

Public Document Pack

Argyll and Bute Council

Comhairle Earra-Ghàidheal Agus Bhòid

Executive Director: Douglas Hendry



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8 March 2022

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held **BY MICROSFOT TEAMS** on **TUESDAY, 15 MARCH 2022 at 10:00 AM**, which you are requested to attend.

Douglas Hendry
Executive Director

BUSINESS

1. **APOLOGIES**
 2. **DECLARATIONS OF INTEREST**
 3. **MINUTE OF PREVIOUS MEETING HELD ON 14 DECEMBER 2021** (Pages 3 - 6)
- AUDIT ITEMS**
4. **INTERNAL AUDIT AND COUNTER FRAUD SUMMARY OF ACTIVITIES** (Pages 7 - 14)
Report by Interim Chief Internal Auditor
 5. **INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2021-22** (Pages 15 - 38)
Report by Interim Chief Internal Auditor
 6. **INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2021/2022** (Pages 39 - 78)
Report by Interim Chief Internal Auditor
 - Environmental Health
 - Live Argyll Budget Monitoring
 - Purchasing Cards
 7. **REVISED 2021/22 INTERNAL AUDIT ANNUAL PLAN** (Pages 79 - 100)
Report by Interim Chief Internal Auditor

8. **2022/23 INTERNAL AUDIT PLAN** (Pages 101 - 120)
Report by Interim Chief Internal Auditor
9. **EXTERNAL AUDIT - 2021/22 ANNUAL PLAN** (Pages 121 - 136)
Report by Audit Scotland
10. **INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL** (Pages 137 - 162)
Report by Interim Chief Internal Auditor
- SCRUTINY ITEMS**
11. **VERBAL UPDATE BY CHAIR(S) OF THE SCRUTINY PANEL(S)**
Verbal Update by Martin Caldwell and Councillor Jim Lynch
12. **SCRUTINY FRAMEWORK AND MANUAL UPDATE** (Pages 163 - 186)
Report by Interim Chief Internal Auditor
13. **UNAUDITED ANNUAL ACCOUNTS 2021-22** (Pages 187 - 224)
Report by Section 95 Officer
14. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 225 - 286)
Report by Interim Head of Financial Services
15. **BEST VALUE IMPROVEMENT ACTION PLAN UPDATE** (Pages 287 - 310)
Report by Chief Executive/Executive Director with responsibility for Customer Support Services
- REPORTS FOR NOTING**
16. **REGULATION OF INVESTIGATORY POWERS (SCOTLAND) ACT 2000 (RIPSA) ANNUAL REPORT** (Pages 311 - 312)
Report by Executive Director with responsibility for Legal and Regulatory Support
17. **WORKPLAN** (Pages 313 - 316)
For noting and updating

Audit and Scrutiny Committee

Martin Caldwell (Chair)	Councillor Jim Findlay
Councillor George Freeman	Councillor Jim Lynch (Vice-Chair)
Councillor Sir Jamie McGrigor	Councillor Alan Reid
Councillor Richard Trail	Councillor Andrew Vennard

Shona Barton, Committee Manager

Contact: Lynsey Innis, Senior Committee Assistant; Tel: 01546 604338

**MINUTES of MEETING of AUDIT AND SCRUTINY COMMITTEE held BY MICROSOFT TEAMS
on TUESDAY, 14 DECEMBER 2021**

Present: Martin Caldwell (Chair)

Councillor Jim Findlay	Councillor Alan Reid
Councillor George Freeman	Councillor Richard Trail
Councillor Jim Lynch	Councillor Andrew Vennard
Councillor Sir Jamie McGrigor	

Attending: Jane Fowler, Head of Customer Support Services
Laurence Slavin, Interim Head of Financial Services
Shona Barton, Committee Manager
Moira Weatherstone, Interim Chief Internal Auditor
Sonya Thomas, Performance and Improvement Officer
John Cornett, Director, Audit Scotland
Kyle McAulay, Senior Audit Manager, Audit Scotland

The Chair moved and the Committee agreed to vary the order of business to facilitate the commitments of officers in attendance. This minute reflects the order in which discussion took place.

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1. APOLOGIES

The Chair welcomed everyone to the meeting.

There were no apologies for absence intimated.

2. DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3. MINUTES

(a) Minute of meeting held on 14 September 2021

The minute of the meeting, held on 14 September 2021, was approved as a correct record.

(b) Minute of Special Meeting held on Wednesday, 24 November 2021

The minute of the Special meeting, held on 24 November 2021, was approved as a correct record.

4. INTERNAL AUDIT AND COUNTER FRAUD SUMMARY OF ACTIVITIES

The Committee gave consideration to a report providing a summary of Internal Audit activity and progress during quarter three of 2021/22 against the following areas:

Audits Completed

- Child Protective Services

- Contract Management Roads and Infrastructure Services
- Fixed Asset Register
- Oban Airport
- Street Cleaning
- HSCP – Care Programme Approach

Audits in Progress

- Civil Contingencies
- Environmental Health
- Live Argyll – Budget Monitoring
- Purchase Cards
- School Funds
- Workforce Planning – HSCP

The report also included information on the work carried out by the Counter Fraud Team (CFT) since 14 September 2021 and provided an update on total billing to date as a direct consequence of their work.

Decision

The Audit and Scrutiny Committee agreed to note and endorse the Summary of Activities report.

(Reference: Report by Interim Chief Internal Auditor, dated 14 December 2021, submitted)

5. 2020/21 ANNUAL AUDIT REPORT

Consideration was given to the 2020/21 Annual Audit Report which was provided by Audit Scotland. The report provided information on their findings in relation to the 2020/21 annual accounts; financial management; financial sustainability; governance and transparency and best value. The report also included an assessment of the arrangements in place to ensure that findings from national reports are reviewed and actions are identified to ensure good practice.

Discussion was had in relation to Covid-19 expenditure in both a national and local context, with it being noted that Audit Scotland plan to undertake a piece of work around the national position, which will be published in the Spring of 2022.

Decision

The Audit and Scrutiny Committee agreed to note the contents of the report.

(Reference: Report by Audit Scotland, submitted)

Having indicated that this would be his last meeting of the Audit and Scrutiny Committee, the Interim Head of Financial Services took the opportunity to thank colleagues from Audit Scotland for the support they have provided over the last two years. Mr Cornett from Audit Scotland thanked Mr Slavin for his kind words and wished him well for the future.

6. INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2021-22

Consideration was given to a report providing an update on all open actions as at 30 September 2021 including information on actions where the agreed implementation date had been rescheduled.

Decision

The Audit and Scrutiny Committee agreed to endorse the contents of the report.

(Reference: Report by Interim Chief Internal Auditor, dated 14 December 2021, submitted)

7. INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2020/2021

The Audit and Scrutiny Committee gave consideration to a report containing the action plans in relation to the following 6 audits:-

- Child Protective Services
- Contract Management: Roads and Infrastructure Services
- Fixed Asset Register
- Oban Airport
- Street Cleaning
- HSCP – Care Programme Approach

Discussion was had in relation to the limited level of assurance of the Contract Management: Roads and Infrastructure audit, and in particular the timescales involved in the delivery of the actions outlined within the action plan. Members noted that the Head of Roads and Infrastructure Services had provided verbal assurance to the Interim Chief Internal Auditor that arrangements had been put in place to ensure that actions are addressed swiftly. It was also noted that consideration would be given to a follow up audit on contract management to be included in a future audit plan. Members also expressed their concern over the timescale for delivery of the high priority actions to improve control and governance, as outlined within the HSCP audit report on the Care Programme Approach, which had been submitted for information.

Decision

The Audit and Scrutiny Committee agreed to note and endorse the summary report and detail within each individual report.

(Reference: Report by Interim Chief Internal Auditor, dated 14 December 2021, submitted)

8. VERBAL UPDATE BY CHAIR(S) OF SCRUTINY PANEL

Martin Caldwell, the Chair of the Community Asset Transfer Review Panel provided a short update in relation to the progress of the review. He advised that having noted that issues had been raised as part of the Best Value review, the Panel had undertaken a useful session with Audit Scotland and were in the process of pulling together the conclusion of the review, and hoped to be in a position to present it to the Committee at their next meeting in March 2022.

Councillor Lynch, Chair of the Fly Tipping Review Panel provided a short update in relation to the progress of the review. He advised that to date only one meeting of the

Panel had taken place and that it had not been possible for Councillor Freeman to attend the meeting. Councillor Lynch requested that Internal Audit forward a note of this meeting to Councillor Freeman and undertook to schedule a further meeting as soon as possible, with an update to be provided to the Committee meeting in March 2022.

Decision

The Audit and Scrutiny Committee agreed to note the contents of the verbal updated by the Chairs of the Scrutiny Panels.

9. COUNCIL 6-MONTH PERFORMANCE REPORT - APRIL TO SEPTEMBER 2021

The Committee gave consideration to a report presenting the Council's 6-month Performance Report and Scorecard for April to September 2021. Information was also provided on planned activity for Performance Management and Reporting during 2021/22 onwards.

Discussion took place around the statistics provided in relation to street lighting faults; the information held in relation to covid related staff absences; the health and wellbeing of staff while working from home and the information provided in relation to school meals.

Decision

The Audit and Scrutiny Committee:-

1. reviewed the Council 6-month Performance Report and Scorecard as presented for the purposes of scrutinising the Council's performance;
2. noted that due to Covid-19 demands on staff and resources, Performance Management was deprioritised; and
3. noted the planned activity for Performance Management and Reporting during 2021/22 onwards.

(Reference: Report by Chief Executive, dated 14 December 2021, submitted)

10. AUDIT AND SCRUTINY WORKPLAN

In order to facilitate forward planning of reports to the Audit and Scrutiny Committee, Members considered the outline Audit and Scrutiny workplan.

Decision

The Audit and Scrutiny Committee agreed to note the outline workplan.

(Reference: Audit and Scrutiny workplan, dated 14 December 2021, submitted)

ARGYLL AND BUTE COUNCIL**AUDIT & SCRUTINY COMMITTEE****FINANCIAL SERVICES****15 MARCH 2022**

INTERNAL AUDIT AND COUNTER FRAUD SUMMARY OF ACTIVITIES

1. SUMMARY

1.1 The objective of the report is to provide the Audit and Scrutiny Committee (the Committee) with a summary of Internal Audit activity and progress during quarter four of 2021/22.

1.2 Core activities together with a progress update statement are shown below:

- **2021/22 Audit Plan progress:** On Track
- **Individual Audits undertaken:** 3 audits have been completed during the period. One audit has been assessed as providing high assurance, one substantial assurance and one reasonable assurance.
- **Counter Fraud:** The Counter Fraud team is continuing to rebill council tax accounts and recovery of funds is underway. All other aspects and referrals are being considered, investigated and evaluated and the Counter Fraud Team remain vigilant to protect our public purse.
- **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.
- **Performance indicators:** Current status is green / on track.

2. RECOMMENDATIONS

2.1 To review and endorse the Summary of Activities report

3. DETAIL

3.1 3 audits have been completed since the previous Committee in December 2021. Five audits are currently in progress and will be reported to a future meeting of the Committee.

Audits Completed

- Environmental Health
- LiveArgyll Budget Monitoring
- Purchasing Cards

Audit in Progress

- Civil Contingencies
- Complaints Handling – HSCP
- ELC – Parental Satisfaction
- School Fund Governance
- Workforce Planning – HSCP

3.2 In addition to those already in progress indicative audits planned for Quarter 4 2021/22 are:

3.3 **2021/22 Audit Plan**

- Climate Change Act
- ICT - Remote Working
- Planning Applications

Scrutiny

3.4 Work is progressing on the 2021/22 scrutiny plan. The Community Asset Transfer Process review has been completed and a draft report has been issued to Council officers for consideration.

3.5 The briefing meeting for the review of Fly-tipping has taken place on 9 November 2021, additional information was provided and a further meeting of the panel members took place on 13 January 2022. A panel meeting with Council officers was held on 2 March 2022.

Counter Fraud

3.6 The paragraphs below summarise the work carried out by the Counter Fraud Team (CFT) and provide an update on total billing for the year 2022 to date as a direct consequence of their work.

3.7 In December there were two referrals alleging fraud by council officers. The investigation concluded there was no evidence of fraud. Both were issues in registered addresses for temporary staff. However, it has opened an investigation for another local authority and the CFT are working closely with these external colleagues.

3.8 The CFT continue to perform visits to referral addresses when and where possible.

3.9 Investigations into potential Council Tax anomalies continue to be carried out. These mainly consist of potentially fraudulent claims for single person discounts, fictitious tenants or claims of second home status for the avoidance of 100% premium of Council Tax. A rolling programme of reviews is also carried out on council tax discounts and exemptions to ensure they are only applied where appropriate. The CFT have also been working with debt recovery officers to assist in any way possible to recover some accounts with high levels of debt. These are ongoing due to the large scale nature of the investigations. The below table summaries fraud activity work in 2022 so far.

Investigation Area	No. of Referrals	Summary
Council tax	4	<ul style="list-style-type: none"> • 2 – upheld

		<ul style="list-style-type: none"> • 1 – no fraud established • 1 – currently under investigation
Benefits	0	<ul style="list-style-type: none"> • No referrals to date
Blue Badge	0	<ul style="list-style-type: none"> • No referrals to date
Employee	2	<ul style="list-style-type: none"> • No fraud established
Others	0	<ul style="list-style-type: none"> • No referrals to date
Proactive Work	N/A	Proactive reviews not based on referrals has resulted in removal of exemptions and applying extra charges and penalties where appropriate. High level debt accounts. Working with Debt Recovery to visit sites or assist in investigatory work. Recovery still underway for several large scale reviews
Total	45	Additional Billing to Date £1114.30

Additional Updates from Quarter Four

- 3.10 Internal Audit continues to progress the work-plan for the Health and Social Care Partnership (HSCP). The Care Programme Approach audit has been completed. Workforce Planning and Complaints Handling audits are currently in progress.
- 3.11 The post of Chief Internal Auditor has been advertised with a closing date of 1 March 2022.

Continuous Monitoring

- 3.12 Our continuous monitoring programme is generally focused on transactional type activity. Standard audit tests are applied which are relevant to each auditable unit. Control design tests look at whether the controls in place adequately address the potential risk event.

Table 1: Continuous Monitoring Findings

Auditable Area	Areas Tested	Issues Identified	Management comment / action
Creditors	Changes to suppliers/New Suppliers	Manual records are maintained within the office, which makes testing difficult	Ongoing and will be addressed via the continuous monitoring programme.

- 3.13 A follow up process is in place whereby management are advised of continuous monitoring findings and, where appropriate, requested to take remedial action. There are currently no outstanding follow-up points arising from previous testing. Due to the volume of continuous monitoring tests carried out the decision was made to report by exception only.

National Reports

- 3.14 A follow up process for national reports is in place whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. Table 2 details the national reports issued during quarter three 2021/22.

Table 2: National Reports

National Report	Issued To	Detail	Management response/ Action taken
Community empowerment: Covid-19 update	Chief Executive	Public bodies can learn from good practice and new ways of working which emerged in response to Covid-19 and use this to shape the way they work in the future to promote the best outcomes for local communities and help address inequalities. The report shares some of the many good examples of the community response to the pandemic and summarises the learning. It builds on the Principles for community empowerment published in 2019 and ongoing engagement with the Community Empowerment Advisory Group. Public bodies should use this information alongside their own learning to develop longer-term approaches to supporting and empowering communities.	No action will be taken as a result of the national report as it sets out best practice of which we are familiar with and seek to emulate.
Best Value Assurance Report: Falkirk Council	Chief Executive	Falkirk Council's leaders need to urgently make and implement big decisions about how to deliver sustainable services and make significant and necessary savings.	Executive Director Kirsty Flanagan will liaise with Falkirk Council to learn about their savings from zero budgeting and activity around workforce planning.

National Fraud Initiative (NFI)

- 3.15 NFI data matching involves comparing computer records held by one body against other computer records held by the same or another body to identify potentially fraudulent claims and payments to be identified. Note though that the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further

investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. A reminder process is in place to ensure that matches are reviewed on a timely basis.

- 3.16 Matches are available for review and progress is monitored monthly by the Counter Fraud Team and reported quarterly to the Audit and Scrutiny Committee.

Table 3: National Fraud Initiative Progress at 21/02/2022:

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
CT to Elect Register	1000	n/a			CT records to Electoral Register/ other data sets to ensure discount awarded to only those living alone aged over 18, taking into account disregarded occupants. (CT to other Datasets will not be progressed further due to poor quality data)
CT rising 18s	194	n/a			
Housing Benefits	29	14	16	0	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	61	1	1	1	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	255	220	253	0	Blue badge records to DWP data to identify deceased claimant with valid badge.
Housing Waiting list	264	257	257	0	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Council Tax Reduction	398	71	106	0	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	4839	0	149	0	Analyses Creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.
Procurement	176	0	38	0	Payroll matched to Creditors and Companies

					House data to identify potential undeclared interests that have given a pecuniary advantage.
Business Rates	120	0	0	0	Non-domestic Rates Records within and between authorities to identify businesses fraudulently in receipt of multiple small business bonus scheme grants.

Overall Summary of Matches

Matches Complete	Work In Progress	Cleared	Frauds	Errors	Total Value £	Recovering	Recovering Value £
824	1	704	1	119	£673.66	1	£673.66

Internal Audit Development


3.17 The table below details progress against the action points in our Internal Audit development plan. No additional items have been added in quarter four.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
VC and conference facility	<p>Progress plan to use former audit room at Whitegates as a video conference facility.</p> <p>The new facility is well progressed but paused due to the Council's response to the pandemic situation.</p>	Delayed	No current timescale due to ongoing office closures

3.18 Internal Audit scorecard data is available on pyramid. The indicators reported are aligned to those for internal audit in the Financial Services service plan. All indicators are shown as on currently being on track.

Internal Audit Team Scorecard 2021– 22 – FQ3 21/22 (as at December 2021)			
BO115 We Are Efficient And Cost Effective			
Internal Audit Level of Satisfaction	Actual	97%	G
	Target	80%	↑
Review of Strategic Risk register	Status	On Track	G
	Target	On Track	→
Percentage of audit plan completed	Status	100%	G
	Target	100%	→
	Actual	100%	G

Percentage of audit recommendations accepted by management	Target	100%	
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4 CONCLUSION

- 4.1 The 2021/22 audit plan is in progress and the Counter Fraud Team is continuing to develop and delivering a positive output for the Council.

