

Public Document Pack

Argyll and Bute Council **Comhairle Earra Ghaidheal agus Bhoid**

Customer Services
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19 September 2013

SUPPLEMENTARY PACK 2

AUDIT COMMITTEE - COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 20 SEPTEMBER 2013 at 11:15 AM

I enclose herewith items 10 and 14 which were marked "to follow" on the Agenda for the above Meeting.

Douglas Hendry
Executive Director – Customer Services

ITEMS TO FOLLOW

- 10. REPORT ON PUBLIC SECTOR INTERNAL AUDIT STANDARDS**
Report by Grant Thornton (Pages 1 - 14)
- 14. EXTERNAL AUDIT REPORT ON FINANCIAL STATEMENTS - ISA 260 LETTER**
Report by Audit Scotland (Pages 15 - 30)

AUDIT COMMITTEE

Martin Caldwell (Chair)
Councillor Maurice Corry
Councillor Iain MacDonald
Councillor Aileen Morton

Councillor Gordon Blair
Sheila Hill
Councillor Duncan MacIntyre

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INTERNAL AUDIT REVIEW – PUBLIC SECTOR INTERNAL AUDIT STANDARDS

1 SUMMARY

- 1.1 This report introduces the outcome of a review of Internal Audit which was carried out as part of the strategic development and performance improvement partnership with Grant Thornton and CIPFA. The review findings and action plan are attached as an Appendix.

2 RECOMMENDATION

- 2.1 The Audit Committee are asked to note the outcome of the review and endorse the proposed improvement actions as set out in the Appendix.

3 DETAIL

- 3.1 The service review of Strategic Finance carried out in 2011 resulted in a reduction in audit days and staffing for Internal Audit of around 17%. To mitigate against the reduced resource it was also agreed to enter into a partnership to support strategic development and performance improvement for Internal Audit. Following a tendering exercise Grant Thornton and CIPFA (Chartered institute of Public Finance and Accountancy) were appointed as partners for Internal Audit.
- 3.2 At the same time a new set of professional standards for internal audit in the public sector were being developed. The new Public Sector Internal Audit Standards (PSIAS) were adopted by CIPFA as the standard setter for application from 1 April 2013. This replaced the CIPFA Code of Practice on Internal Audit in Local Government.
- 3.3 Given the significance of the new PSIAS it was agreed that the starting point for developing an improvement plan for Internal Audit would be an assessment against the new PSIAS. This would identify areas for improvement that were core to the operation and effectiveness of Internal Audit.
- 3.4 The assessment against PSIAS has now been completed. This is presented as a report by Grant Thornton and CIPFA in the Appendix to this report. It should be noted that although presented as a report by Grant Thornton and CIPFA the assessment was carried out in conjunction with and with significant involvement of staff in Internal Audit.
- 3.5 An action plan is contained within the report and it sets out the opportunities for improvement and how these will be taken forward. It is planned to have the action plan largely complete by December. Completion of the action plan whilst ensuring compliance with the PSIAS will provide for an improvement in the effectiveness and performance of Internal Audit and a sound base for

future development.

4 CONCLUSION

- 4.1 An action plan has been developed following the assessment against PSIAS. The report on the assessment and the action plan related to the improvements are attached to this report. The report was prepared by Grant Thornton and CIPFA with significant involvement of staff in Internal Audit in the assessment.

5. IMPLICATIONS

- 5.1 Policy – Action plan sets out a number of areas of improvement in how Internal Audit operate.
- 5.2 Legal – Not a legal requirement but sets out actions to improve compliance with professional standards.
- 5.3 Finance – None.
- 5.4 Human Resource – Requirement for staff training.
- 5.5 Equalities – None.
- 5.6 Risk – Will improve risk focus of Internal Audit.
- 5.7 Customer Service – Sets out improvements that should lead to better customer service for internal customers.

For further information contact Bruce West, Head of Strategic Finance 01546-604151

Bruce West
Head of Strategic Finance
19 September 2013



Grant Thornton

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Argyll & Bute Council

Update on Internal Audit Self-Assessment

September 2013

1 Executive Summary

1.1 Background

The Relevant Internal Audit Standard Setters including CIPFA, HM Treasury and Department of Health adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013.

The new standards encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework, inserting requirements and interpretations of the UK public sector where appropriate and replacing the existing standards in local government, including the CIPFA Code of Practice for Internal Audit in Local Government.

