assess the effectiveness of actions and plans being implemented and there is still much work to be done.</p> <p>At its meeting on 25 September 2014, the council agreed a further 10 actions points as a consequence of the follow-up report in order to support continued improvement.</p>



### Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Prior year issues</b></p> <p>A number of findings from our 2012/13 work require to be addressed.</p> <p><i>Risk: insufficient progress in addressing prior year issues could impact on our audit of the 2013/14 financial statements.</i></p>	<p>Issues raised in our 2012/13 Annual Audit Report have been followed up in accordance with our Annual Audit Plan and, where relevant, included in this report.</p>

## Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Castle Toward</b></p> <p>In February 2010 the council's agents marketed Castle Toward on the open market. In June 2013, the council were informed that the successful bidder was now of the view that it was no longer possible to proceed with the transaction and development as envisaged by them. The property will be re-marketed.</p> <p><i>Risk: the council may be unable to obtain best value in the disposal of Castle Toward. Also, its value disclosed in the financial statements may be materially mis-stated.</i></p>	<p>We have continued to monitor developments with sale of Castle Toward.</p> <p>We have monitored the council's compliance with the statutory Community Right to Buy procedure.</p> <p>South Cowal Community Development Company have formally submitted a Community Right to Buy application to Scottish Ministers which was subsequently approved. The Scottish Government appointed the District Valuer to assess the market value of the property who returned a property valuation of £1.75 million.</p>
<p><b>Charities</b></p> <p>Argyll and Bute Council currently administers 22 Trust Funds having charitable status, where members are the sole trustees of the fund. These funds will require an independent audit certificate for the year ended 31 March 2014.</p> <p><i>Risk: the requirements of the Charities Act are not met in the financial statements. Also, charitable trusts may be used for purposes outwith those outlined in the trust deeds.</i></p>	<p>Re-organisation of charities during the year reduced the number of charitable trusts to eleven. All were audited and given an unqualified audit opinion.</p> <p>Trust deeds were obtained and examined to ensure that funds were used for the proper purposes.</p>

## Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/16	<p><b>Governance Statement</b></p> <p>During the audit we asked that the council revise the 2013/14 Corporate Governance Statement to include a range of issues that had been omitted from the unaudited version.</p> <p><b>Risk</b></p> <p>The council may not disclose all weaknesses in internal control in the accounts, which is important to demonstrate openness and accountability.</p> <p><b>Recommendation</b></p> <p>The process for ensuring the 2014/15 governance statement is complete is to be reviewed.</p>	The content of the Governance Statement and the process for preparing the Governance Statement will be reviewed for 2014-15 financial year end.	Head of Strategic Finance	30 June 2015

## Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/17	<p><b>Consideration of items in public/private session.</b></p> <p>The council have explained that consideration is given on each occasion as to whether a report should be held in private. Members of the public have told us that they would like to see more information available on key issues.</p> <p><b>Risk</b></p> <p>If all deliberations are held in private session, members of the public do not have access to information which explains decisions being taken by their elected representatives.</p> <p><b>Recommendation</b></p> <p>The Council should review the range of reports that it discusses in private and consider whether it is getting the balance right between open and closed consideration of items.</p>	<p>The Council has in place a process that has served it well for many years and provides a check at pre agenda stage as to whether matters should properly be taken in private. The Committee are the final arbiters as to whether a matter is properly to be taken in private and this is minuted. The Council will explain to any inquirer the reasons why a matter is being dealt with in public in writing. The Council has a good record of compliance with FOI regulations and this will be kept under review in respect of committee items taken in private. The Council will carry out a review in summer 2015 to identify any items taken in private that were subject to inquiry from the media and/or members of the public as to their being taken in private.</p>	Head of Governance and Law	31 July 2015

## Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/19	<p><b>External funding requests - Scottish Submarine Museum</b></p> <p>After considering how the submarine museum funding was dealt with, officers have acknowledged that the process for considering external funding requests needs to be formalised.</p> <p><b>Risk</b></p> <p>The council may not consider external funding requests in a robust way, which secures best value in the use of public funds.</p> <p><b>Recommendation</b></p> <p>A timetable for implementation of the formal process for considering external funding requests is to be set.</p>	<p>A report on the process will be prepared for December Policy and Resources Committee</p>	Head of Strategic Finance	11 December 2014

## Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/19	<p><b>Gourock to Kilcreggan Ferry Service</b></p> <p>As a result of late payment, most invoices issued to Clydelink for berthing dues have been subject to follow up action through the corporate sundry debtor process. The current position is that the last 3 invoices issued to Clydelink remain unpaid and discussions are ongoing with SPT.</p> <p><b>Risk</b></p> <p>The council may not receive all berthing fees due.</p> <p><b>Recommendation</b></p> <p>The council should consider obtaining a signed agreement from Clydelink, enabling SPT to pay monies due directly to the council.</p>	The Council will contact both Clydelink and SPT to seek to put this in place.	Head of Economic Development and Strategic Transportation	30 November 2014

## Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/30	<p><b>Financial sustainability</b></p> <p>The council continues to operate in a funding environment which is subject to sustained pressure to deliver more with less. The council faces a significant challenge to identify the required savings of approximately £77 million over the period 2016/17 to 2019/20.</p> <p><b>Risk</b></p> <p>The council is unable to achieve required savings unless fundamental decisions are made by councillors about service provision and delivery.</p> <p><b>Recommendation</b></p> <p>The council should ensure that robust plans are produced covering all required savings linked to service delivery proposals.</p>	<p>The Council agreed in November 2013 and February 2014 to use the relative financial stability of its budget position in 2014-15 and 2015-16 to develop a longer term approach to addressing future financial challenges. Proposals will be developed over the period to 31 March 2016 with progress reports to members at relevant stages.</p>	Head of Strategic Finance	31 March 2016