5 IMPLICATIONS

- 5.1 Policy - Internal Audit continues to adopt a risk based approach to activity
- 5.2 Financial –None
- 5.3 Legal –None
- 5.4 HR – None
- 5.5 Fairer Scotland Duty – None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty – None
- 5.6 Climate Change – None
- 5.7 Risk – None
- 5.8 Customer Service – None

For further information please contact Internal Audit (01546 604146)

Moira Weatherstone

Interim Chief Internal Auditor

15 March 2022

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ARGYLL AND BUTE COUNCIL
AUDIT AND SCRUTINY COMMITTEE**FINANCIAL SERVICES****15 MARCH 2022**

INTERNAL AND EXTERNAL AUDIT REPORT FOLLOW UP 2021-22

1.0 INTRODUCTION

- 1.1 Internal and external audit reports include an action plan with a management response establishing the agreed action, timescale and responsible officer. Internal Audit record these in a database and, on a monthly basis, follow them up to ensure they are being progressed.
- 1.2 This report updates the committee on all open actions as at 31 December 2021 including information on actions where the agreed implementation date has been rescheduled.

2.0 RECOMMENDATIONS

- 2.1 To endorse the contents of the report.

3.0 DETAIL

- 3.1 The two tables below provide a numerical summary of open audit actions with a split between actions due by and due after 31 December 2021.

Table 1 – Actions due by 31 December 2021

DMT/Service	Complete	Delayed/ Rescheduled	No Response	Evidence Required	Total
Internal Audit					
SW - Adult Care	0	2	0	0	2
DH - Commercial Services	2	2	0	0	4
CEU – Cross Cutting	0	1	0	0	1
KF - Customer Support Services	1	5	0	0	6
DH - Education	2	2	0	1	5
CEU - Financial Services	0	1	0	0	1
DH - Legal & Regulatory Support	2	3	0	0	5
KF - Roads &	3	1	3	0	7

Infrastructure Services					
External Audit					
TOTAL	10	17	3	1	31

Table 2 – Actions due after 31 December 2021

DMT/Service	Complete	Delayed/ Rescheduled	On Course	Superseded	Total
Internal Audit					
SW - Adult Care	0	1	0	1	2
SW - Children & Families & Criminal Justice	1	0	0	0	1
DH - Commercial Services	0	0	1	0	1
CEU - Cross Cutting	0	0	2	0	2
KF - Customer Support Services	0	0	2	0	2
KF - Development & Economic Growth	1	0	0	0	1
DH - Education	0	0	1	0	1
CEU - Financial Services	0	1	10	0	11
DH - Lifelong Learning & Support	0	0	1	0	1
KF - Roads & Infrastructure Services	0	1	11	0	12
TOTAL					
	2	3	28	1	34

3.2 Appendix 1 provides further detail on actions that have either been delayed and rescheduled or for which Internal Audit have received no response from the service to inform this follow up.

4.0 CONCLUSION

4.1 COVID19 continues to impact on the progress services are making to complete audit action points.

5.0 IMPLICATIONS

- 5.1 Policy - None
- 5.2 Financial - None

5.3	Legal - None
5.4	HR - None
5.5	Fairer Scotland Duty - None
5.5.1	Equalities – None
5.5.2	Socio-Economic Duty – None
5.5.3	Islands Duty - None
5.6	Climate Change – None
5.7	Risk –None
5.8	Customer Service – None

Moira Weatherstone
Interim Chief Internal Auditor
15 March 2022

For further information contact: Moira Weatherstone, 01546 604146
moira.weatherstone@argyll-bute.gov.uk

APPENDICES

Appendix 1 – Action Plan Points Delayed & Rescheduled or with No Response

Appendix 1 - Action Plan Points Delayed & Rescheduled or with No Response

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
KF – Roads & Infrastructure Services – Fleet Management	<p>Management of Pool Cars</p> <p>A high level analysis of the use of pool cars suggests the Council could generate considerable savings through more efficient use of pool cars. Fleet Services should explore this further via a more detailed review which should consider the potential benefits of:</p> <ul style="list-style-type: none"> A more centralised approach to the administration and booking of pool cars Better promotion of the use of pool cars Providing greater visibility of bookings and destinations to encourage pool car sharing Implementing or developing a pool 	VFM	<p>The pool car module will be released through Tranman.</p> <p>The pool car module offers a centralised approach to bookings and visibility. The Council's internal communications department will be contacted to highlight the use of the pool cars. Work will be undertaken to increase usage.</p>	<p>30 Sep 20</p> <p>31 Dec 20</p> <p>30 Jun 21</p> <p>31 Dec 21</p>	<p>Fleet Performance System Support Officer has completed the testing of the Pool Car Module. However, due to staff shortages through maternity leave, Management won't be able to make the module live before April 2022. Interviews will take place in a few weeks' time for both maternity positions but new staff will have to be trained in our systems.</p> <p>Delayed & Rescheduled</p>	Procurement/ Technical Officer

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	car booking system Identifying ways of transferring the balance of pool car usage from shorter journeys to longer ones					
CEU – Financial Services – Following the Public Pound	Guidance on Following the Public Pound (FtPP) Although the Council has an approved process to manage external funding requests it is limited in detail, is not closely aligned to the Code of Guidance on Funding External Bodies and Following the Public Pound and there is a general lack of awareness amongst officers that it exists. Audit testing identified a number of areas of good practice within the Council and overall compliance with the	High	Following the Public Pound guidance will be drafted to provide a consistent approach to managing the award of external funds.	30 Jun 20 31 Dec 20 30 Jun 21 31 Dec 21 30 Sep 22	The business case approach from the capital strategy feeds into this guidance. The revised capital strategy was reported to Members on 14th October 2021 and the decision taken that an updated strategy be presented to Members in the early life of the new Council in 2022/23. The FTTP Guidance cannot be completed until the new Strategy has been approved. Delayed & Rescheduled	Head of Financial Services

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	<p>principles of FtPP however there were examples of inconsistent practice. A more comprehensive guidance document should be established which provides a more standardised and tiered approach providing greater clarity over roles and responsibilities and standardised templates for key stages in the process including funding assessments and post award monitoring and reporting. The audit team researched a number of examples of FtPP guidance which had been created by other councils during the planning phase of</p>					

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	the audit and can make these available to inform the creation of an Argyll and Bute equivalent.					
CEU – Cross Cutting – Organisational Culture & 2019 Employee Survey Action Plan	Communication	N/A	Introduce standards to develop employee communication as a priority and practice: these to include requirement to give ‘You said/we did’ feedback to surveys	31 Oct 19 31 Dec 19 31 Mar 20 31 Dec 20 31 Mar 21 30 Sep 21 31 Dec 21 30 Jun 22	Due to resource issues and the change of staffing over recent months it has not been possible to complete due to other competing demands. Delayed & Rescheduled	Communications Manager
DH – Commercial Services – Legionella Improvement Plan	Staff Resources Significant progress requires to be made to fully appraise staff resources and appoint key staff to undertake legionella management tasks within properties.	High	Undertake benchmarking exercise and review staff resource, following which provide guidance to FRP’s for them to appoint key staff.	31 Dec 20 31 Mar 21 30 Jun 21 30 Sep 21 31 Dec 21 30 Jun 22	Benchmarking exercise complete, gap analysis complete. LEON training module available which will inform guidance to FRPs. Final review of Property Services resource completed in context of Property Restructure to be implemented in 2022/23. Dialogue continues with Internal Audit to agree the requirements to get this action closed out. Revised date 30 June 2022 to align with Property Restructure.	Executive Director with Responsibility for Commercial Services/Head of Commercial Services

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
					Delayed & Rescheduled	
DH – Commercial Services – Systems Interfaces & Reconciliations	General Ledger Reconciliations General Ledger Reconciliations There is no reconciliation performed between the source system and the general ledger for ResourceLink, PECOS, Concerto and Tranman and the SEEMiS interface for clothing grants.	Medium	Data in the source system may not be accurately reflected in the general ledger.	31 Mar 21 30 Sep 21 31 Dec 21 30 Jun 22	Work continues to compare the totals from both Concerto and Oracle to ensure a match with 10% of transactions also being reviewed in detail. Further work required as, to date, comparison has not been as anticipated. The retirement of the Property Design Manager has hindered progress but will be taken forward by the new post-holder. Revised date 30 June 2022. Delayed & Rescheduled	Concerto - Property Design Manager
DH – Education – Pupil Work Placements	Policies and Procedures The Council has Work Based Vocational Learning Guidance in place which reflect the Scottish Government issued Developing the Young Workforce Work Placement	Medium	Consult, review and update ABC Work Based Vocational Learning Guidance.	31 Dec 21	Complete – final formatting of document underway, due to provide evidence to Audit w/c 07/02/22. Evidence Required	Head of Education - Support & Lifelong Learning

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	Standard, however whilst testing provided assurance that schools are adhering to the spirit of the guidance they are not fully complying with them. The Guidance no longer reflects current work placement practices as schools have made their own adaptations to fit their needs. There is also a general sense amongst schools that the guidance is onerous and the templates contained within it are not useful. There would be benefit in reviewing the guidance and associated templates to see if they can be streamlined to ensure more consistent working					

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	practices.					
DH – Education – Pupil Work Placements	Training There is no training programme to support officers involved in the work placement programme including ensuring appropriate steps are taken to determine whether a PVG check is required.	Medium	Conduct a training needs analysis with school staff leading on work placements. Produce a programme of centrally run CPD opportunities for next academic year (or include in Education Service Training Programme).	30 Sep 21 31 Dec 21 30 Jun 22	Delayed & Rescheduled	Head of Education - Support & Lifelong Learning
DH – Education – Pupil Work Placements	Self-evaluation Education Scotland provides a benchmarking exercise which schools can undertake as part of a self-evaluation exercise. This provides a check list on how things are being undertaken against the requirements of the Standard. Schools have not completed this exercise.	Low	CPD session to be held on benchmarking tool for school staff. Introduce an annual benchmarking exercise for all secondary schools.	31 Dec 21 30 Jun 22	Delayed & Rescheduled	Head of Education - Support & Lifelong Learning

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
DH – Legal & Regulatory – Information Asset Registers	Information Asset Registers The two Social Work IARs were not available for review or located on the designated SharePoint site. Of the remaining ten, four require to be updated to reflect the latest GDPR requirements. Clarity over whether the Live Argyll IAR comes under the remit of the Governance, Risk & Safety Manager's responsibility is required.	High	Social Work IARs to be completed and approved by appropriate management teams	31 Dec 20 30 Jun 21 30 Sep 21 31 Dec 21 30 Jun 22	Social Work IARs partially completed, further work and management sign off still required. Delayed & Rescheduled	Governance, Risk & Safety Manager
DH – Legal & Regulatory – Information Asset Registers	Periodic Review and Agreement of Information Asset Registers For four of the 12 IARs there was no evidence they had been agreed by the relevant DMT. Furthermore IARs need to be reviewed	Medium	Obtain annual approval from DMTs for all completed IARs	30 Sep 21 31 Mar 21 30 Sep 21 31 Dec 21 30 Jun 22	Complete for DH Services & CEU, outstanding for other Services – LRS team will continue to attempt to engage support from other service areas to progress this. Delayed & Rescheduled	Governance, Risk & Safety Manager

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	to ensure they are aligned to the new Corporate structure. The RMP requires that IAR's should have a complete action plan to document required changes. Two of the 12 IARs had an action plan, two had action plans that did not fully meet the requirements of the RMP and eight had no action plan.					
DH – Legal & Regulatory – Information Asset Registers	Periodic Review and Agreement of Information Asset Registers For four of the 12 IARs there was no evidence they had been agreed by the relevant DMT. Furthermore IARs need to be reviewed to ensure they are aligned to the new Corporate structure. The RMP requires that IAR's should	Medium	Action plans for all IARs to be put in place and agreed by management teams	30 Sep 20 31 Mar 21 30 Sep 21 31 Dec 21 30 Jun 22	Complete for DH Services & CEU, outstanding for other Services – LRS team will continue to attempt to engage support from other service areas to progress this. Delayed & Rescheduled	Governance, Risk & Safety Manager

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	have a complete action plan to document required changes. Two of the 12 IARs had an action plan, two had action plans that did not fully meet the requirements of the RMP and eight had no action plan.					
KF – Customer Support Services – Disaster Recovery Planning	Disaster Recovery Plan Testing None of the Council's 43 DRPs have been subject to testing and whilst each DRP sets out the required frequency of testing there is no evidence that system criticality is considered when determining that required frequency.	High	We have major DR tests planned for July and November 2021 in conjunction with the Civil Contingencies manager with input from the Scottish Government Resilience Unit and the Scottish Business Resilience Centre. Our list of priority applications will be: <input type="checkbox"/> A long term test schedule will be agreed by the IT Management Team and presented to SMT with details of	31 Dec 21 31 Mar 22	Long term test schedule where 2 systems are tested each year has been agreed by IT Managers. Paper to be submitted to SMT in March. This was delayed due to the effort required to defend against a cyber-attack when the Log4J vulnerability was exposed in December. All ICT technical teams spent most of December updating systems to protect against this attack. Delayed & Rescheduled	ICT and Digital Manager

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
			the resources required to meet the critical systems testing schedule.			
KF – Customer Support Services – Sickness Absence	Attendance Review Meetings Procedures stipulate that attendance review meetings should be carried out by the employee's line manager to facilitate the employees return to work. No evidence of review meetings being carried out was available for any of a sample of eight long term absences. Procedures should be updated to ensure that all attendance review meetings are properly recorded in the MyView system in the same way that return to work interviews are recorded in MyView.	Medium	HR will review the mechanism for documenting content of attendance review meetings and recommend a preferred option for automatically populating the documentation into the MyView system.	31 Dec 21 30 Apr 22	A number of solutions have been reviewed between HR and the Development Team and the agreed solution will be implemented by 30/04/22. Delayed & Rescheduled	HR Development Team Lead

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
KF – Customer Support Services – Sickness Absence	Maximising Attendance e-Learning Only 184 Council officers have completed the e-learning module 'Maximising Attendance. HR will be updating the module to reflect the revised sickness absence policies and procedures. Completion of the revised module should be promoted as part of the roll out of the revised governance documents.	Low	HR will update the module to reflect the revised sickness absence policies and procedures.	31 Dec 21 31 Mar 22	This delay has resulted from awaiting the implementation of a new e-learning module. Implementation will be complete by 31/3/22. Delayed & Rescheduled	HR Team Leader

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
KF – Customer Support Services – Sickness Absence	Dedicated HR Assistants Development & Infrastructure and Education have a	VFM	HR will review attendance trends and survey Development & Infrastructure and	30 Jun 21 31 Dec 21 31 Mar 22	This review was delayed following SMT's request for a specific report on Wellbeing.	HR Team Leader

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	dedicated HR Assistant for Attendance who circulate reports on a monthly basis to the Heads of Service. The HR assistants provide analysis and trends over time on sickness absence. As there is no mechanism in place to assess the impact of a dedicated HR assistant on levels of sickness absence it is not possible to assess whether they are delivering value for money.		Education services to assess and report to SMT on how effective the dedicated HR assistants have been to their service.		Delayed & Rescheduled	
CEU – Financial Services – Systems Interfaces & Reconciliations	General Ledger Reconciliations There is no reconciliation performed between the source system and the general ledger for ResourceLink, PECOS, Concerto and Tranman and	Medium	Data in the source system may not be accurately reflected in the general ledger.	31 Mar 21 31 Dec 21 30 Jun 22	Service have recently moved over to Finance and discussions with accountant held in regards to action in relation to the Ledger. As highlighted previously, the level of detail that has been identified is not easy to extract from RL however, now that Service	Resourcelink - Pensions & Payroll Officer

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	the SEEMiS interface for clothing grants.				<p>have relocated with Finance, teams are hopeful that they can work on some reports that will help extract this data efficiently.</p> <p>In the meantime teams will continue to provide the value of 'Net' pay that we would expect to see in the ledger, this is against code 1.100.1000.0000.K2100.</p> <p>Delayed & Rescheduled</p>	
SW – Charging for Non-Residential Care Services	<p>Standing Orders for Community Alarms</p> <p>We identified 31 service users paying for Community Alarms by standing order who are not paying the full charge of £23.72 per month due to standing orders not being increased annually in line with inflationary fee increases.</p>	Low	The admin team are dealing with the cases where users are paying by both standing order and direct debit. Users have been asked to cancel their standing orders in these cases, and in the meantime refunds are being processed. Where service users are underpaying, they will be	<p>30 Jun 21</p> <p>31 Oct 21</p> <p>31 Mar 22</p>	<p>The team has written to over 300 clients to change them over from Standing Orders to Direct Debits to address this issue. Around half now have switched over.</p> <p>Due to staff turnover within the team, the remaining clients who continue to pay by standing order have not yet been 100% checked.</p> <p>It is now proposed this will</p>	TEC Hub Co-ordinator/ Revenue and Benefits Manager

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	<p>Furthermore one service user is paying a standing order payment for £35 per month. We also identified seven service users who are paying for community alarms by standing order and direct debit as they agreed to move to a direct debit payment but failed to cancel their standing order. There is no debtors account produced for service users paying by standing order as it is not processed through the debtors system and therefore no routine monitoring takes place which would have highlighted this discrepancy.</p>		<p>contacted again and requested to move to direct debits and invoices raised for the underpayments.</p>		<p>be completed by 31 March 2022.</p> <p>Delayed & Rescheduled</p>	
SW – Adult Care – Social Care Contract Management	<p>Call Up Letters Sample testing highlighted situations where</p>	Low	<p>Updated call up letters will be issued when providers</p>	<p>31 Dec 20 31 Mar 21 30 Jun 21 31 Dec 21</p>	<p>One provider is still negotiating change of provision from 1:1 to group. Anticipating this will</p>	<p>Locality Manager</p>

Action Plan Points Due by 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer
	services are being provided without a call up letter being in place. This is contrary to Council policy.		confirm estimated capacity for year.	30 Apr 22	be resolved for agreement of packages 2022-23 by end of March 22. Delayed & Rescheduled	