The standards apply to all internal audit service providers, whether in-house, shared service or outsourced and have been developed to provide coherent and consistent standards for internal audit across the UK public sector.

This report presents the initial findings of the Internal Audit team's self-assessment against the PSIAS, and proposes a plan for the remainder of the calendar year for Audit Committee consideration and approval.

1.2 Key changes under the revised standards

Existing requirements

- The chief audit executive – The chief audit executive, previously referred to as the Internal Audit Manager or Chief

Internal Auditor, must hold a professional qualification (CMAA, CCAB or equivalent) and be suitably experienced.

- Annual report – The requirement for the production of an internal audit annual report remains.
- Risk-based audit plan – There is still a requirement to produce a risk based audit plan. However, the requirement to produce an audit strategy has been removed and replaced with a risk based plan that incorporates or links to a strategic statement setting out how the internal audit service will be provided and how The Charter (see below) will link to the Council's objectives and priorities.

New requirements

- Internal Audit Charter (The Charter) – The Charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if internal audit performs non-audit activities.
- Quality assurance – The quality of service should be rigorously checked under a quality assurance and improvement programme which requires on-going internal assessments of all aspects of internal audit activity, as well as external assessment every five years. The programme is designed to assess the efficiency and effectiveness of internal

audit as well as identify opportunities for improvement. There is a requirement for the chief audit executive to include a section on the quality assurance and improvement programme within the internal audit annual report.

- Internal assessment – There will be an increase in the level of assessments which will involve monitoring the departments activity and will be in line with the current quality review procedures.
- External assessment – The assessment will need to be performed by qualified and independent assessors or assessment teams that are external to the organisation. They can be undertaken as a full external evaluation or a self-assessment with independent external validation, but it cannot be carried out on a rolling basis.
- Effective communication – Standards specify a requirement for “effective communication” between the chief audit executive and the audit committee and there is specific reference to effective communication with the committee chair.

In this context “effective communication” refers to the engagement of the committee’s membership, and of the chair in particular, in discussions with the chief audit executive about:

- the Council’s risks and assurance requirements
- the level of assurance provided
- issues of concern raised by audit work undertaken; and
- the implementation of agreed recommendations and the enhanced assurance arising.

1.3 Outcomes of the self-assessment

During July and August 2013, the Council’s internal audit team conducted a self-assessment against the requirements of the PSIAS. The team’s review was subject to support and challenge from Grant Thornton/CIPFA, the Council’s internal audit partners.

The Chief Audit Executive has not yet been able to review or agree the team’s findings. This report therefore presents our initial findings, and proposals for response over the period to December 2013.

1.4 Proposed improvement plan

Section 2 of this report highlights our findings and the improvements actions proposed to support the internal audit team to meet the PSIAS requirements by 1st April 2013. Our findings identify 3 areas of high risk, relating to the approach to risk assessment and scoping individual audits, training and development for the internal audit team, and linking work performed to core aspects of risk and control.

We also recognise the need to respond to other factors, including:

- the Council’s revised approach to strategic risk management
- a delay in the completion of the audit plan as a result of the PSIAS self-assessment, vacancies and other factors which have reduced available resources to date..

Our proposed improvement actions for the remainder of the calendar year focus on:

1. an intensive period of refresher training and development of the team

2. reviewing the audit process from risk assessment, determining the scope and objectives of audits and ensuring that key risks and controls are identified and assessed
3. considering the impact and outcomes of the audit process, including reporting arrangements and how the performance of the team is monitored.

Whilst staff in the Internal Audit team will continue to work on delivery of the audit plan at the same time as taking forward the improvement actions there may be a further impact on the audit plan. The Head of Strategic Finance has agreed to make additional funding of approximately £50,000 available from elsewhere in his budget to secure additional resources to try and offset any reduction in audit resource. We will report progress on the improvement plan and the annual audit plan to the December meeting of the Audit Committee. This report will also set out proposed amendments to the audit plan for the remainder of the 2013-14 year based on the current plan amended to incorporate improvements from the action plan such as links to the strategic risk management process, and clarity on the risks and objectives associated with each review. Any resource implications will be set out in the report such as additional costs or reduced days input. The objective will be to optimise the effectiveness of Internal Audit for remainder of 2013-14 and the assurance provided by them.

2 Detailed Findings

Attribute Standards

1000

Purpose, Authority and Responsibility

Medium

Finding and Implication

The Internal Audit Team has an audit manual in place which is reviewed on an annual basis and meets the requirements of the 2006 Code.