Action Plan Points Due After 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
KF – Roads & Infrastructure Services – Fleet Management	Driving Hours Compliance Fleet drivers not subject to EU legislation maintain manual driving records which are handed to supervisors on a weekly basis to check and sign. This is a resource intensive process which is subject to human error. There would be clear process efficiency gains and less risk of error if the Council adopted the system already in place for	Low	The key officer will ensure that all drivers hold and use tachograph cards to move away from the paper book records.	31 Dec 20 31 Mar 21 30 Jun 21 31 Mar 22 30 Jun 22	This one is ongoing still as it's a large remit and requires collaboration from other user departments. Delayed & Rescheduled	Procurement/ Technical Officer

Action Plan Points Due After 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
	fleet drivers subject to EU legislation and rolled out electronic driver cards to all fleet drivers.					
CEU – Financial Services – Capital Monitoring	Capital Programme Planning & Management Guide The Council's Capital Guide has not been revised since 2018 and requires a review to ensure it reflects current working practices and provides appropriate support to officers involved in the capital monitoring process. The Council is currently developing a new Capital Strategy which is to be presented to the Policy and Resources Committee in August 2021 and we recognise that a review of the Guide	Medium	Capital Planning and Management Guide to be updated once the Capital Strategy has been approved to ensure the two are aligned and provide clarity.	31 Mar 22 30 Sep 22	The revised capital strategy was reported to Members on 14th October 2022 and the decision taken that an updated strategy be presented to Members in the early life of the new Council in 2022/23. The Capital Planning and Management Guide cannot be updated until the new Strategy has been approved. Delayed & Rescheduled	Head of Commercial Services/ Finance Manager

Action Plan Points Due After 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
	should be conducted after the Strategy has been finalised to ensure the two documents complement each other and. The Guide could also benefit from being linked to, or referencing, other relevant Council processes, in particular the Project Management section on the Hub.					
SW – Adult Care – Charging for Non-Residential Care Services	Hard Copy Files Service users have a confidential record on the CareFirst system with documentation required to support this either held in hard copy format in filing cabinets or electronically on Civica. Having documentation in hard copy format means it is not readily accessible to	Medium	The SW Admin Service is currently in the process of implementing Civica for all client records. Part of this project is to ensure that all records are scanned into an electronic format and held on shared drives until implementation of Civica is achieved. To be on file shares by end March 2022.	31 Mar 22 31 Mar 23	This audit recommendation is being addressed in the CIVICA Social Care Implementation project, the PID clearly shows that the digitalisation of records is being taken forward and will be monitored via a project board at regular intervals. Copy of Civica SCEDM Project and Civica Social Care Implementation provided.	Social Work Admin Manager

Action Plan Points Due After 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
	officers during the COVID enforced office closures. With greater homeworking envisaged for the Council it is even more important that documents can be accessed electronically. Furthermore electronic records provide for greater security and reduced risk of loss.				Superseded	
SW – Adult Care – Charging for Non-Residential Care Services	Service Uptake Data Records held on Carefirst do not allow for an analysis of the level of service uptake compared to those assessed as having a need. If this analysis could be performed it would help inform discussions and decisions in relation to service uptake, charges and barriers	VFM	Recommendation accepted. Further discussion will be held with supplier to include service uptake functionality and reporting capabilities on new system from April 2022.	30 Mar 22 30 Sep 22	ECLIPSE implementation (replacing CareFirst) delayed due to Omicron pandemic induced pause for 3 months. Supplier to include service uptake functionality and reporting capabilities in new system, go-live date now late September. Delayed & Rescheduled	Deputy Head of eHealth HSCP

Action Plan Points Due After 31 December 2021						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
	to uptake. It would be advisable to progress this issue in conjunction with the CareFirst replacement programme which is scheduled to be complete by April 2022.					

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ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

FINANCIAL SERVICES

15 MARCH 2022

INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2021/2022

1. EXECUTIVE SUMMARY

- 1.1 There are three audits being reported to the Audit and Scrutiny Committee.
- 1.2 The table below provides a summary of the conclusions for the audits performed. The full reports are included as appendices to this report.

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions	VFM Actions
Environmental Health	Substantial	0	0	3	0
LiveArgyll Budget Monitoring	High	0	0	1	0
Purchasing Cards	Reasonable	2	4	0	1

- 1.3 Internal Audit provides a level of assurance upon completion of audit work. A definition for each assurance level is documented in each audit report.

2. RECOMMENDATIONS

- 2.1 Audit and Scrutiny Committee to review and endorse this summary report and the detail within each individual report.

3. DETAIL

- 3.1 A high level summary of each completed audit report is noted below:

Environmental Health: This audit has provided a substantial level of assurance. Internal control, governance and the management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk. Environmental Health have policy and procedures in place which are consistent with the requirements of the Health and Safety at Work etc. Act 1974. Roles and responsibilities are clearly identified and training is regularly carried out. Process followed by the Environmental Health Service were found to be consistent with the established policies and procedures. Appropriate reports are prepared for management team meetings. Minor weaknesses were identified in regard to length of period between procedure reviews, recording of reviews of incident documentation carried out by management and informing interested parties of investigation outcomes.

- 3.2 **LiveArgyll Budget Monitoring:** This audit has provided a High level of assurance. This means that internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently. LiveArgyll have comprehensive financial and security regulations in

place which provide clarity for financial roles and responsibilities, including budget monitoring. The Revenue Budget Monitoring Guidance provides information for budget holders and operational contacts and is aligned to the Financial Regulations. Processes and procedures are in place to provide budget holders with the information and support they require to ensure they can effectively monitor the cost centres within their services. The COVID pandemic and resultant restrictions led to the closure of LiveArgyll facilities and the lack of transactional activity meant that high level budget monitoring was carried out. Budget monitoring and budget engagement meetings will recommence when LiveArgyll facilities are fully operational. Financial monitoring reports, detailing the overall financial position are regularly presented to the Board, the Finance and Audit Sub Committees and the Senior Management Team.

- 3.3 **Purchasing Cards:** This audit has provided a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk. The procedure note to provide guidance on the use of purchase cards no longer reflects current work practice and is no longer circulated. However, the creditors' team have provided comprehensive training and telephone support to purchase card holders in the use of purchase cards. Processing, maintenance and administration of purchase cards takes a considerable amount of creditors' staff time. Creditors' staff maintain a comprehensive spreadsheet detailing purchase cards in use, however paper records were found to be incomplete. The creditors' team approve transactions for catering staff, the procurement team and any outstanding departmental transactions in order to ensure the direct debit to the bank is cleared. The majority of purchase card transactions fall within the procurement threshold of £0 - £999 for which there is limited guidance available. There is currently no requirement to record purchase card transactions on PECOS and purchase card reports are not provided to the procurement team therefore it is difficult to establish the full extent to which best value is being achieved.

4. CONCLUSION

- 4.1 Management has accepted each of the reports submitted and have agreed responses and timescales in the respective action plans.

5. IMPLICATIONS

- 5.1 Policy - None
- 5.2 Financial - None
- 5.3 Legal - None
- 5.4 HR – None
- 5.5 Fairer Scotland Duty - None
 - 5.5.1 Equalities – None
 - 5.5.2 Socio-Economic Duty – None
 - 5.5.3 Islands Duty – None
- 5.6 Climate Change – None
- 5.7 Risk - None
- 5.8 Customer Service – None

Moira Weatherstone
Interim Chief Internal Auditor

15 March 2022

For further information contact:

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APPENDICES

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Argyll and Bute Council
Internal Audit Report
February 2022
FINAL

Environmental Health

Audit Opinion: Substantial

	High	Medium	Low	VFM
Number of Findings	0	0	3	0

Contents

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1. Executive Summary

Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Environmental Health.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Environmental Health regulates a wide range of issues that affect the quality of everyday life and the aims of the service are to promote or enforce standards that preserve public health, public safety and protect the environment. Regulatory Services comprises of environmental health, licensing standards and animal health and welfare, exercise the Council statutory duties as an enforcing authority for regulation and enforcement across a wide range of statutes. These include environmental protection; public health including Covid controls; food safety; occupational health and safety; environmental health licensing, and private let accommodation.
5. The Health and Safety at Work etc. Act 1974 (the Act) defines two enforcement authorities, namely the Health and Safety Executive and local authorities. Argyll and Bute Council (the Council) act as a statutory "enforcing authority" under the Act and have responsibility for delivering its duty to protect and improve the health, safety and environment of the people of Argyll and Bute. This statutory duty is carried out by the Environmental Health Service.
6. The Environmental Health Service enforce the Health and Safety at Work Act 1974 in workspaces such as shops, warehouses, offices, places used for leisure and consumer services, hotels, restaurants and churches. As an enforcing authority under the Act, the Council has an obligation to enforce the act and ensure that standards are complied with across its area.
7. The purpose and methods of enforcement by the Council include:
 - ensuring that businesses' take action to deal immediately with serious risks
 - promote and achieve sustained compliance with minimum legal standards ensuring that duty holders who breach minimum legal requirements, and directors or managers who fail in their responsibilities, are held to account

8. The methods of enforcement are:

- provision of information and advice, either verbally or in writing
- service of formal enforcement notices including improvement or prohibition notices
- submitting a recommendation of prosecution to the Procurator Fiscal

Scope

9. The scope of the audit was to assess the arrangements in place within the Environmental Health Service to carry out the Councils enforcement responsibilities under the Health and Safety at Work Act 1974 as outlined in the Terms of Reference agreed with the Regulatory Service and Building Standards manager on 2 December 2021.

Risks

10. The risks considered throughout the audit were:

- SRR014: failure to have appropriate arrangements in place to deliver the Councils statutory duties as an enforcing authority under the Health and Safety at Work etc Act 1974
- Audit Risk 1: failure to have policies and procedures in place
- Audit Risk 2: incidents are not investigated as per statutory requirements /procedures
- Audit Risk 3: appropriate reporting arrangements are not in place

Audit Opinion

11. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

12. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Recommendations

13. We have highlighted three low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- consider reducing the time period between each procedural review
- reviews undertaken by Environmental Health Officers (EHO) should be recorded
- interested parties should be informed of investigation outcomes

14. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

15. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
CO1	The Council has policies and procedures in place that comply with statutory requirements as an enforcing authority of the Health and Safety at Work etc Act 1974.	SRRO14 Audit Risk 1	High	Environmental Health have policies and procedures in place which are consistent with the requirements of the Health and Safety at Work etc. Act 1974. Policies and procedures have recently been reviewed, however consideration should be given to reducing the time frame between procedural reviews. Roles and responsibilities are clearly identified and training is regularly carried out.
CO2	Incidents are investigated in accordance with policies and procedures.	SRR014 Audit Risk 2	Substantial	All incidents notified by the Health and Safety Executive are recorded on the Council RIDDOR's database and in addition, on the Uniform database within the prescribed time period. The process followed by the Environmental Health Service was found to be consistent with the established policies and procedures. Interested parties should be informed of investigation outcomes.
CO3	There are appropriate arrangements in place for the reporting of incidents which have been investigated.	Audit Risk 3	High	Environmental Health officers prepare appropriate reports for management team meetings to inform them of incidents reported and being investigated.

16. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

The Council has policies and procedures in place that comply with statutory requirements as an enforcing authority under of the Health and Safety at Work etc. Act 1974

17. The Council's approach to the enforcement of the Health and Safety Act at Work etc. Act 1974 is set out within its Occupational Health and Safety Enforcement Policy 2020 which is consistent

with the requirements of the Act. The principles adopted by the Council are consistent with the Scottish Governments Strategic Regulatory Code, and as follows:

- **Proportionality:** enforcement action relates to the risk of Health and Safety
- **Targeting:** the regulatory activities of the Council are directed primarily on those activities that give rise to the most serious risks or where hazards have the weakest controls
- **Consistency:** the Council will take a consistent approach in similar circumstances to achieve reliable information
- **Transparency:** the Council will endeavour to help duty holders to understand what is expected of them and what they should expect from the Council as an enforcing authority
- **Public Transparency:** the Council shall publicise successful enforcement actions such as prosecutions
- **Accountability:** The Council, as an enforcing authority, is accountable to the public for its actions

18. Procedures are in place that provide proportionate, transparent and targeted practices for the incidents for investigation. Procedures are comprehensive and include a flowchart detailing the various steps involved, including:

- how incidents are notified
- checking the Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) database
- the process of selection of incidents for investigation
- investigation of both mandatory and non-mandatory incidents
- discretionary investigations

19. Procedures are in place to ensure the consistent application of the Council's Occupational Health and Safety Enforcement Policy in the making of enforcement decisions arising, in particular, from inspection, incident or complaint investigations. To facilitate a consistent application the Health and Safety Executive (HSE) has in place an enforcement Management Model (EMM) which has been adopted by the Council. The procedure is comprehensive and includes a flow chart setting out the various steps involved covering:

- use of the EMM
- prosecutions
- formal records

20. The Council's policy states that "this policy will be reviewed annually, and more frequently as may be required, by the Regulatory Services and Buildings Manager". We confirmed that the last review was carried out by the Regulatory Service and Building Services Manager in April 2020 and was duly approved.

21. Procedures were last reviewed in February 2020 and that the next review date is not due until 2025.

Action plan 1

22. Roles and responsibilities are clearly set out in the procedures, including details of how to manage potential conflicts of interest.
23. Environmental Health carry out regular training as well as having regular team meetings where issues relevant to incidents are discussed.

Incidents are investigated in accordance with policies and procedures

24. Incidents are reported online to the Council via an online reporting system by the Health and Safety Executive (HSE). These are referred to as RIDDOR reports (Reporting of Injuries, Diseases and Dangerous Occurrences). The Lead Environmental Health Officer (EHO) is responsible for checking the RIDDOR database daily for new reports. In their absence, the Area Environmental Health Managers are responsible for monitoring the database.
25. All incidents are recorded by the Council on an excel RIDDOR database and on the Uniform database by the EHO. During the financial year 2021-2022 there was 33 incidents recorded on the RIDDOR database of which four were investigated by the Council. The database records information such as incident case number, date of incident, case officer, date logged and date of investigation completed. Three of the four incidents chosen by the Council for investigation were reviewed to ensure compliance with policy and procedures. All were found to be compliant.
26. Procedures set out a timescale for the recording of incidents from the time the Council are notified. The timeframes are: one hour from the notification of a fatality, three working days from the notification of a dangerous incident and five working days for all other incidents. All incidents reported by the HSE were recorded within the required timescale.
27. Procedures state that the Lead EHO must review all incidents and decide which to investigate with the reason for the decision being recorded. Incidents investigated complied with the requirement to record the reasons for investigation.
28. Procedures state that all incidents which are designated mandatory are investigated. Internal Audit found that where appropriate all mandatory incidents were investigated.
29. Procedures state that the EHO will review all current investigations on a regular basis and that the first review will take place within 3 weeks of an investigation starting. Whilst discussions on current investigations take place on a regular basis between the investigating officer and the EHO there is no record of this within the case management system.

Action Plan 2

30. Procedures state that all interested parties should be informed of an investigation outcome. Confirmation was not available that all interested parties had been informed.

Action Point 3

There are appropriate arrangements in place for the reporting of incidents which have been investigated

31. The environmental health team meet on a regular basis to discuss occupational health and safety issues. A standard reporting item for RIDDOR incidents is included on the agenda. A review of one of the meetings held included information on the following:
 - the number of RIDDOR incidents reported since previous meeting
 - the number of incidents chosen for investigation
 - an update on incidents currently being investigated
 - the impact of COVID-19 on the service
 - any operational issues

32. Incident documentation is maintained on the CIVICA document management system and is linked to the uniform accident report case record. Access to these records is restricted to appropriate officers via logical access controls.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p>Review of procedures</p> <p>Consideration should be given to reducing the time period between procedural reviews</p>	Failure to meet required deadlines for the submission of reports	Audit Improvement plan to be developed to include learning from the audit and resolve this action through revision of policies and procedures	Regulatory Services and Building Standards Manager 30 June 2022
Low	2	<p>Recording of Case Reviews</p> <p>Procedure state that all incidents will be reviewed by EH Managers on a regular basis. Evidence of reviews having being undertaken was not available</p>	Failure to comply with policies and procedures	Audit Improvement plan to be developed to include improved recording of case reviews	Regulatory Services and Building Standards Manager 30 June 2022
Low	3	<p>Investigation Outcomes</p> <p>Confirmation that all interested parties had been informed of investigation outcomes was not available</p>	Failure to comply with policies and procedures	Audit Improvement plan to be developed to include templates to communicate outcomes to interested parties and training of authorised officers	Regulatory Services and Building Standards Manager 30 June 2022

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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LiveArgyll
Internal Audit Report
February 2022
FINAL

LiveArgyll
Budget Monitoring

Audit Opinion: High

	High	Medium	Low	VFM
Number of Findings	0	0	1	0

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1. Executive Summary

Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, we have undertaken an audit of LiveArgyll's system of internal control and governance in relation to Budget Monitoring.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with LiveArgyll officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate LiveArgyll officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. LiveArgyll was established by the Council and commenced trading on 2 October 2017. It is a charitable company limited by guarantee governed by its articles of association. LiveArgyll is responsible for services including libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets. LiveArgyll's total annual budget for 2021-22 is £6,272,767.
5. The Council provides internal audit services to LiveArgyll to support their governance framework.
6. The Council provides support services to LiveArgyll as outlined in the Service Level Agreement. This includes the following financial services.
 - VAT and indirect tax advice
 - general ledger services
 - budget preparation and monitoring
 - treasury management

Scope

7. The scope of the audit was to assess the adequacy and effectiveness of LiveArgyll's budget monitoring arrangements as outlined in the Terms of Reference agreed with LiveArgyll's General Manager, on 1 November 2021.

Risks

8. The risks considered throughout the audit were:
 - **LiveArgyll Risk Register:** Income and Expenditure exceeds and/or does not align to agreed resource levels
 - **Audit Risk 1:** Failure to have robust budget monitoring processes in place

- **Audit Risk 2:** Roles and responsibilities have not been clearly defined
- **Audit Risk 3:** Financial reporting is not carried out in line with financial arrangements

Audit Opinion

9. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
10. Our overall audit opinion for this audit is that we can take a High level of assurance. This means that internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.

Recommendations

11. We have highlighted low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - Consideration should be given to reviewing the Revenue Budget Monitoring Guidance to ensure it reflects current working practices
12. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

13. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Budget monitoring procedures and processes are in place and aligned to Financial Regulations	Audit Risk 1 Audit Risk 2	High	Comprehensive financial and security regulations are in place and provide clarity for financial roles and responsibilities, including budget monitoring. The Revenue Budget Monitoring Guidance provides information for budget holders and operational contacts and is aligned to the Financial Regulations.
2	Budget Monitoring is carried out and is consistent with established procedures and processes	LA Risk Register Audit Risk 1	High	Processes and procedures are in place to provide budget holders with the information and support they require to ensure they can effectively monitor the cost centres within their services. The COVID pandemic and resultant restrictions led to the closure of

				LiveArgyll facilities and the lack of transactional activity meant that high level budget monitoring was carried out. Budget monitoring and budget engagement meetings will recommence when LiveArgyll facilities are fully operational.
3	Financial monitoring is reported regularly, in line with financial arrangements, to relevant officers and Board members	Audit Risk 3	High	Financial monitoring reports, detailing the overall financial position are regularly presented to the Board, the Finance and Audit Sub Committees and the Senior Management Team.

14. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Budget monitoring procedures and processes are in place and aligned to Financial Regulations

15. The LiveArgyll Financial and Security Regulations provide the framework for LiveArgyll's financial affairs, detailing roles and responsibilities in relation to financial matters, budget monitoring and resource transfers. It also provides an overview of the reporting structure.
16. LiveArgyll's Revenue Budget Monitoring Guidance is aimed at budget holders, operational contacts and the Council's Strategic Finance contact. It is a comprehensive document, which details roles and responsibilities, budget monitoring reports and a budget monitoring timetable for the financial period. The Revenue Budget Monitoring Guidance aligns to the Financial and Security Regulations.
17. Staff have access to the Revenue Budget Monitoring Guidance and when necessary, development/information sessions are provided to ensure budget holders and operational contacts are kept up to date with changes.
18. The three Business Managers, who are members of the Senior Management Team (SMT), are budget holders and are responsible for managing, monitoring and controlling expenditure within the financial allocation provided in the revenue budgets, and report to the General Manager on their allocated cost centres. The General Manager reports to the Board and the Finance and Audit Sub Committee the level of resources available to LiveArgyll and the overall financial performance.

Budget Monitoring is carried out and is consistent with established procedures and processes

19. Processes and procedures are in place to provide budget holders with the information and support they require to ensure they can effectively monitor the cost centres within their services. As required within the Service Level Agreement between LiveArgyll and Argyll & Bute Council (the Council) each budget holder is provided with the support of a dedicated finance contact within the Council.

20. The Council provide each LiveArgyll budget holder and operational contact with a monthly financial monitoring report. This report provides an overview of the year to date financial summary for each cost centre/grouped cost centres along with a more detailed comparison of actual income and expenditure against budget. Expenditure is categorised into high level subjective accounts such as employee costs, premises cost and third party payments. Income is more detailed and is categorised by source/activity.
21. In addition, on a monthly basis, the Council's Finance contact issues each budget holder with a year to date transaction report and a monthly budget monitoring report for each cost centre /grouped cost centres, this provides a full breakdown of the income and expenditure.
22. Variances and issues arising from these reports would normally be discussed during structured engagement meetings. As a minimum, budget holders are asked to confirm monthly that there are no material deviations from the annual budget and highlight any known or anticipated cost or demand pressures. However, the COVID pandemic and resultant restrictions led to the closure of facilities and lack of transactional activity meant that budget monitoring at individual cost centre level and budget holder/finance contact engagement were considered unnecessary at that time. High level financial modelling was undertaken by the Company Accountant and discussed with the Senior Management Team, budget holders and General Manager. The Company Accountant became the main contact for budget holders, undertaking the budget monitoring tasks/duties normally carried out by the Council Strategic Finance contact. This will continue until the financial year end as services within the LiveArgyll facilities resume.
23. High level budget holder engagement meetings are currently carried by the Company Accountant and discussions have taken place to reintroduce the budget holder engagement meetings with the Council's Strategic Finance contact.
24. Previous reviews and continuous monitoring found that prior to Covid-19 budget monitoring processes were in place including engagement meetings with budget holders.

Financial monitoring is reported regularly, in line with financial arrangements, to relevant officers and Board members

25. Financial monitoring is reported at a number of different levels including:
 - Strategic Management Team (by the Company Accountant)
 - Finance and Audit Sub Committee (by the General Manager)
 - The Board (by the General Manager)
26. Finance is a standing agenda item and all committees receive reports which are consistent with the responsibilities and requirements.



Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	Budget Monitoring Guidance Consideration should be given to reviewing the Revenue Budget Monitoring Guidance to ensure it reflects current practice	Revenue Budget Monitoring Guidance may not align to current work practice	Guidance will be reviewed and updated where deemed appropriate	Company Accountant 30 May 2022

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

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Argyll and Bute Council
Internal Audit Report
February 2022
FINAL

Purchasing Cards

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	2	4	0	1

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1. Executive Summary

Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Purchasing Cards.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. All purchasing must take place in accordance with the Council's statutory duty to secure best value under the Local Government in (Scotland) Act 2003.
5. Public procurement is the process by which public bodies acquire goods, services and works from third parties to meet customer and service user needs. Procurement covers all activities from identification of a requirement to spend to the receipt of goods or services.
6. Effective procurement arrangements can make significant contributions to a wide range of Council objectives including a successful local economy, a thriving voluntary sector, community involvement and environmental issues as well as delivering value for money.
7. The Council uses purchasing cards for a wide range of purchases. They operate in a similar manner to any type of bank card, are unique to an individual and a personal PIN number is provided.
8. The Council has approximately 180 purchasing cards in circulation. The total value of purchase card expenditure in 2020/21 was in excess of £1.6 million; a decrease of £0.5 million from 2019/20. The management and administration of purchase cards is the responsibility of the creditors department.
9. The Council's current card provider is NatWest, however the Council is currently in the process of transferring the service to the Royal Bank of Scotland (RBS) with a completion date expected in November 2021.

Audit Scope

10. The scope of the audit is to review purchase card procedures and spend to assess compliance with the Procurement Manual and the achievement of Best Value.

Risks

11. The risks considered throughout the audit were:
 - **Audit Risk 1:** Failure to ensure key system, financial and management controls are in place and operating effectively
 - **Audit Risk 2:** Failure to ensure all expenditure has been incurred in compliance with agreed procurement procedures
 - **Audit Risk 3:** Failure to achieve best value through the procurement process

Audit Opinion

12. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
13. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

14. We have highlighted two high priority recommendations, four medium priority recommendations and one value for money recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - purchase card guidelines should be reviewed and circulated to all purchase card holders
 - the purchase card application process should be reviewed and records maintained to evidence compliance with the process
 - support should be provided to the creditor's support officer to ensure business continuity
 - cardholder agreement forms should be signed prior to the issuing of purchase cards
 - department budget holders or approvers should approve their transactions
 - cardholders should be provided with procurement training
 - procurement should be provided with more detailed reports on purchase card expenditure.
15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

16. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Policies/procedures in relation to purchasing cards exist and are complied with.	Audit Risk 1 Audit Risk 2	Reasonable	There is a procedure note to provide guidance on use of purchase cards, it no longer reflects current work practice and is no longer circulated. However, the creditors' team have provided comprehensive training and telephone support to purchase card holders in the use of purchase cards. Processing, maintenance and administration of purchase cards takes a considerable amount of creditors' staff time. Records were found to be incomplete, however, creditors' staff maintain a comprehensive spreadsheet detailing cards in use. The creditors' team approve transactions for catering staff, the procurement team and any outstanding departmental transactions in order to ensure the direct debit to the bank is cleared.
2	Purchasing card expenditure complies with the Council's Procurement Manual and achieves best value.	Audit Risk 2 Audit Risk 3	Limited	The majority of purchase card transactions fall within the procurement threshold of £0 - £999 for which there is limited guidance available. There is currently no requirement to record purchase card transactions on PECOS and purchase card reports are not provided to the procurement team therefore it is difficult to establish the full extent to which best value is being achieved.

17. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Policies/procedures in relation to purchasing cards exist and are complied with

18. Processes are in place to ensure that purchase cards are issued to appropriate staff. The application process is a two stage process consisting of an initial internal request, which requires to be signed by either the Head of Service or Budget Holder and an external bank application. Each internal application identifies an officer who will approve all transactions. A processing guide for creditors' staff is available.

19. The application process includes the requirement to:

- complete purchasing card request forms
- budget holder approval
- complete bank application forms
- completion of purchasing card agreement forms
- agree purchase cardholder limits.

20. A procedure note 'Purchase Card Guidelines for Cardholders and Approvers', dated 2018, is available. The procedure note does not reflect current work practice and is no longer circulated for use, however this is currently in the process of being updated.

Action Plan 1

21. The processing of purchase card applications, maintenance and administration of purchase cards take a considerable amount of Creditors' staff time. Staff within creditors have developed a range of standard template emails and guidance documents for the operation of the purchase card banking systems and provide telephone training and support to all purchase card users.

22. A random sample of 10 purchase card applications (5%) highlighted that out of the ten applications:

- only two had completed purchasing card request forms
- only two had received budget holder approval
- bank application forms had been obtained for nine
- only five had purchasing signed card agreement forms
- only seven of the purchase cardholder limits agreed with the bank application form.

It was noted that the records selected were historical and that the processes and procedures have since been strengthened. Records are maintained manually and saved in paper files.

Action Plan 2

23. The migration from NatWest to RBS purchase cards is nearly complete, and the Support Officer in the Council's Creditors team has issued an email to all card holders reminding them to sign and return the purchasing card agreement form.

24. The Support Officer is responsible for the administration and management of purchase cards. There is currently no backup for this officer meaning there is limited resilience within the Creditors team if they were absent from work for an extended period. This is currently being reviewed.

Action Plan 3

25. A comprehensive spreadsheet is maintained detailing purchase cards in use. It provides details of card limits, categories of spend, the start and expiry date of the cards, when cards have been issued, cancelled or are no longer required. This is updated on a regular basis.

26. Prior to receiving their purchase card, cardholders are required to sign a purchase cardholder agreement form which outlines the terms and conditions of use. This should also be signed by the appropriate line manager or budget holder. This is not being complied with as purchasing cardholder agreement forms were issued to cardholders at the same time they receive their purchase card.

Action Plan 4

27. It is the responsibility of the cardholder, the approver and the department to ensure that the card is appropriately used. The banking system requires that every transaction is authorised by the approver and receipts must be uploaded. A delegate can be set up on the banking system to ensure continuity in the absence of the cardholder and approver.
28. All transactions for the current statement period are reviewed and approved prior to the direct debit being taken each month. To facilitate this creditors staff have the functionality to review and/or approve any transaction and additionally they are the nominated approver for:
- all 65 Council catering cards which use a unique number and are linked directly to approved suppliers
 - cards which are held by the Council's purchasing team, who normally action requests raised by departments which have been pre-authorised by the budget holder.
29. Monthly review reports are run by the creditors' team which detail the status of all purchase card transactions and a reminder is sent to approvers to complete all outstanding transactions. Any outstanding transactions will be approved by the creditors' team in order to ensure the direct debit to the bank is cleared.
30. Purchase card transaction reports were reviewed for May, June and July for RBS and NatWest, this highlighted the considerable support provided by creditors' staff. The table below outlines the volume of transactions approved by the creditors' team.

Breakdown of transactions approved by Creditors						
	Total PCARD transactions	TOTAL Creditors Approved	% of Total Transactions Approved by Creditors	Creditors approved for Purchase Team	Creditors approved for Catering	Creditors approved for Other Departments
May	923	402	44%	84	229	89
June	1398	940	67%	337	438	165
July	1354	769	57%	185	310	274

Action Plan 5

[Purchasing card expenditure complies with the Council's Procurement Manual and achieves best value](#)

31. The majority of purchase card transactions fall within the procurement threshold of £0 - £999 for which there is limited guidance available. Forty five purchase cardholders (25%) were invited to take part in a survey, with twenty nine responses received. Their responses highlighted that:
- eleven (38%) have been provided with a copy of or access to the procurement manual
 - fourteen (48%) have been provided with procurement training
 - eleven (38%) were aware of what the thresholds and processes are within the procurement manual and how they apply to the goods/services they procure
 - fifteen (52%) record purchase card transactions on PECOS
 - seventeen (59%) use PECOS, approved suppliers or internet price comparisons prior to incurring spend.

Action Plan 6

32. Limitations on the ability to analysis purchase card expenditure restricted the extent to which conclusions can be drawn on whether purchasing card activity was delivering best value however the lack of awareness of, and compliance with, established purchasing processes suggests savings may be generated through more efficient purchasing.
33. The creditors' team currently provide the procurement team with total monthly spend figures on purchase cards, however this does not provided a breakdown or detail of the transactions.

Action Plan 7

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Purchasing card procedures</p> <p>A procedure note ‘Purchase Card Guidelines for Cardholders and Approvers’, dated 2018, is available. However, this does not reflect current work practices and is no longer circulated.</p>	Existing card holders may not be aware of the current processes and procedures.	New written up to date procedure notes have been produced and emailed to all existing cardholders and approvers, copy provided.	<p>Creditors Support Officer</p> <p>Completed</p>
High	2	<p>Purchase card application process</p> <p>The purchase card application process is manually intensive and requires a considerable amount of creditors’ time supporting staff. A random sample of 10 purchase card applications also highlighted challenges in locating purchase card application records as historical records are maintained manually therefore records may not have been readily available for audit.</p>	Purchase card application and authorisation records may not be readily accessible.	<p>The sample taken was historical and I am satisfied that the vast majority of application records over the past couple of years are complete. Any missing records over this period will be obtained.</p> <p>Additionally as part of the migration process from NatWest to RBS process all cardholders have signed and returned the Cardholder Agreements.</p> <p>Going forward, any new applications will be stored electronically.</p>	<p>Creditors Support Officer</p> <p>31 December 2022</p>

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	3	<p>Resilience within Creditors</p> <p>The Support Officer is responsible for the administration and management of purchase cards. There is currently no backup for this officer meaning there is limited resilience within the Creditors team if they were absent from work for an extended period.</p>	The Council may not have plans in place to ensure continued delivery of service.	Full Administrator notes, including screen shots, have been formalised and made available to staff. Staff training has been provided using a combination of 1-1 guidance and the Administrator notes. This ensures proper cover is now in place.	Creditors Support Officer Completed
Medium	4	<p>Agreement Forms</p> <p>Purchasing Cardholder Agreement Forms are issued to cardholders at the same time they receive their purchase card.</p>	Card holder agreement forms may not be returned.	The card issue procedure has now been changed to issue card holder agreement forms at an earlier stage in the process and cards will not be issued unless the agreement form is received. As part of the migration to RBS process all cardholders have signed and returned the Cardholder Agreements.	Creditors Support Officer Completed

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	5	<p>Inappropriate authorisation of transactions</p> <p>The Support Officer in the creditors' team approves a considerable number of pre-authorised transactions for catering staff and procurement staff. Furthermore creditors will also approve any outstanding transactions for other departments to ensure that the bank direct debit is completed within agreed timeframes.</p>	Lack of knowledge of appropriateness of purchase card spend.	The wording of the current monthly email to cardholders and approvers will be updated to remind them of their responsibilities. Once available, a one page procurement guide will be issued to all purchase card holders and approvers.	Creditors Supervisor/ Creditors Support Officer 30 June 2022
Medium	6	<p>Procurement procedures</p> <p>Forty five purchase cardholders (25%) were invited to take part in a survey, with twenty nine responses received. The responses received highlighted a general lack of awareness of procurement procedures.</p>	Lack of knowledge of procurement procedures and the requirement to achieve best value.	A review of the guidance for spend within the lowest threshold of £0-£999 will be undertaken and a one page procurement guide will be produced for issue to all purchase card holders and approvers.	Category Management Officer Procurement & Contract Management Team 30 June 2022

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
VFM	7	<p>Purchase card use reporting</p> <p>The Support Officer in the creditors team currently provides the procurement team with the total monthly spend figures, however this does not provide include breakdown or detail of the transactions.</p>	<p>Purchase card spend may not be subject to appropriate monitoring with best value not being achieved.</p>	<p>On a monthly basis creditors' staff will email the PECOS Team with a copy of the Review and Approve Report which provides a breakdown of the Purchase Card transactions for them to review.</p>	<p>Creditors Support Officer</p> <p>31 March 2022</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

ARGYLL AND BUTE COUNCIL**AUDIT & SCRUTINY COMMITTEE****FINANCIAL SERVICES****15 MARCH 2022**

REVISED 2021/22 INTERNAL AUDIT ANNUAL PLAN

1. SUMMARY

1.1 This report presents the revised 2021/22 Internal Audit Annual Audit Plan.

2. RECOMMENDATIONS

2.1 To agree and approve the revised Internal Audit Annual Plan 2021/22 (Appendix 1)

3. DETAILS

3.1 The Public Sector Internal Audit Standards (PSIAS) stipulate that the Council's Internal Audit plan must be risk based and focused on governance, risk and controls to allow the Chief Internal Auditor (CIA) to provide an annual opinion on the Council's internal control framework, based on the work undertake during the year. This annual opinion informs the Annual Governance Statement.

3.2 The 2021/22 Internal Audit annual plan was presented to, and approved by, the Audit & Scrutiny Committee on 16 March 2021. However the COVID-19 pandemic resulted in audit activity being delayed during quarter 2 and 3 due to audit resource being redeployed to assist Financial Services and critical COVID response activity. This meant that a number of ongoing reviews from the 2021/22 Internal Audit Plan were not completed and delayed.

3.3 In December 2021 the CIA reviewed the outstanding work from the 2021/22 internal audit plan and requests 2021/22 work be reprioritised in light of the reduced resource available to deliver the plans. Proposed work with lower risk profiles will be either pushed back to 2023/24 or removed entirely at the current time to be reconsidered as possible future reviews. Reviews removed from the outstanding 2021/22 work and the 2021/22 plan are summarised in appendix 1.

4. CONCLUSION

4.1 The annual audit plan is risk based and is informed by the Council's long term outcomes, corporate objectives and strategic risk register. The plan incorporates continuous monitoring and verification activity sections.