Under the PSIAS, internal audit must develop an Audit Charter which will make explicit links to the Council's objectives and priorities.

Proposed action

An Audit Charter will be developed which confirms how the work of internal audit contributes to the achievement of the Council's objectives and priorities by:

- considering the nature of assurance provided to the Audit Committee and service departments by the work of internal audit
- clarifying reporting responsibilities; and
- ensuring that audit activity is focused on the key risks facing the Council.

Drafted by December 2013

1200	Proficiency and due professional care	High
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Finding and Implication	Proposed action
<p>The Internal Audit Team participate in the Council's PDR/ PRD programme and have attended relevant training provided. Individual auditors ensure that their CPD requirements are fulfilled, but there is no systematic approach to developing and maintaining internal audit skills.</p> <p>There is no up to date induction programme for members of staff who join the team.</p>	<p>We will review training requirements both across the team and individually. We propose a period of intensive refresher training and development on:</p> <ul style="list-style-type: none"> ■ internal audit core skills ■ identifying and managing risk ■ audit tools and techniques, including the use of IDEA ■ Best value and performance audit (including value for money audit techniques). ■ Training programme complete by December 2013

1300	Quality Assurance and Improvement Plan	Low
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Finding and Implication	Proposed action
<p>The QAIP is a new requirement under PSIAS. The Internal Audit Team has a team plan in place, and reports on performance using the Council's Pyramid performance management system.</p> <p>There is, however, scope to improve the performance monitoring framework.</p>	<p>We will review the key performance indicators and targets in place and consult with the Audit Committee and Senior Management Team to establish indicators that are more focused on the outcomes and impact of internal audit work.</p> <p>Proposed indicators submitted to December Audit Committee.</p>

Performance Standards

2000	Managing the internal audit activity	High
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Finding and Implication	Proposed action
<p>The Internal Audit Team has a methodology in place for risk assessment and identifying audit work to be performed each year.</p> <p>The risk assessment is based on financial materiality, risk, controls effectiveness and performance management. We have, however, identified that there is scope for improvement, including the relative weighting of factors.</p>	<p>We will revisit the risk assessment and audit planning process. This process will include:</p> <ul style="list-style-type: none"> ■ a risk management workshop to ensure the team fully understand the core principles, and the risks facing Argyll & Bute Council ■ consideration of alternative approaches at other councils ■ an assurance mapping exercise to ensure that each internal audit adds value to the Audit Committee <p>Revised risk assessment process as outlined above in place and reported to Audit Committee in December.</p>

2100	Nature of work	Medium
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Finding and Implication	Proposed action
<p>Where Internal Audit can make use of CIPFA matrices, a full systematic and disciplined approach is taken and can be evidenced.</p> <p>Where this is not possible, we found that there is not always a link to key aspects of risk and internal control.</p>	<p>We will use refresher training to ensure that risks and mitigating controls are identified on each audit. An updated audit approach will be adopted to ensure that each audit considers key risks and controls, and is supported by a strong and systematic evidence base.</p>

- 1. Executive summary
- 2. Detailed Findings
- 3. Appendices

2100	Nature of work	Medium
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Finding and Implication	Proposed action
	Actioned by December 2013

2200	Engagement Planning	High
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Finding and Implication	Proposed action
<p>Audit Agreement Documents are prepared for each engagement, but in some instances the reasons for the audit, the objectives and the key risks and controls were not identified.</p> <p>We are clear that the same level of rigour needs to be applied to every audit undertaken by the team.</p>	<p>As part of the consideration of risk assessment and audit planning processes, we will identify a prioritised revised audit plan for the remainder of 2013-14. The revision will be based on the current plan but will present our rationale for coverage, and the risks and objectives associated with each review.</p> <p>Engagement planning will make direct reference to the risks associated with each audit area and our revised audit approach will ensure that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach in place from December 2013</p>

2300	Performing the engagement	Medium
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Finding and Implication	Proposed action
<p>Auditors currently use discussions with management to prepare the Audit Approach Document and to identify key information necessary for the audit. There is a limited approach to documenting:</p> <ul style="list-style-type: none"> ■ a testing strategy ■ work required to fulfil the engagement objectives ■ work performed and findings 	<p>We will review the approach to planning and documenting internal audit work used by other teams, including Grant Thornton and other Councils.</p> <p>As above, we will develop a revised audit approach which ensures that each risk is addressed in a systematic and evidence based manner.</p> <p>New approach developed and in place from December 2013</p>