5. IMPLICATIONS

5.1 Policy: None

5.2 Financial: None

5.3	Legal:	None
5.4	HR:	None
5.5	Fairer Scotland Duty:	None
5.5.1	Equalities:	None
5.5.2	Socio-Economic Duty:	None
5.5.3	Islands Duty:	None
5.6	Climate Change:	None
5.7	Risk:	None
5.8	Customer Service:	None

For further information please contact Internal Audit (01546 604146)

Moira Weatherstone
Interim Chief Internal Auditor
15 March 2022

Appendices:

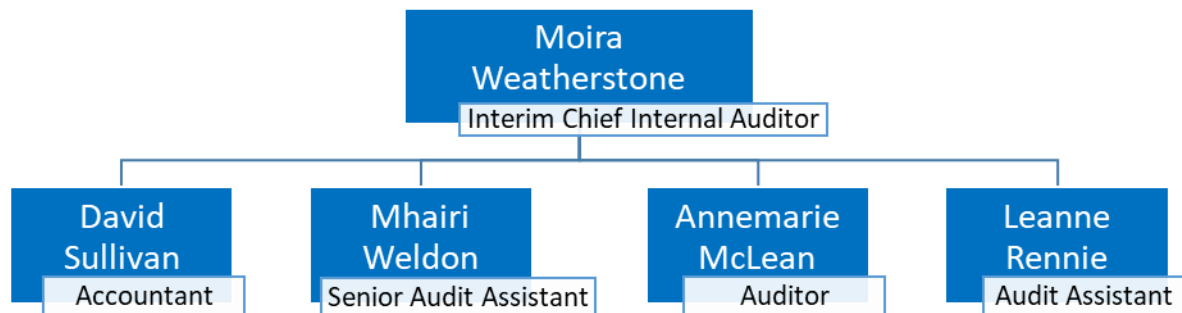
- 1. Audits Removed from 2021/22 Audit Plan**
- 2. Revised 2021/22 Internal Audit Annual Plan**

Appendix 1 - Audits Removed from 2021/22 Audit Plan

Audit Title	Reason Removed
Education Processes	The audit was added as a result of a request from the Head of Service with the high level scope to review of education processes that feed into the wider pupil transport service with specific reference to ASN/Complex needs. However, there is currently an internal consultation on ASN provision and an audit around this area would not be well timed. It is therefore proposed that the review of education process be carried forward for inclusion in the 2023/2024 Internal Audit Plan.
Adult Protection Services	The high level scope of this audit was to review compliance with internal policies and procedures. The Care Inspectorate, Healthcare Improvement Scotland and Her Majesty's Inspectorate of Constabulary in Scotland carried out a joint inspection of adult support and protection across Argyll and Bute partnership from June to August 2021 with the report being published in September 2021. This provided an opportunity to identify good practice and support improvement more broadly across Scotland. In summary, the report found that the Argyll and Bute partnership had an established and clear vision, supported by an effective multi-agency Adult Protection Committee. The strategic response to the Covid-19 pandemic was effective with strong community engagement. The partnership was particularly proactive in raising awareness of adult support and protection within the community and with the people responsible for planning, delivering and evaluating care and support. An improvement plan to address the priority areas for improvement as identified in the report has been prepared with key dates identified. It is therefore proposed that the review of Adult Services be carried forward for inclusion in the 2023/2024 Internal Audit Plan.

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Argyll and Bute Council
Internal Audit Plan
2021/22
(Revised January 2022)



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Definition of Internal Audit

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Source: Section 4: Definition of Internal Auditing: Public Sector Internal Audit Standards

Purpose of Internal Audit

2. The main objective of internal audit is to provide a high quality, independent audit service to Argyll and Bute Council (the Council) which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, internal audit will also:
 - support the S95 Officer and the Audit & Scrutiny Committee (the Committee) in the discharge of their duties
 - support the Council's Monitoring Officer
 - support the Council's anti-fraud and corruption arrangements
 - provide guidance on control implications for new or changed systems where appropriate
 - support the Council and the Strategic Management Team during key transformational / change projects.

Public Sector Internal Audit Standards (PSIAS) Requirements

3. PSIAS sets out the requirement for the:
 - Chief Internal Auditor (CIA) to prepare a risk-based audit plan which takes into account the Council's strategic objectives, associated risks and the views of senior management and the Committee
 - CIA to review and adjust the plan as necessary in response to changes in the Council's business, risks, operations and priorities
 - audit plan to incorporate or be linked to a strategic or high-level statement of how internal audit will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

Risk Assessment

4. Internal audit's approach to annual audit planning is risk-based with all areas which may be subject to audit review contained within an audit universe which is subject to formal review, at least annually. The audit universe includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.
5. The audit universe is risk assessed each year to help determine the annual audit plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Note however that that the audit universe, whilst a key factor, is not the only consideration

when determining the audit plan. Senior management have been consulted on priority areas for review, and cognisance is taken of the plans of external audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance.

6. The audit universe risk assessment is based upon a matrix taking account of scores for each potential audit area in respect of:
 - materiality (based on expenditure)
 - sensitivity (based on whether a service is a statutory duty, statutory power or non-statutory, is customer facing and whether it features as a specific challenge in the Council's service plans)
 - time elapsed since it was last subject to review
 - overall audit assessment when it was last subject to review.
7. The matrix gives an overall "score" for each area that is used to prioritise audit reviews.

Strategic Risks

8. The Strategic Risk Register records the Council's own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the annual audit plan with identified reviews cross referenced to the strategic risk register. An abridged version of the strategic risk register (version dated October 2020) is included in appendix 3 for reference.

Resourcing the Plan

9. Internal audit has a core establishment of five full time equivalent officers including two professionally qualified members of staff. Available audit days have been calculated as 709 days (including 85 days of management and administration time), following the deduction of annual leave, training, a small provision for sickness, 90 days to deliver scrutiny work and 50 days to deliver the HSCP internal audit function. This 709 days total includes the CIA's input to audit reviews and the running of the internal audit team and a contingency of 55 days.
10. Given the range and complexity of areas to be reviewed it is important that suitably qualified, experienced and trained individuals are appointed to internal audit positions. The CIA, in compliance with PSIAS holds an appropriate professional qualification (CIPFA). Also within the internal audit section we have one CIMA qualified team member, one AAT and CIA qualified member and one training for CIPFA.
11. Internal audit officers identify training needs as part of their annual appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development.
12. Through an assessment of the mix of knowledge, skills and experience of the audit team, it is considered that the available resources are sufficient to achieve the work outlined in the plan.

Confirmation of Independence

13. PSIAS requires internal audit to communicate, on a timely basis, all facts and matters that may have a bearing on our independence. We can confirm that the staff members identified to

complete the reviews in the 2021/22 annual audit plan are independent and objectivity is not compromised.

Revised 2021/22 Internal Audit Plan

14. The 2021/22 Internal Audit Plan was first presented to, and endorsed by, the Audit and Scrutiny Committee on 16 March 2021. Audit activity was delayed during quarter 2 and 3 due to audit resource being redeployed to assist Financial Services and critical COVID-19 response activity. This meant that a number of ongoing reviews from the 2021/22 Internal Audit Plan were not completed or delayed.
15. In December 2021 the Chief Internal Auditor reviewed the outstanding work from the 2021/22 internal audit plan and requests 2021/22 work be reprioritised in light of the reduced resource available to deliver the plans. Proposed work with lower risk profiles will be either pushed back to 2023/24 or removed entirely at the current time to be reconsidered as possible future reviews.
16. Appendix 1 presents the revised internal audit plan for 2021/22. As our internal audit approach is informed by risks, where appropriate, the plan is cross-referenced to the strategic risk register contained at appendix 3. Appendix 3 also demonstrates the strategic risks that were subject to audit focus in 2020/21 and those we are projecting to cover in the period 2021/22-2022/23. This provides assurance to the Committee that all strategic key risks are subject to audit coverage over a three year cycle. Note that the projected timescales in appendix 3 are provisional as these may change to reflect changes in the Council's risk environment.

Monitoring the Plan

17. Internal audit reports on performance to the Committee on a quarterly basis including full copies of audit reports issued, progress implementing audit recommendations, performance against agreed performance indicators and a summary of all internal audit activity in the previous quarter.

Quality Assurance and Improvement Programme

18. The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme (QAIP) based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.
19. The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's internal audit team has participated in this framework and an external validation of its own self-assessment took place during 2018/19 which concluded that we demonstrated overall compliance with PSIAS with many areas of strong practice. The next scheduled external assessment will be conducted in 2022.
20. In 2020/21 internal audit carried out an internal self-assessment against PSIAS which was reported to Committee in December 2020. It confirmed the service fully conformed to PSIAS in 11 of the 14 assessment areas. The three areas where they were self-assessed as 'Generally

Conforming' is due to the identification of areas for improvement which are fairly minor in nature. These improvements have been built into the service's QAIP.

21. The internal audit team review their QAIP on a quarterly basis and report it to the Committee as part of the standard agenda item 'Internal Audit Summary of Activities.' The programme details all improvement activity being progressed by the team.

Appendix 1 – Revised 2021/22 Internal Audit Plan

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Cross Cutting	Continuous Monitoring Programme	Fraud	5	Handover of participation in National Fraud Initiative, to new Counter Fraud Team	
		Budgeting	15	Cyclical review of key controls over an 18 month programme of audit testing	
		General Ledger	15		
		Creditors	20		
		Debtors	15		
		Payroll	25		
		Treasury management	15		
		Council Tax and NDR	20		
		VAT	15		
Follow-up	40	Compliance			
Pippa Milne	Financial Services	Purchasing Cards	20	Review purchase card procedures and spend to assess compliance with Procurement Manual and achievement of Best Value.	
	Financial Services	Fixed Asset Register (AIRS)	25	Asses the accuracy and completeness of the information that is fed into the Fixed Asset Register, via both IT systems and departmental processes.	
Douglas Hendry	Education	School Fund Governance	30	Follow up from previous audit report 2018/19. Assess progress implementing Education Management Circular No 1.10	
	Education	ELC Parental Satisfaction	25	Review of the parental engagement/ feedback process for provision of 1140 hours expansion rolled out August 2020.	
	Legal and Regulatory Support	Civil Contingencies	25	Assess compliance with the Civil Contingencies Act	SRR08 SRR13
	Legal and Regulatory Support	Complaints Handling	20	Assess the implementation and compliance with revised SPSO Model Complaints Handling Procedures	SRR05 SRR06
	Commercial Services	Land and Asset Disposal	15	Follow up on issues raised in 2018/19 audit report including progress and compliance with revised policies & procedures	SRR02
	Commercial Services	Climate Change Act	25	Assess extent to which the Council is discharging it's climate change duties as required by Climate Change (Scotland) Act	

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Kirsty Flanagan	Roads and Infrastructure Services	Street Cleaning	20	Review of control environment and compliance with relevant policies and procedures	
	Roads and Infrastructure Services	Procurement and Contract Management - Roads and Amenity Focus	25	Review of governance and contract monitoring for Roads and Amenity Service contracts	
	Development and Economic Growth	Planning Applications	20	Review the Planning Application process to assess compliance with statutory requirements and Council policy.	
	Development and Economic Growth	Environmental Health	25	Assess the controls relating to the application of statutory requirements and Council policy	
	Development and Economic Growth	Oban Airport (Mandatory)	15	Assess compliance with the aerodrome operating manual	
	Development and Economic Growth	LEADER	5	Annual review to assess compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement	
	Customer Support Services	ICT - Remote Working	25	Assess the adequacy of policies, procedures and guidance relating to future remote working arrangements	
Fiona Davies	H&SCP	Child Protection Services	30	Compliance with internal policies and procedures	
Kevin Anderson	LiveArgyll	Budget Monitoring	20	Carried forward from 2020/21 due to furloughing of staff and limited Budget Monitoring carried out. Assess the adequacy and effectiveness of the Live Argyll's Budget Monitoring arrangements (performance of this audit is dependent on extent to which Live Argyll services are open during 2021/22) – to be discussed with Live Argyll General Manager at an appropriate time.	
Verification Activity	LGBF	Accuracy	9	Accuracy of submission	
	Stores	Stock count	5	Assess stock count procedures	

2021/22 Audit Work Carried Forward into 2023/24 Plan

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Douglas Hendry	Education	Education Processes	25	Review of processes that feed into the wider pupil transport service with specific reference to ASN/Complex needs	
Fiona Davies	H&SCP	Adult Protection Services	30	Compliance with internal policies and procedures	

Removed from Plan

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Kirsty Flanagan	Customer Support Services	HR Project Management - Payroll Business Process Review	25	Provide assurance that the Payroll Business Process Review has been carried out in a robust manner	

Summary of Days

Directorate Contact	Number of Days
Cross Cutting – Continuous Monitoring	185
Pippa Milne	45
Douglas Hendry	140
Kirsty Flanagan	135
Fiona Davies	30
LiveArgyll	20
Verification Activity	14
Contingency	55
Total	624

Appendix 2 – Revised 2021/22 Internal Audit Plan by Council Directorate / Head of Service

Pippa Milne	Douglas Hendry			Kirsty Flanagan			Joanna MacDonald
Financial Services	Education	Legal & Regulatory Support	Commercial Services	Customer Support	Roads & Infrastructure	Development & Economic Growth	Health & Social Care Partnership
Purchasing Cards	ELC Parental Satisfaction	Civil Contingencies	Land and Asset Disposal	ICT- Remote Working	Street Cleaning	Planning Applications	Child Protection Services
Fixed Asset Register (AIRS)	School Fund Governance	Complaints Handling	Climate Change Act	HR Project Management BPR	Procurement and Contract Management	Environmental Health Oban Airport LEADER	
Continuous Monitoring Programme Budgeting, General Ledger, Creditors, Debtors, Payroll, Treasury Management, Council Tax & Non-Domestic Rates, VAT							
Live Argyll Budget Monitoring				Other Activity NFI – Hand over to Counter Fraud Team Follow Up Local Government Benchmarking Framework			

Appendix 3 – Strategic Risk Register (Abridged)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
1	<p>Population and Economic Decline</p> <p>Failure to identify relevant factors contributing to the decline and failure to develop strategies and actions targeting these factors.</p>	20	<ol style="list-style-type: none"> 1. Local outcome improvement plan targets population and economic recovery 2. Maximise external funding opportunities 3. Strategic economic development action plan 4. Strategic infrastructure plan 5. Area economic development action plans 6. Promote and Market Argyll and Bute 7. Maximise social-eco benefits via effective partnership working 8. Single Investment Plan 	16	Treat	<ol style="list-style-type: none"> 1. Rural Growth Deal Heads of Terms due to be signed early 2021 2. Lobbying activity in pursuit of regional immigration policies and related strategies 3. Consider the findings of the scrutiny review of the economic strategy (March 2021) 4. Rural Growth Deal Outline Business Cases and Final Business Cases to be developed (2021/22) 	2019/20 (Scrutiny)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
2	<p>Condition and suitability of Infrastructure & Asset Base</p> <p>Infrastructure and asset base does not meet current and future requirements and is not being used or managed efficiently and effectively.</p>	16	<ol style="list-style-type: none"> 1. Asset management board 2. Robust capital planning and monitoring 3. Asset management work plan 4. Business case modelling including sustainability, development and strategic change 5. Intelligence and best practice sharing via Heads of Property Group. 6. Community Empowerment and Community Asset Transfer – Arrangements in place to evaluate and determine requests. 7. Roads Asset Management Plan 8. Status and Options Report 9. R&A Services control hub and joint operations team 10. One Council Property Approach 	12	Treat	<ol style="list-style-type: none"> 1. Development of capital strategy (May 2021 to align with revised Financial Strategy) 2. Consider conclusions of property theme review in relation to potential asset rationalisation – February 2021 	<p>2020/21</p> <p>2021/22</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
3	<p>Financial Sustainability</p> <p>Insufficient resource to meet current and future service requirement. Budget not aligned / does not support business outcomes.</p>	16	<ol style="list-style-type: none"> 1. Longer term financial planning. 2. Income generation activity 3. Robust budget preparation and budget monitoring protocols 4. Maintaining adequate contingency with reserves. 5. Digital transformation 6. Develop Effective workforce planning model 7. RPIF / Business Outcomes 	12	Treat	<ol style="list-style-type: none"> 1. Ongoing financial resilience building project including knowledge sharing and development of guidance notes (March 2022) 2. Complete review of financial strategy (May 2021) 3. Development of medium to longer term savings options (February 2020) 4. Rural Growth Deal Heads of Terms due to be signed early 2021 	<p>2019/20 (Scrutiny)</p> <p>2020/21</p> <p>Ongoing via Continuous Monitoring</p>
4	<p>Governance and Leadership</p> <p>Governance and leadership arrangements are not conducive to effective working and lead to a lack of strategic direction.</p>	16	<ol style="list-style-type: none"> 1. Administration in place with working majority 2. Members Seminar programmes 3. Mentoring and Coaching Support for policy leads and Senior Management 4. Priorities agreed by Council 5. Corporate Plan sets out objectives 6. Performance Improvement Framework and Service Planning. 7. Leadership development programme. 8. Council constitution regularly reviewed and updated. 9. Established partnership governance arrangements 10. Scrutiny arrangements in respect of Police, Fire and Health. 	12	Treat	<ol style="list-style-type: none"> 1. Monitor delivery of BV action plan (ongoing date) 2. Review the governance and remits of DMT/SMT and Strategic Boards (March 2021) 	2020/21 (Scrutiny)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
			11. Governance arrangements for scrutiny established 12. Governance arrangements for scrutiny established				
5	Engagement and Understanding the needs of the Community The Council fails to understand service user needs and emerging demographic trends and does not align service delivery to meet these.	12	1. Community Planning partnership 2. Community Engagement Strategy 3. Customer Service Board 4. Operation and development of panels and forums. Young people's plan, citizens panel 5. Budget Consultation 6. Comprehensive Complaints Protocols 7. Demographic and end user analysis 8. Conducted future of public services roadshows Summer 2018	6	Tolerate		2021/22
6	Service Delivery Insufficient resources to ensure effective service delivery	9	1. Performance Improvement Framework 2. Service Improvement plans 3. Argyll and Bute Manager programme 4. Customer needs analysis Protocols 5. Demographic and end user analysis 6. Workforce Planning 7. Internal and External Scrutiny Arrangements 8. Complaints process	6	Treat	1. Monitor progress of performance mgt project and implement recommendations (Ongoing from Oct 2020 to June 2022)	2020/21

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
7	<p>Health and Social Care Partnership</p> <p>Failure to deliver strategic objectives and integrate Health and Social Care services in an efficient and effective manner exposes the Council, as a key partner, to unacceptable financial and reputational risk.</p>	20	<ol style="list-style-type: none"> 1. HSCP integration scheme approved by Scottish government 2. Strategic Plan in place 3. Performance and Financial reporting arrangements in place 4. Independent audit arrangements in place. 5. Integrated Joint board with elected member representation including Council Leader 6. Chief Officer member of ABC Senior Management Team with co-location of officers 7. Tripartite leadership agreement 8. Monitoring of HSCP financial position. 	15	Treat	<ol style="list-style-type: none"> 1. Develop options to deliver sustainability of future years budgets (March 2020 and ongoing) 2. Monitor development of IJB 20/21 Recovery Plan (October 2020 and ongoing) 	<p>2019/20</p> <p>2020/21</p> <p>Assurance also taken from IJB internal audit function</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
8	Civil Contingency & Business continuity arrangements are not effective.	8	<ol style="list-style-type: none"> 1. Emergency Planning Test events 2. Critical Activity Recovery Plans 3. Roll out of Community resilience partnership programme 4. Peer review of major exercises undertaken to provide external validation of planning process 5. West of Scotland local resilience partnership 6. Cross sector expertise and partnership working 7. Emergency Management Support Team (EMST) meetings 8. Training 9. EU Withdrawal Tactical Working Group with arrangements for reporting to the West of Scotland Resilience Partnership 	6	Treat	1. Develop a business continuity policy (December 2020)	2021/22
9	Welfare Reform Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis	20	<ol style="list-style-type: none"> 1. Welfare reform group established. 2. Joint working with DWP, CPP and other agencies. 3. Money Skills Argyll 	12	Treat	1. In relation to MSA - Engage with partners, BIG and other project leads on compliance framework/requirements. Working toward a project closure in first half of 2021.	2019/20 2022/23

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
10	Waste Management Unable to dispose of waste in landfill sites due to the implications of the biodegradable municipal waste (BMW) landfill ban in 2025	20	1. Helensburgh and Lomond waste solution available via third party offtakers 2. Waste strategy	16	Treat	1. Update paper to EDI December 2020 and report on progress to A&SC in March 2021, paper will include possible options for compliance.	2021/22 (Scrutiny)
11	Service Delivery - Cyber Security Unable to deliver services to customers because of failure of ICT systems following major cyber security breach	15	1. ICT Security & compliance officer in post, producing weekly threat analyses, member of CiSP 2. PSN and Cyber Essentials Plus accreditations for corporate network 3. Regular patching regimes in place 4. ICT Disaster recovery plans tested regularly 5. All critical activities have recovery plans developed (CARP's)	6	Tolerate		2019/20 2022/23
12	Withdrawal from the EU Insufficient preparedness for exit from the European Union	15	1. Establishment of tactical team with direct reports to Chief Executive as Strategic Lead 2. Regular reporting to the Strategic Management Team and the Industry and Regional Development Sounding Board as the strategic group. 3. Tactical team via the Civil Contingencies Manager liaising/ collaborating with Regional Resilience Partnerships and other resilience partners.	10	Treat	1. Development and regular review of dedicated risk register with input from representatives across the organisation and the Health and Social Care Partnership. 2. Preparation of Brexit workplan 3. Standing item on agenda for Strategic Management Team. Deadline - ongoing.	Ongoing – CIA sits on the tactical team

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
13	<p>Impact of COVID - 19</p> <p>The Council are unable to deliver core services as a result of the Covid 19 virus with adverse impact to community and the economy</p>	25	<ol style="list-style-type: none"> 1. Establishment of Strategic and Tactical Groups with links to HSCP, NHS and national/regional resilience groups 2. Tactical team via the Civil Contingencies Manager liaising/ collaborating with Regional Resilience Partnerships and other resilience partners. 3. Development and delivery of an integrated approach to deliver decisions and mitigations 4. SITREP reporting thorough contingency planning structures in place 5. Standing item on SMT agenda 6. Working towards "ready" status on the Regional Resilience Dashboard 	20	Treat	<ol style="list-style-type: none"> 1. Development and regular review of dedicated risk register with input from representatives across the organisation and the Health and Social Care Partnership. 2. Ongoing Tactical meetings reporting to SMT 	<p>2021/22</p> <p>2022/23</p>

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****15 MARCH 2022**

2022/23 INTERNAL AUDIT PLAN

1. INTRODUCTION

1.1 This report introduces the 2022/23 Internal Audit Annual Audit Plan.

2. RECOMMENDATIONS

2.1 To agree and endorse the Internal Audit Annual Plan 2022/23 (Appendix 1).

3. DETAIL

3.1 The Public Sector Internal Audit Standards (PSIAS) stipulate that the Council's internal audit plan must be risk based and focused on governance, risk and controls to allow the CIA to provide an annual opinion on the Council's internal control framework, based on the work undertaken during the year. This annual opinion informs the Annual Governance Statement.

3.2 The Annual Audit Plan is shown at Appendix 1. The creation of the plan gave consideration to a number of factors including:

- the audit universe risk assessment which is based upon a matrix taking account of scores for each potential audit area in respect of materiality, sensitivity, time elapsed since it was last subject to audit and the overall audit assessment when it was last reviewed.
- the Council's strategic risk register and operational risk registers
- input from Executive Directors, the Health and Social Care Partnership (HSCP) Chief Officer and Heads of Service
- a consideration of the need to provide audit coverage across all Heads of Service, the HSCP and LiveArgyll
- significant changes within the Council (i.e. new systems, new policies)
- wider issues in the public sector environment
- an internal audit team meeting to discuss possible areas of focus based on cumulative audit knowledge.

3.3 The Audit plan is broken down into 3 main areas which are:

- Service department reviews
- Continuous monitoring programme
- Other Activity

3.4 Service department reviews include auditable units within the audit universe which are specific to an individual department. Our continuous monitoring programme includes a number of auditable units which were historically subject to individual annual audits. These areas are now tested on a regular recurring basis with control weaknesses reported by exception. Internal Audit also undertake other activities during the year including verification work and following up on previous internal audit recommendations for improvement.

- 3.5 An indicative outline scope is given for each of the audit reviews. Full terms of reference will be discussed and agreed with the relevant Head of Service as part of the planning process for each audit.
- 3.6 The plan is based on an estimated available 778 audit days with suitable contingency factored in. The plan remains fully flexible, to accommodate changes in the Council's risk profile and /or emerging risks.
- 3.7 Feedback on the draft plan has been obtained from the Heads of Service, the Chief Officer of the HSCP and the Live Argyll General Manager. This has been incorporated into the plan included as appendix 1 to this paper

4. CONCLUSION

- 4.1 The draft annual audit plan is risk based and is aligned to the Council's long term outcomes, corporate objectives and strategic risk register. The plan also incorporates continuous monitoring and verification activity.

5. IMPLICATIONS

- 5.1 Policy - None
- 5.2 Financial - None
- 5.3 Legal - None
- 5.4 HR - None
- 5.5 Fairer Scotland Duty - None
 - 5.5.1 Equalities – None
 - 5.5.2 Socio-Economic Duty – None
 - 5.5.3 Islands Duty – None
- 5.6 Climate Change - None
- 5.7 Risk – Delivery of an effective internal audit function and plan should help reduce the Council's risk exposure
- 5.8 Customer Service – None

**Moira Weatherstone,
Interim Chief Internal Auditor
15 March 2022**

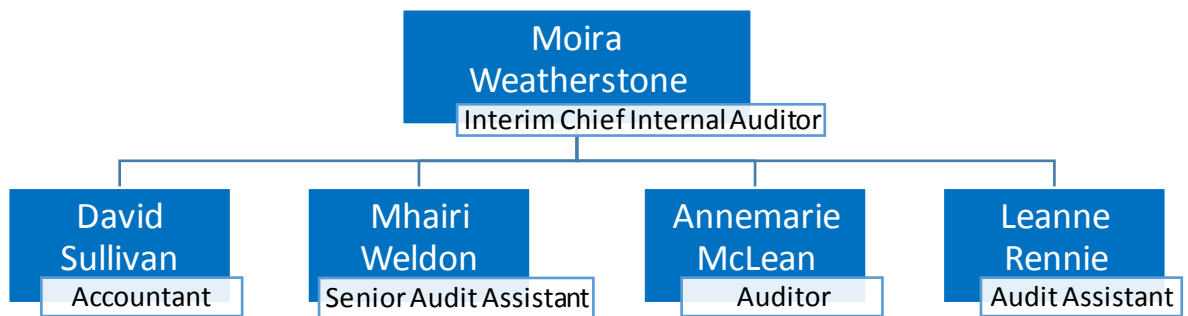
For further information contact:

Moira Weatherstone, Interim Chief Internal Auditor (01436 657694)

APPENDICES

Appendix 1 – 2022/23 Internal Audit Plan

Argyll and Bute Council
Internal Audit Plan
2022/23



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Definition of Internal Audit

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Source: Section 4: Definition of Internal Auditing: Public Sector Internal Audit Standards

Purpose of Internal Audit

2. The main objective of internal audit is to provide a high quality, independent audit service to Argyll and Bute Council (the Council) which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, internal audit will also:
 - support the S95 Officer and the Audit & Scrutiny Committee (the Committee) in the discharge of their duties
 - support the Council's Monitoring Officer
 - support the Council's anti-fraud and corruption arrangements
 - provide guidance on control implications for new or changed systems where appropriate
 - support the Council and the Strategic Management Team during key transformational/ change projects.

Public Sector Internal Audit Standards (PSIAS) Requirements

3. PSIAS sets out the requirement for the:
 - Chief Internal Auditor (CIA) to prepare a risk-based audit plan which takes into account the Council's strategic objectives, associated risks and the views of senior management and the Committee
 - CIA to review and adjust the plan as necessary in response to changes in the Council's business, risks, operations and priorities
 - audit plan to incorporate or be linked to a strategic or high-level statement of how internal audit will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

Risk Assessment

4. Internal audit's approach to annual audit planning is risk-based with all areas which may be subject to audit review contained within an audit universe which is subject to formal review, at least annually. The audit universe includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.
5. The audit universe is risk assessed each year to help determine the annual audit plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Note however that that the audit universe, whilst a key factor, is not the only consideration

when determining the audit plan. Senior management have been consulted on priority areas for review, and cognisance is taken of the plans of external audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance.

6. The audit universe risk assessment is based upon a matrix taking account of scores for each potential audit area in respect of:
 - materiality (based on expenditure)
 - sensitivity (based on whether a service is a statutory duty, statutory power or non-statutory, is customer facing and whether it features as a specific challenge in the Council's service plans)
 - time elapsed since it was last subject to review
 - overall audit assessment when it was last subject to review.
7. The matrix gives an overall "score" for each area that is used to prioritise audit reviews.

Strategic Risks

8. The Strategic Risk Register records the Council's own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the annual audit plan with identified reviews cross referenced to the strategic risk register. An abridged version of the strategic risk register (version dated February 2022) is included in appendix 3 for reference.

Resourcing the Plan

9. Internal audit has a core establishment of five full time equivalent officers including two professionally qualified members of staff. Available audit days have been calculated as 778 days (including 85 days of management and administration time), following the deduction of annual leave, training, a small provision for sickness, 90 days to deliver scrutiny work and 50 days to deliver the HSCP internal audit function. This 778 days total includes the CIA's input to audit reviews and the running of the internal audit team and a contingency of 44 days.
10. Given the range and complexity of areas to be reviewed it is important that suitably qualified, experienced and trained individuals are appointed to internal audit positions. The CIA, in compliance with PSIAS holds an appropriate professional qualification (CIPFA). Also within the internal audit section we have one CIMA qualified team member, one AAT and CIA qualified member and one training for CIPFA.
11. Internal audit officers identify training needs as part of their annual appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development.
12. Through an assessment of the mix of knowledge, skills and experience of the audit team, it is considered that the available resources are sufficient to achieve the work outlined in the plan.

Confirmation of Independence

13. PSIAS requires internal audit to communicate, on a timely basis, all facts and matters that may have a bearing on our independence. We can confirm that the staff members identified to

complete the reviews in the 2022/23 annual audit plan are independent and objectivity is not compromised.

2022/23 Internal Audit Plan

14. Appendix 1 presents the internal audit plan for 2022/23. As our internal audit approach is informed by risks, where appropriate, the plan is cross-referenced to the strategic risk register contained at appendix 3. Appendix 3 also demonstrates the strategic risks that were subject to audit focus in 2021/22 and those we are projecting to cover in the period 2022/23-2023/24. This provides assurance to the Committee that all strategic key risks are subject to audit coverage over a three year cycle. Note that the projected timescales in appendix 3 are provisional as these may change to reflect changes in the Council's risk environment.
15. Appendix 2 presents the 2022/23 internal audit plan in a different format to provide assurance to the Committee that it provides appropriate coverage across all the Council's directorates and head of service's areas of service delivery.

Monitoring the Plan

16. Internal audit reports on performance to the Committee on a quarterly basis including full copies of audit reports issued, progress implementing audit recommendations, performance against agreed performance indicators and a summary of all internal audit activity in the previous quarter.

Quality Assurance and Improvement Programme

17. The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme (QAIP) based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.
18. The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's internal audit team has participated in this framework and an external validation of its own self-assessment took place during 2018/19 which concluded that we demonstrated overall compliance with PSIAS with many areas of strong practice. The next scheduled external assessment will be conducted in 2022.
19. In 2021/22 internal audit carried out an internal self-assessment against PSIAS which was reported to Committee in September 2021. It confirmed the service fully conformed to PSIAS in 13 of the 14 assessment areas. The area self-assessed as 'Generally Conforming' with improvements built into the service's QAIP has been completed with the appointment of an Interim Chief Internal Auditor.
20. The internal audit team review their QAIP on a quarterly basis and report it to the Committee as part of the standard agenda item 'Internal Audit Summary of Activities.' The programme details all improvement activity being progressed by the team.

Appendix 1 – 2022/23 Internal Audit Plan

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Cross Cutting	Continuous Monitoring Programme	Budgeting	15	Cyclical review of key controls over an 18 month programme of audit testing.	
		Council Tax and NDR	20		
		Creditors	20		
		Debtors	15		
		General Ledger	15		
		Payroll	25		
		Treasury management	15		
		VAT	15		
		Follow-up	40	Compliance	
Pippa Milne	Financial Services	Payroll Processes	25	Review of the processes and procedures in place between HR and payroll to ensure that employee information is updated in a timely manner	
	Financial Services	Management of Debt/Debt Recovery	25	Assess the controls in place for the management of debt and assess compliance with procedures	
Douglas Hendry	Education – Jennifer Crockett	Early Years	25	Assess compliance and use of Early Years Covid recovery funds	
	Education – Jennifer Crockett	Counselling in Schools	30	Assess the use of the three year Scottish Government funding to support the delivery of counselling through schools against the set of ten nationally agreed core principles	
	Legal and Regulatory Support	Purchasing Cards	20	Compliance with procedures and authorisation processes to establish value for money	
	Legal and Regulatory Support	Procurement	25	Review process in place in terms of the procurement strategy and annual procurement report to ensure compliance with statutory requirements	
	Commercial Services	Externally Funded Projects	30	Assess compliance with policies and procedures, including conditions of external funded projects	SRR02
	Commercial Services	Heritage assets	25	Review the management and record keeping of Heritage assets	

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Kirsty Flanagan	Roads and Infrastructure Services - Jim Smith	Burial records	20	Review the control environment and administration of burial records	
	Roads and Infrastructure Services	Car Parking Facilities	25	Review the policies, procedures and compliance for the management of car parking fees	
	Development and Economic Growth	Oban Airport	15	Annual review to provide assurance re compliance with operational manual Assess compliance with the aerodrome operating manual.	
	Development and Economic Growth	LEADER	5	Annual review to assess compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement (agreement was extended)	
	Development and Economic Growth	Building Standards	20	Review the systems and process in place to support compliance with the verification scheme	
	Development and Economic Growth	Private Sector Grants and Housing Adaptations	20	Assess compliance with policies and procedures	
	Customer Support Services	Equality and Socio-Economic Impact Assessment	20	Assess compliance with legislation and guidance	
	Customer Support Services	Customer Service Centre	20	Review the process and systems used for the handling of initial customer contacts and ensure that customer enquiries are followed up in a timely manner	SRR05 SRR06
	Customer Support Services	Cyber Security	20	Review systems in process in place to support security of key systems	SRR11
Fiona Davies	H&SCP Older People Services	Client Funds	25	Review the processes and procedures in place to ensure the management of client funds and financial affairs, including compliance with Code of Conduct	SRR07
	H&SCP – Learning and Physical Disabilities	Learning and Physical Disability care packages	25	Assess effectiveness and compliance with Learning and Physical Disability care packages	SRR07

Directorate Contact	Service	Audit Title	Days	High Level Scope	Strategic Risk
Kevin Anderson	LiveArgyll	Events Management	20	Assess procedures to manage events hosted in Live Argyll venues including controls over revenue, expenditure, risk management and insurance	
	LiveArgyll	Establishment visits	15	Cyclical audit approach to assess LiveArgyll establishment's compliance with physical controls and compliance with SOP's	
Verification Activity	LGBF	Accuracy	9	Accuracy of submission	
	Stores	Stock count	5	Assess stock count procedures	

Summary of Days

Directorate Contact	Number of Days Last Year (Revised)	Number of Days 2022/2023
Cross Cutting – Continuous Monitoring	185	180
Pippa Milne	45	50
Douglas Hendry	140	155
Kirsty Flanagan	135	165
Fiona Davies	30	50
LiveArgyll	20	35
Verification Activity	14	14
Contingency	55	44
Total	624	693

Appendix 2 – 2022/23 Internal Audit Plan by Council Directorate / Head of Service

Pippa Milne	Douglas Hendry			Kirsty Flanagan			Fiona Davies
Financial Services	Education	Legal & Regulatory Support	Commercial Services	Customer Support	Roads & Infrastructure	Development & Economic Growth	Health & Social Care Partnership
Payroll Processes	Early Years	Purchasing Cards	Externally Funded Projects	Equality and Socio-Economic Impact Assessment	Burial Records	Building Standards	Client Funds
Management of Debt/Debt Recovery	Counselling in Schools	Procurement	Heritage assets	Customer Service Centre Cyber Security	Car Parking Facilities	Private Sector Grants and Housing Adaptations Oban Airport LEADER	Learning and Physical Disability Care Packages
Continuous Monitoring Programme Budgeting, General Ledger, Creditors, Debtors, Payroll, Treasury Management, Council Tax & Non-Domestic Rates, VAT							
Live Argyll Events Management Establishment visits				Other Activity NFI – Counter Fraud Team Follow Up Local Government Benchmarking Framework			