2400	Communicating results	Medium
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Finding and Implication	Proposed action
<p>Audit reports are prepared for every engagement within timescales agreed with services. The reports are distributed to key stakeholders including service management, senior management, external audit and the audit committee.</p> <p>We found that there is scope to improve the focus of reporting to ensure that:</p> <ul style="list-style-type: none"> ■ each risk is identified and addressed ■ findings include a clear and evidence based audit opinion ■ audit reports are clear, focused on risk and control and provide the audit committee with the assurance they need 	<p>We will use our work on risk assessment and engagement planning to propose a revised audit report format.</p> <p>Consideration will be given to the development of a rating system to allow for objective monitoring and comparison of audit reports across the Council, and comparison to previous audits.</p> <p>We will consult with services and the audit committee to ensure that changes to the format meet the needs of our users.</p> <p>Revised format of reports submitted to Audit Committee in December for approval.</p>

2600	Communicating acceptance of risk	Low
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Finding and Implication	Proposed action
<p>As for 2400, we found that it is not always clear within reports that internal audit has made a judgement on the level of risk within each review, and therefore whether that level of risk is acceptable to the organisation.</p>	<p>As above, we will ensure that the audit opinion and assessment of managed and unmanaged risk is incorporated within a revised audit report format.</p> <p>Revised format of reports submitted to Audit Committee in December for approval.</p>

A Appendices

Our Rating System

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> Key control not designed or operating effectively Potential for fraud identified Non compliance with key procedures / standards Non compliance with regulation
Medium	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> Impact is contained within the department and compensating controls would detect errors Possibility for fraud exists Control failures identified but not in key controls Non compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> Minor control weakness Minor non compliance with procedures / standards
Inprovement	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> Information for department management Control operating but not necessarily in accordance with best practice



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Argyll and Bute Council

Report to those charged with governance on the 2012/13 audit



Prepared for Argyll & Bute Council
September 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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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 the matters arising from the audit of the financial statements for 2012/13 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 included in a matters arising schedule issued to the Finance Manager - Corporate Support over the course of the audit. This schedule was finalised and agreed on the 28 August 2013. The more significant issues arising were discussed with the Head of Strategic Finance at a meeting on 10 September 2013.
4. We received the unaudited financial statements on 28 June 2013, in accordance with the agreed timetable. In general, the working papers were of a high standard and the staff provided good support to the audit team. We completed our on-site fieldwork on 6 September 2013.

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 2013, 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 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

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 2013 (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 number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to increase expenditure by £0.269 million. Net assets as recorded in the balance sheet have decreased by £0.269 million.
11. 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 decreasing the excess of income over expenditure for the year shown in the comprehensive income and expenditure statement by £0.008 million. The net impact on the balance sheet would be that net assets would decrease by £0.008 million. 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 this unadjusted error 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 Accountable Officer 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.

Significant findings from the audit

14. 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.
15. **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. The council has not included a provision in the accounts for this liability and finance officers have taken the decision not to amend the accounts as the amount was considered immaterial. At 31 March 2012 the Valuation Office Agency placed a value of £1.147million on the necessary works for a period of 60 years, following the cessation of tipping operations. This amount should have been recognised as a provision in the accounts. This is therefore reflected as an unadjusted error at Appendix C. As restoration and aftercare work is capital in nature the adjustment would have no impact on the council's general fund balance at the year end.

Resolution: The council will process an adjustment in the 2013/14 accounts to recognise a provision for the restoration and aftercare costs of the three landfill sites in line with IAS 37.

16. **Equal Pay provision** - The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. The Council settled most of the remaining outstanding claims during 2012-13. The equal pay provision remaining at 31 March 2012 is £0.032 million. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs. There is also the potential for other equal pay claims whose costs may be met by the Council. These have been disclosed as a contingent liability.

Resolution: The equal pay provision will be reviewed on an annual basis and take account of any legal developments.

17. **Movement in pension liability** - The net pension liability has increased by £20.772 million from £79.092 million at 31 March 2012 to £99.864 million at 31 March 2013 due to the accrual of pension liabilities in accordance with International Accounting Standard 19 *Employee Benefits*. This is a significant amount in the accounts which requires the specialist knowledge of an actuary to verify. In terms of ISA 620 (Using the Work of an Expert) I am able to rely on the work of an expert provided that I am satisfied that:

- the expert was suitably competent and objective
- there was sufficient appropriate evidence that the scope of the expert's work at Argyll and Bute Council was adequate for the purposes of our audit.