Appendix 3 – Strategic Risk Register (Abridged)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
1	<p>Population and Economic Decline</p> <p>Failure to identify relevant factors contributing to the decline and failure to develop strategies and actions targeting these factors.</p>	20	<ol style="list-style-type: none"> 1. Local outcome improvement plan targets population and economic recovery 2. Maximise external funding opportunities 3. Economic Strategy 4. Strategic infrastructure plan 5. Area economic development action plans 6. Promote and Market Argyll and Bute 7. Maximise social-eco benefits via effective partnership working 8. Single Investment Plan 	16	Treat	<ol style="list-style-type: none"> 1. Lobbying activity in pursuit of regional immigration policies and related strategies 2. Rural Growth Deal Outline Business Cases and Final Business Cases to be developed in 2022/23 and Deal to be signed late 2022 or early 2023. 3. Preparation of bid to Levelling Up Fund – preparing for April 2022 in time for submission date which is still to be confirmed. 4. Settlement Officer post agreed to be funded 50:50 from HIE/Council focusing on barriers to people living in communities, housing and others. 5. Preparation of a pipeline of projects across Argyll and Bute in order to be able to react to any other bid funding as and when it is announced. 	2019/20 (Scrutiny)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
2	<p>Condition and suitability of Infrastructure & Asset Base</p> <p>Infrastructure and asset base does not meet current and future requirements and is not being used or managed efficiently and effectively.</p>	16	<ol style="list-style-type: none"> 1. Asset management board 2. Robust capital planning and monitoring 3. Asset management work plan 4. Business case modelling including sustainability, development and strategic change 5. Intelligence and best practice sharing via Heads of Property Group. 6. Community Empowerment and Community Asset Transfer – Arrangements in place to evaluate and determine requests. 7. Roads Asset Management Plan 8. Status and Options Report 9. R&A Services control hub and joint operations team 10. One Council Property Approach 	12	Treat	<ol style="list-style-type: none"> 1. Development of capital strategy in 2022. 2. 'Modern Workspace Programme will review, engage and rationalise property portfolio for future needs of the Council. Changes will take place on phased and town by town basis. Programme will be running for 3 years - April 2024 	<p>2020/21</p> <p>2021/22</p> <p>2022/23</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
3	<p>Financial Sustainability</p> <p>Insufficient resource to meet current and future service requirement. Budget not aligned / does not support business outcomes</p>	16	<ol style="list-style-type: none"> 1. Longer term financial planning and financial strategy 2. Income generation activity 3. Robust budget preparation and budget monitoring protocols 4. Maintaining adequate contingency with reserves. 5. Digital transformation 6. Effective workforce planning model 7. Business Outcomes 8. Financial Services resilience building project including knowledge sharing and development of guidance notes 	12	Treat	<ol style="list-style-type: none"> 1. Discussions are continuing in respect of a change programme that will include ensuring that the Council can operate within its budget (2022 for year 2023/24). 2. Rural Growth Deal Outline Business Cases and Final Business Cases to be developed in 2022/23 and Deal to be signed late 2022 or early 2023. 3. Implementation of new general ledger system with enhanced budget planning and forecasting capabilities (July 2022) 4. Investment in professional training through Grow Our Own Activity. 	<p>2019/20 (Scrutiny)</p> <p>2020/21</p> <p>2022/23</p> <p>Ongoing via Continuous Monitoring</p>
4	<p>Governance and Leadership</p> <p>Governance and leadership arrangements are not conducive to effective working and lead to a lack of strategic direction.</p>	16	<ol style="list-style-type: none"> 1. Administration in place with working majority 2. Members Seminar programmes 3. Mentoring and Coaching Support for policy leads and Senior Management 4. Priorities agreed by Council 5. Corporate Plan sets out objectives 6. Performance Improvement Framework and Service Planning. 7. Leadership development programme. 8. Council constitution regularly reviewed and updated. 	8	Treat	<ol style="list-style-type: none"> 1. Monitor delivery of BV action plan (ongoing date) 2. Induction training for new Members following May elections (May/June 2022) 	2020/21 (Scrutiny)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
			9. Established partnership governance arrangements 10. Scrutiny arrangements in respect of Police, Fire and Health. 11. Governance arrangements for scrutiny established				
5	Engagement and Understanding the needs of the Community The Council fails to understand service user needs and emerging demographic trends and does not align service delivery to meet these	12	1. Community Planning partnership 2. Community Engagement Strategy 3. Customer Service Board 4. Operation and development of panels and forums. Young people's plan, citizens panel 5. Budget Consultation 6. Comprehensive Complaints Protocols 7. Demographic and end user analysis	9	Treat	Deliver agreed actions in BV3 action plan relating to Work with Communities and Community Groups to improve engagement - March 2022	2022/23
6	Service Delivery Insufficient resources to ensure effective service delivery	9	1. Performance Improvement Framework 2. Service Improvement plans 3. Argyll and Bute Manager programme 4. Customer needs analysis Protocols 5. Demographic and end user analysis 6. Workforce Planning 7. Internal and External Scrutiny Arrangements 8. Complaints process	6	Treat	Monitor progress of performance mgt project and implement recommendations (Ongoing from Oct 2020 to June 2022)	2021/22

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
7	<p>Health and Social Care Partnership</p> <p>Failure to deliver strategic objectives and integrate Health and Social Care services in an efficient and effective manner exposes the Council, as a key partner, to unacceptable financial and reputational risk.</p>	20	<ol style="list-style-type: none"> 1. HSCP integration scheme approved by Scottish government 2. Strategic Plan in place 3. Performance and Financial reporting arrangements in place 4. Independent audit arrangements in place. 5. Integrated Joint board with elected member representation including Council Leader 6. Chief Officer member of ABC Senior Management Team with co-location of officers 7. Tripartite leadership agreement 8. Monitoring of HSCP financial position. 	12	Treat	<ol style="list-style-type: none"> 1. Develop options to deliver sustainability of future years budgets (ongoing) 2. Completion of Strategic Plan which was delayed due to COVID. 3. Assessment on impact of COVID on services in short, medium and long term. 	<p>2019/20</p> <p>2020/21</p> <p>2022/23</p> <p>Assurance also taken from IJB internal audit function</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
8	<p>Civil Contingency & Business continuity</p> <p>Arrangements are not effective.</p>	8	<ol style="list-style-type: none"> 1. Emergency Planning Test events 2. Critical Activity Recovery Plans 3. Roll out of Community resilience partnership programme 4. Peer review of major exercises undertaken to provide external validation of planning process 5. West of Scotland local resilience partnership 6. Cross sector expertise and partnership working 7. Emergency Management Support Team (EMST) meetings 8. Training 9. EU Withdrawal Tactical Working Group with arrangements for reporting to the West of Scotland Resilience Partnership 	6	Treat	Develop long term test schedule for DRPs to be presented to the SMT (December 2021)	2021/22
9	<p>Welfare Reform</p> <p>Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis</p>	12	<ol style="list-style-type: none"> 1. Financial Inclusion and Advice Group established 2. Joint working with DWP, CPP and other agencies 3. Child Poverty Planning Group set up and active 4. Flexible Food Fund created. Supporting householders in our area with funds and advice to address food and fuel insecurities 	6	Tolerate	<ol style="list-style-type: none"> 1. Extend Flexible Food Fund Contract for a further year to March 2023. 2. Council, HSCP and third sector deliver range of 20 Covid related support projects under the Flexible Fund banner by March 2023. 3. Deliver sustainable school clothing bank across the Argyll and Bute area by December 2022. 4. One-off top-up payments of £75 per child issued to School 	2019/20 2023/24

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
						<p>Clothing Grant recipients by end of February 2022.</p> <p>5. Argyll and Bute centric anti-poverty training delivered to 600 Council, NHS and third sector staff by March 2022.</p> <p>6. ""Worrying about money"" leaflet to be issued with Council Tax bills containing advice and support for people with money worries in March 2022. Update website with information and support.</p>	
10	<p>Waste Management</p> <p>Unable to dispose of waste in landfill sites due to the implications of the biodegradable municipal waste (BMW) landfill ban in 2025</p>	20	<p>1. Helensburgh and Lomond waste solution available via third party offtakers</p> <p>2. Waste strategy</p>	16	Treat	<p>Progress on developing delivery models to be reported to EDI Committee (ongoing).</p>	<p>2021/22 (Scrutiny)</p> <p>2023/2024</p>
11	<p>Service Delivery - Cyber Security</p> <p>Unable to deliver services to customers because of failure of ICT</p>	20	<p>1. ICT Security & compliance officer in post, producing weekly threat analyses, member of CiSP</p> <p>2. PSN and Cyber Essentials Plus accreditations for corporate network</p> <p>3. Regular patching regimes in place</p>	15	Treat	<p>1. Review all contingency plans with updated knowledge from SEPA and UHI Cyber Attacks.</p> <p>2. Work with Scottish Government Cyber Resilience Team to test ICT response</p>	<p>2019/20</p> <p>2022/23</p>

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
	systems following major cyber security breach		4. ICT Disaster recovery plans tested regularly 5. All critical activities have recovery plans developed (CARP's)			3. Issue regular communications to raise awareness of importance of cyber security and awareness 4. Enforce password changes when found to be weak 5. Cyber Security Resilience Exercise planned for late February 2022. 6. Continued close review of disaster recovery plan and associated tests, finalise and test incident response procedure, and review of mirroring between the 2 data centres (monthly at ITMT) and backup 7. Review and progress requirements for Education Network to achieve CE+ accreditation.	
12	Impact of COVID - 19 The Council are unable to deliver core services as a result of the Covid 19 virus with adverse impact to community and the economy	25	1. Establishment of Strategic and Tactical Groups with links to HSCP, NHS and national/regional resilience groups 2. Tactical team via the Civil Contingencies Manager liaising/ collaborating with Regional Resilience Partnerships and other resilience partners. 3. Development and delivery of an integrated approach to deliver decisions and mitigations	12	Treat	1. Development and regular review of Economic Recovery workstream with input from representatives across the organisation and the Health and Social Care Partnership. 2. Assessment of COVID on wellbeing and service capacity/sustainability. 3. P&R Committee in December 2021 agreed funding of £110k	2021/22 2023/24

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions	Audit Coverage
			4. SITREP reporting through contingency planning structures in place			from the Recovery and Renewal Fund to aid delivery of critical areas of the Recovery Strategy and Action Plan which will create 2 temporary posts for a 12 month period.	

Argyll and Bute Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Argyll and Bute Council

March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Argyll and Bute Council (the Council). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the remuneration report, management commentary and the annual governance statement
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review the Council's arrangements for preparing and publishing statutory performance information
- review the Council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Council promote improved standards of governance, better management and decision

making and more effective use of resources. Additionally, we attend meetings of the Audit and Scrutiny Committee and actively participate in discussions.

Respective responsibilities of the auditor and Argyll and Bute Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Council. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audited Body responsibilities

8. Argyll and Bute Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the Council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Council are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Argyll and Bute Council

Materiality	Council	Group
Planning materiality – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been based on the audited financial statements for 2020/21.	£6.0 million	£6.1 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£4.2 million	£4.3 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250 thousand	£250 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focused testing of accounting accruals and prepayments.

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Council because a significant element of the Council's income is from central government grant, council tax and non-domestic rates, all of which have predictable income patterns which limits the potential for manipulation. We therefore do not incorporate specific work into our audit plan in this area, over and above our standard audit procedures.

16. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Argyll and Bute Council as our assessment of the expenditure transaction streams has confirmed that many are low risk, for example, staff costs, depreciation, pensions IAS 19 charges and our standard audit procedures will involve focused testing on accruals in any higher risk areas.

17. Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector per the National Fraud Initiative and this, as well as the analysis of expenditure, indicates that there is not a high risk of fraud across payment streams.

18. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

19. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and these risks become significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly. The areas of specific audit focus are:

- **Valuation and measurement of Non-Current Assets:** At 31 March 2021, the Council held non-current assets with a value of £671.3 million. This included Land and Buildings with a net book value of £376.1 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.
- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2021, the Council recognised a net liability of £82.3 million relating to its share of the Strathclyde Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.

20. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. Argyll and Bute Council has a group which is comprised of subsidiaries, associates and joint ventures. The audits of the financial statements of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors as part of our work on the group accounts.

Audit of the trusts registered as Scottish charities

22. Members of the Council are sole trustees for seven trusts and one common good fund registered as Scottish charities, with total assets of some £7.3 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

23. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

24. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for charitable trusts

25. Planning materiality has been assessed on 2% of net assets (based on the audited financial statements for 2020/21), whilst performance materiality has been calculated at 75% of Planning Materiality. The reporting threshold has been calculated at 5% of Planning materiality.

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Oban Common Good	£130,000	£98,000	£6,000
Argyll Education Trust	£16,000	£12,000	£800
McCaig Trust	£1,650	£1,200	£80
Marquess of Bute Silver Wedding Dowry	£200	£145	£10
Baillie Gillies Bequest	£200	£150	£10

Kidston Park Trust	£70	£55	£4
Miss Annie Dickson Bequest	£80	£60	£4
Logie Baird Prize Fund	£40	£30	£2

Source: Audit Scotland

26. Based on our discussions with staff and initial planning work we have identified the following significant risk of material misstatement for the audit of the charitable trusts: management override of controls. This risk and planned audit response have been included in [Exhibit 2](#).

Audit risk assessment process

27. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

29. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

30. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We

will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

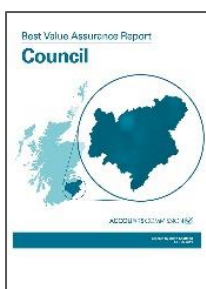
Best Value

31. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council that will provide a rounded picture of the Council overall.
- an Annual Assurance and Risks Report that the Controller of Audit will provide to the Accounts Commission that will highlight issues from across all 32 council annual audit reports.
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once over the period of the audit appointment.

32. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5 2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Shetland Island Council

Angus Council

Moray follow-up

Source: Audit Scotland

33. The Best Value work planned this year will focus on the Council's arrangements for Effective Use of Resources and Performance, Outcomes and Improvement. Also, we will be following-up findings reported in the BVAR in May 2020 to assess progress on the pace and depth of continuous improvement. Our findings will be reported through our Annual Audit Report.

Audit dimension risks

34. We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>Councils continue to face significant financial challenges with pressures on funding and increasing demand for services. As per the Budget Outlook report presented to the Policy and Resources Committee in December 2021, the Council's budget estimates are for a mid-range budget gap of £3.7 million for 2022/23, rising to an in-year gap of £26.7 million by end of 2026/27.</p> <p>(Note that the 2022/23 budget will be set in February 2022 with an anticipated balanced position. This will still leave significant gaps in future years that will require to be addressed.)</p> <p>At the end of January 2022, the Council are reporting a small underspend in 2021/22. As a result, there is a risk to financial sustainability and the sustainability and quality of services in future.</p>	<ul style="list-style-type: none"> Continued delivery of savings options which align available budget with the Council's priorities. Regular monitoring and reporting on the delivery of savings options. The Medium to Long Term Financial Strategy was updated in 2021/22, this will continue to be reviewed on an ongoing basis. Strategic Management Team will oversee the further development of savings options, including alternative service delivery models, identified in 2020/21, which require further development and consultation before being proposed to elected members. 	<ul style="list-style-type: none"> Review of the Council's annual budget setting arrangements. Assessment of the council's medium to long term financial strategy. Review and assessment of budget monitoring arrangements with a focus on reports to senior officers and members on financial position. On-going review of the Council's financial position and delivery of planned savings.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

35. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

36. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

37. We will provide an independent auditor's report to Argyll and Bute Council, the Scottish Parliament and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

38. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

39. [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7 2021/22 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
Annual Audit Plan	31/03/2022	15/03/2022
Independent Auditor's Report	31/10/2022	To be confirmed
Annual Audit Report	31/10/2022	To be confirmed

Source: Audit Scotland

Audit fee

40. The proposed audit fee for the 2021/22 audit of the Council is £272,210 (2020/21: £266,490) and is inclusive of the fee for the audit of the Charitable Trusts. The proposed audit fee for the 2021/22 audit of the Charitable Trusts is £4,000 (2021/21: £3,650).

41. In determining the audit fee, we have taken account of the risk exposure of the Council, the planned management assurances in place and proposed to the level of reliance we plan to take from the work of internal audit.

42. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

43. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit across a range of work including Continuous Monitoring Programme, Fixed Asset Register, Land and Asset Disposal, and Procurement and Contract Management.

Independence and objectivity

44. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

45. The engagement lead (i.e. appointed auditor) for the audit of Argyll and Bute Council is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Council.

Quality control

46. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

47. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

48. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Argyll and Bute Council

Annual Audit Plan 2021/22

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ARGYLL AND BUTE COUNCIL
AUDIT AND SCRUTINY COMMITTEE**FINANCIAL SERVICES****15 MARCH 2022**

INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL

1. SUMMARY

- 1.1 This report outlines the proposed changes to the Internal Audit Charter and Internal Audit Manual. Both have been updated to reflect minor changes in the working practices within Internal Audit.

2. RECOMMENDATIONS

- 2.1 To approve the amended Internal Audit Charter (Appendix 1).
- 2.2 To approve the amended Internal Audit Manual (Appendix 2).

3.0 DETAIL.

- 3.1 Under the Public Sector Internal Audit Standards (PSIAS) Internal Audit is required to prepare an Internal Audit Charter, consistent with the Mission of Internal Audit that defines internal audit's purpose, authority and responsibility.
- 3.2 However just having a Charter is not sufficient to comply with the requirements of PSIAS. The requirement for a Charter is just one element of PSIAS. Full compliance requires the adoption of a range of principles and working practices which are closely aligned to the requirements as set out in PSIAS.
- 3.3 Whilst there is no written requirement, within PSIAS, for an Internal Audit Manual to be created, in general, it is considered good practice to develop a manual to help guide the overall management and administration of the department and the audit approach adopted. Given the mandatory nature of PSIAS it also makes sense for that manual to be consistent with the requirements of PSIAS.
- 3.4 The Charter and Manual were both fully revised by the CIA in 2018 and subject to review and Committee approval in March 2019, March 2020 and March 2021. As a consequence the amendments made in this 2022 review are very minor in nature and summarised in the table below:

Internal Audit Charter

Page	Para	Summary of change
Front	N/A	Date updated.
7	33	Paragraph updated to reflect new updated approach to the

		PRD process.
8	42	Changed approval date to this Committee

Internal Audit Manual

Page	Para	Summary of change
Front	N/A	Date updated.
5	13	Paragraph updated to reflect new approach to the PRD process
7	20	Paragraph updated to reflect new approach to the PRD process

4.0 CONCLUSION

- 4.1 The Internal Audit Team has updated the Internal Audit Charter and Internal Audit Manual in line with the requirements of the PSIAS.