Resolution: Having considered the work of the actuary in relation to the IAS19 valuation, I am satisfied that this work provides appropriate evidence for retirement benefits recognised in the accounts of Argyll and Bute Council.

18. **Going Concern** - The effect of including Associates and Common Good funds in the Group Balance Sheet is to decrease both reserves and net worth by £258.615 million. This gives an overall net liability position for the group of £77.873 million. This decrease is mainly due to the IAS19 pension liabilities of the Police and Fire joint boards (the council's share in the pension liabilities are £213.226 million and £49.891 million respectively). The council and its group have adopted a "going concern" basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the fund's commitments.

Resolution: This issue was resolved at 1 April 2013 when the police and fire functions were transferred to the Scottish Police Authority (SPA) and the Scottish Fire and Rescue Service (SFRS). The new bodies and their associated net pension liabilities do not form part of the council's group.

19. **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.

Resolution: Officers have confirmed that the art collections will be revalued and plans are in place to catalogue and value all museum artefacts.

20. **Fixed Asset Register** - It was identified that included in its asset register, were four properties that were no longer owned by the Council. One (Oban swimming pool) is a common good asset, two smaller properties had been disposed of a number of years ago and the third, a roads depot, had been demolished. Senior finance officers were asked to provide assurance that assets listed on the Fixed Asset Register exist and are owned by the council. In response, finance officers explained that on-going reconciliations of the Fixed Asset Register are undertaken however there is a need to review procedures for ensuring that all records are updated when properties are disposed of. Based on these controls officers are of the view that the asset registers are not materially misstated. Audit testing of a sample of fixed assets supports this view.

Resolution: Finance officers will review their procedures for ensuring asset registers are updated following the disposal of assets. A new Property Management System (Concerto) is currently being introduced as part of the Corporate Asset Management Programme which will facilitate cross referencing of properties between Estates and Finance records.

21. There are no outstanding matters which require to be followed up.

Acknowledgements

22. 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 2013 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 Rate Income Account, the Common Good Funds, the Trust Funds and Other Third Party Funds 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 2012/13 (the 2012/13 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 Responsible Financial 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 groups 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. 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 2012/13 Code of the state of the affairs of the group and of the body as at 31 March 2013 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 2012/13 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 Statement of Governance and Internal Control 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
8 Nelson Mandela Place
Glasgow G2 1BT

30 September 2013

Appendix B: ISA 580 - Letter of Representation

Mrs Fiona Mitchell-Knight
Assistant Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

20 September 2013

Dear Mrs Mitchell-Knight

2012/13 FINANCIAL STATEMENTS

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 2013 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 2013 and its income and expenditure for the year then ended.

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 2013.

General

1. 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 council and other meetings.
2. 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.
3. 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

4. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.
5. 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 2013.

Accounting Policies & Estimates

6. 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 2012/13.
7. 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

8. The Strategic Management Team have assessed the ability of the council and its group 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

9. 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 2012/13.

Remuneration Report

10. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.
11. All exit packages agreed in 2012/13 and included in the accounts were notified to the Strathclyde Pension Fund to enable complete information to be provided to the actuaries for the IAS19 disclosures.

Events Subsequent to the Balance Sheet Date

12. 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.
13. 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

14. I acknowledge, as the officer with responsibility for the corporate governance arrangements that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. 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 2012/13. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2013, which require disclosure.

Fraud

16. 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

17. The assets shown in the Balance Sheet at 31 March 2013 were owned by Argyll and Bute Council, other than assets which have been purchased under lease. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. 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 2013.

Employee Benefit Accrual

19. The employee benefit accrual has been calculated by extrapolating actual costs from a sample of staff. In my opinion the sample selected is representative of the council as a whole.

Carrying Value of Assets and Liabilities

20. 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 2012/13. 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

21. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2013 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 2013.

Yours sincerely

Bruce West
Head of Strategic Finance

Appendix C: Non-Adjusted Errors within the 2012/13 Financial Statements

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

Narrative	DR £000	CR £000
Statement of Comprehensive Net Expenditure		
General Fund		
Understatement of utilities provision	8	
Total	8	
Statement of Financial Position		
Provisions		
Understatement of utilities provision		8
Property, Plant and Equipment	1,147	
Provisions		1,147
Non-recognition of provision for restoration and aftercare costs		
Total	1,147	1,155
Net Total		8

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