5.0 IMPLICATIONS

- 5.1 Policy - Internal Audit continues to adopt a risk based approach to activity
- 5.2 Financial -None
- 5.3 Legal -None
- 5.4 HR - None
- 5.5 Fairer Scotland Duty - None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty – None
- 5.6 Climate Change - None
- 5.7 Risk – A consistent audit approach helps reduce the Council’s risk exposure
- 5.8 Customer Service - None

Moira Weatherstone
Interim Chief Internal Auditor
15 March 2022

For further information please contact: Internal Audit (01436 657694)

Appendices:

- 1. Internal Audit Charter**
- 2. Internal Audit Manual**



Argyll and Bute Council

Internal Audit Charter

March 2022

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Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (the Standards), which came into effect in April 2013, and were updated in March 2017.
2. The Standards require the Argyll and Bute Council (the Council) to have an Internal Audit Charter (the Charter), consistent with the Mission of Internal Audit, that defines internal audit's purpose, authority and responsibility.

Internal Audit Mission (PSIAS Section 3)

3. It is internal audit's mission to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Auditing (PSIAS Section 4)

4. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Definition of Roles

5. The Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of Internal Audit work:
 - **Board** - refers to the Council's Audit and Scrutiny Committee (the Committee) which has delegated responsibility for overseeing the work of Internal Audit
 - **Senior management** - is defined as the Chief Executive and members of the Council's Strategic Management Team (SMT)
 - **Chief Audit Executive** - refers to the Chief Internal Auditor (CIA).

Purpose of Internal Audit

6. The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, Internal Audit will also:
 - support the Executive Director (Kirsty Flanagan) (s95 officer) and the Committee in the discharge of their duties
 - support the Council's Monitoring Officer (Douglas Hendry)
 - support the Council's anti-fraud and corruption arrangements
 - provide advice and guidance on control implications for new or changed systems where appropriate
 - support the Council and the SMT during key transformational / change projects.

7. Internal Audit may also provide an independent and objective consultancy service, which is advisory in nature and generally performed at the specific request of service management. The aim of the consultancy service is to help line management improve the Council's risk management, governance and internal control. A specific contingency will be made in the internal audit plan to allow for management requests and consultancy work. The CIA will consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. Such consultancy work will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Committee before any significant unplanned consultancy work is accepted.
8. The Internal Audit activity is established by the Committee with Internal Audit's responsibilities defined by the Committee as part of their oversight role.

Authority and Scope

9. Internal audit, with strict accountability for confidentiality and safeguarding records and information, has authorised full, free, and unrestricted access to any and all of the Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit, through the CIA, will also have free and unrestricted access to the Committee. Designated auditors are entitled, without necessarily giving prior notice, to require and receive:
 - access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature
 - access at all reasonable times to any land, premises, officers and members of the Council
 - the production of any cash, stores or other property of the Council under an officer's and member's control
 - explanations concerning any matter under investigation.
10. Where the Council works in partnership with other organisations, the role of internal audit will be defined on an individual basis. Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Committee and in consultation with the SMT to ensure that appropriate audit resources are available to provide assurance over the Council's activities. Internal Audit currently provide audit services to LiveArgyll, the arrangements for internal audit have been agreed with LiveArgyll's General Manager who reports to LiveArgyll's Finance and Audit Sub-Committee. As of 1 April 2021 Internal Audit will be providing audit services to the Argyll and Bute Health and Social Care Partnership (HSCP). Arrangements for that service have been agreed with the HSCP's Head of Finance and Transformation.

Independence and Objectivity

11. Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content. This will ensure that the work of Internal Audit is independent and objective.
12. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

13. The CIA has additional responsibilities for risk management and counter fraud arrangements. The CIA will declare an interest for audit assignments in these areas with the next most senior internal audit team member taking additional reporting responsibilities where such conflicts arise. This arrangement will address the recognised independence issues arising from the CIA's other responsibilities. A further option, if required, is for the CIA of another local authority to provide oversight of an audit where there is a possible conflict of interest.
14. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, as detailed in the Chartered Institute of Internal Audit's Code of Ethics.
15. Internal auditors must also make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments, as detailed in the 7 Principles of Public Life (the 'Nolan principles').
16. Each member of the Internal Audit team completes a register of interest and updates it, at a minimum, on an annual basis.
17. The CIA will confirm to the committee, at least annually, the organisational independence of Internal Audit.

Organisation

18. The CIA is the officer responsible to the Committee for the provision of an independent Internal Audit service. The CIA will discharge this responsibility through the direct application of internal audit resources.
19. The CIA reports, on an administrative basis, to the Head of Financial Services who is a member of the SMT. However the CIA also has unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors including the Executive Director who is the Council's Monitoring Officer.
20. The CIA has direct access to the Chair of the Committee to discuss any matters the Committee or auditors believe should be raised privately. One of the functions of the Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Officers of the Council is afforded to all members of the Internal Audit service.
21. The CIA is required to hold a professional qualification and be suitably experienced with other team members having suitable experience and/or be working towards a relevant qualification.

Resourcing

22. The CIPFA Local Government Application note for applying PSIAS states that '*No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage*'.
23. It is the CIA's responsibility to ensure that resourcing arrangements are in place to deliver the annual risk based internal audit plan and that those resources are flexible enough to cope with special requests. Where applicable the CIA may seek additional input from external providers.
24. The internal audit plan will document the budgeted resource requirements for the audit year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required

to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the Committee.

Responsibility and Scope

25. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives. This recognises that Internal Audit's remit extends to the entire control environment of the organisation.
26. Internal Audit is not a substitute for the operation of effective internal controls, which are the direct and sole responsibility of management. However, Internal Audit's specific commitments do include (but are not necessarily limited to) the following:
 - examining and evaluating the adequacy of the Council's system of internal control, including those pertaining to the deterrence, detection and investigation of fraudulent or illegal acts
 - reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information
 - reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations
 - reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets
 - appraising the economy and efficiency with which resources are employed and the quality of performance in carrying out assigned responsibilities
 - coordinating Internal Audit activities with the work of the External Auditors and assisting them as required.
27. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Committee and the SMT including fraud risks, governance issues, and other matters needed or requested by the Committee.

Fraud and Corruption

28. Managing the risk of fraud and corruption is the responsibility of the SMT. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.
29. Audit procedures alone cannot guarantee that fraud and corruption will be detected, nor does Internal Audit have the responsibility for prevention and detection of fraud. However, individual auditors will be alert in their work to risks and exposures that could allow a fraud, irregularity or corrupt practice to take place.
30. Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service / Executive Director will notify the Council's Monitoring Officer, Head of Financial Services and the CIA for consideration of appropriate action. Further guidance can be found in the Council's Anti-Fraud strategy and Public Interest Disclosure Policy. The Council's Counter Fraud Team (established November 2020 after a delay due to COVID-19 pandemic) reports directly to the CIA so the CIA will be involved in overseeing any investigation and will liaise with the Council's Monitoring Officer during the investigation of the alleged fraud and in particular:

- examine current Council policies, procedures and financial controls, their current working and effectiveness in relation to the alleged fraud
- report to the SMT in relation to the adequacy of current Council policies, procedures and financial controls in relation to the alleged fraud and make recommendations for their revision
- provide advice and assistance to the Monitoring Officer in relation to Council policies, procedures and financial controls and control issues relevant to the investigation of the alleged fraud.

Professionalism

31. Internal Audit will adhere to the Standards, which are based on the Chartered Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit's performance.
32. Other professional guidance will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and Internal Audit's manual.
33. To ensure that auditors maintain and enhance their knowledge, skills and audit competencies an updated approach to the PRD process, based on measuring and improving outcomes from conversations between managers and employees about performance and career/development aspirations will be adopted.

Internal Audit Plan

34. At least annually, the CIA will submit an Internal Audit plan that includes risk assessment criteria to the Committee for review and approval. The CIA will communicate the impact of any resource limitations and significant interim changes to the SMT and the Committee.
35. The Internal Audit plan will be developed based on a prioritisation of those key risks facing the Council including input of the SMT and the Committee. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:
 - the Council's risk registers and risk management framework
 - a balance of coverage across all operational areas (this constitutes the assurance nature of the plan ensuring an adequate level of internal audit review annually within each service)
 - experience gained from previous Internal Audit activity
 - the impact of national issues (e.g. economic factors, the introduction of new legislation)
 - the impact of local issues (e.g. corporate or service action plans)
 - periodic review of core financial and operational systems
 - the available audit resource and skills
 - staff development and training
 - time needed for the management of the Internal Audit service
 - contingency set aside for consultancy, reviews or investigations

- liaison with other assurance providers such as the External Auditor and other scrutiny bodies.

Reporting and Monitoring

36. Following the conclusion of each Internal Audit engagement, a written report will be prepared, reviewed by the CIA and distributed as appropriate. Internal Audit reports will also be presented to the Committee. LiveArgyll audit reports will also be presented to their Finance and Audit Sub-Committee by the LiveArgyll General Manager. Any audit reports relating to social work services will also be presented to the Argyll and Bute HSCP Audit and Risk Committee.
37. The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific issues and risks. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
38. Internal Audit will be responsible for appropriate follow-up on engagement findings and actions. All findings will remain open until appropriate action is demonstrably taken by management or the risk of no action is formally accepted.

Periodic Assessment

39. Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of Internal Audit activity. This consists of an internal annual self-assessment of the service and its compliance with the Standards and ongoing performance monitoring. The adequacy of Internal Audit is also assessed on an annual basis by the Council's external auditors.
40. External assessments against the Standards will be conducted at least once every five years by a suitably qualified, independent assessor. These reviews form part of a national peer review programme administered by the Scottish Local Authorities Chief Internal Auditor Group.
41. The conclusions of all internal and external assessments will be reported to the Committee.

Approval

42. This Charter was reported to and approved by the Committee at its meeting on 15 March 2022 and shall be subject to regular review by the CIA and the Committee.

Argyll and Bute Council

Internal Audit Manual

March 2022

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Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013, and were updated in March 2017.
2. This Internal Audit Manual (the Manual) has been created to provide guidance to the Internal Audit section of Argyll and Bute Council (the Council) on the administration of the department and audit approach to be adopted. The contents are guided by the requirement of PSIAS with the key sections cross referenced to the appropriate section in PSIAS.

Internal Audit Mission (PSIAS Section 3)

3. It is Internal Audit's mission to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Auditing (PSIAS Section 4)

4. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Ethics (PSIAS Section 6)

Overview

5. The purpose of a '*Code of Ethics*' is to promote an ethical culture within the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, governance and control. A '*Code of Ethics*' extends beyond the definition of internal auditing to include two essential components:
 - principles that are relevant to the profession and practice of internal auditing
 - rules of conduct that describe behaviour norms expected of internal auditors.

Applicability and Enforcement

6. A '*Code of Ethics*' applies to all of those who are commissioned to provide internal audit services to the Council. Suspected or known breaches of the '*Code of Ethics*' should be referred to at least one of the following, as considered appropriate:
 - Chief Internal Auditor (CIA)
 - Executive Director (Kirsty Flanagan) (Section 95 Officer)
 - Monitoring Officer (Douglas Hendry)
 - Audit and Scrutiny Committee (the Committee).
7. The fact that a particular piece of 'behaviour' which has been identified as being possibly inappropriate is not specifically covered by, or mentioned within, the Council's own '*Code of Conduct*', does not necessarily prevent it from being unacceptable, discreditable or indeed unprofessional.

8. For members of the Chartered Institute of Internal Auditors, breaches of the 'Code of Ethics' will be evaluated and administered in line with the Institute's disciplinary procedures. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation. Such procedures are without prejudice to the Council's own disciplinary procedures. All members of the internal audit team, on an annual basis, self-assess their compliance with ethical principles and relevant Argyll and Bute Council policies by completing a Fit and Proper form. This is submitted to the CIA.

Relevant Codes

9. Qualified internal auditors could be members of one or more of the following institutions: Chartered Institute of Public Finance & Accountancy (CIPFA), the Chartered Institute of Management Accountants (CIMA), the Chartered Institute of Internal Auditors (IIA) and the Association of Chartered Certified Accountants (ACCA). Each of these bodies have their own Code of Ethics which members are expected to comply with.

Integrity

10. Internal auditors should:
- perform their work with honesty, diligence and responsibility
 - observe the law and make disclosures expected by the law and the profession
 - not knowingly be a party to any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation
 - respect and contribute to the legitimate and ethical objectives of the Council.

Objectivity

11. Internal auditors should:
- not take part in any activity or relationship that may impair or be presumed to impair their unbiased assessment
 - not accept anything that may impair or be presumed to impair their professional judgement
 - disclose all material facts known to them that, if not disclosed, may distort the reporting or activities under review.

Confidentiality

12. Internal auditors should:
- act prudently when using information acquired in the course of their duties and protect that information
 - not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council.

Competency

13. Internal auditors should:
- only carry out services for which they have the necessary knowledge, skills and experience
 - perform services in accordance with the International Standards for the Professional Practice of Internal Auditing (as applied in the PSIAS)
 - continually improve the proficiency and effectiveness and quality of their services, for example through on going meetings and engagement with the CIA

Principles of Public Life

14. In all dealings Internal Audit will adhere to Nolan’s seven principles of public life as set out in Exhibit 1.

Exhibit 1– Nolan’s Seven Principles of Public life

Principle	Description
Selflessness	Holders of public office should take decisions solely in terms of the public interest.
Integrity	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends.
Objectivity	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openness	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
Honesty	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	Holders of public office should promote and support these principles by leadership and example.

PSIAS Attributes

Internal Audit Charter (PSIAS 1000 - 1120)

15. The Internal Audit Charter (the Charter), which has been agreed by the Committee, and is subject to annual review and approval, provides the required information to comply with the PSIAS attributes listed in Exhibit 2. As such this detail is not repeated in the Manual. The Manual will cover all other requirements of PSIAS.

Exhibit 2– PSIAS Attributes Detailed in the Internal Audit Charter

PSIAS Reference	Attribute
PSIAS 1000	Purpose, Authority & Responsibility
PSIAS 1100	Independence & Objectivity
PSIAS 1110	Organisational Independence
PSIAS 1120	Individual Objectivity

Proficiency (PSIAS 1210)

16. The Internal Audit team will work with proficiency and due professional care. The CIA shall be a CCAB accountant or CMIIA internal auditor with suitable experience.
17. The CIA is responsible for recruiting appropriate internal audit staff in accordance with the Council’s recruitment processes. As part of the role the CIA shall:

- ensure that internal audit collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities
- obtain competent advice and assistance where internal audit does not possess the skills, knowledge and other competencies required to perform its responsibilities
- ensure that internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation
- ensure that internal auditors have sufficient knowledge of key information technology risks and controls
- ensure that internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work.

Due Professional Care (PSIAS 1220)

18. In completing planning activities and subsequent audit work internal auditors shall consider the:
- extent of work needed to achieve the engagement's objectives
 - relative complexity, materiality or significance of matters to which assurance procedures are applied
 - adequacy and effectiveness of governance, risk management and control processes
 - probability of significant errors, fraud, or non-compliance
 - cost of assurance in relation to potential benefits.
19. In addition internal auditors exercise due professional care during a consulting engagement by considering the:
- needs and expectations of clients, including the nature, timing and communication of engagement results
 - relative complexity and extent of work needed to achieve the engagement's objectives
 - cost of the consulting engagement in relation to potential benefits.
20. The CIA will ensure that regular conversations take place about performance, behaviours and career/development aspirations in line with the Council's new approach to the PRD process.

Quality Assurance and Improvement Programme (PSIAS 1300)

21. The Institute of Internal Auditors (IIA) Practice Guide "Quality Assurance and Improvement Programme" (QAIP) defines a quality assurance and improvement programme as:

"An ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. These ongoing and periodic assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. This also includes ongoing measurement and analyses of performance metrics (e.g. internal audit plan accomplishment, recommendations accepted and customer satisfaction). If the assessments' results indicate areas for improvement by the internal audit activity, the chief audit executive will implement the improvements through the QAIP."

Requirements of the Quality Assurance and Improvement Programme (PSIAS 1310)

22. In accordance with the requirements of PSIAS the CIA has developed and maintains a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.
23. The QAIP assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This assessment takes into account quality improvement from both internal and external assessments.

Internal Assessments (PSIAS 1311)

24. At an audit activity level written policies and procedures, covering both technical and administrative matters are formally documented to guide audit staff in consistent conformance with PSIAS and the Code of Ethics. This is demonstrated by:
 - an annual assessment is undertaken, which is reported to the Committee, in order to determine the extent to which Internal Audit conforms to the Standards
 - maintenance of the Charter, setting out the purpose, authority and responsibility of Internal Audit
 - maintenance of the Manual, providing guidance on working practices.
25. Audit work conforms to written policies and procedures. This is demonstrated by:
 - all audit working papers being subject to formal review by the CIA
 - draft and final reports are checked and approved by the CIA and appropriate officers
 - this Manual setting out the various processes to ensure consistent conformance with PSIAS and the Code of Ethics.
26. Post-engagement client surveys to inform lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed. These are issued at the end of each audit engagement with results acted upon and reported to the Committee.

External Assessments (PSIAS 1312)

27. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) has developed a framework for undertaking external assessments as follows:
 - each local authority will be reviewed once every five years
 - the SLACIAG Committee oversee the framework's implementation and provide a level of scrutiny and quality assurance to ensure the adequacy of the process and to arbitrate over any disputed outcomes as required
 - each authority is allocated another authority to assess
 - each Council's CIA may appoint a team to undertake the assessment of the body to whom it has been appointed, with the CIA being responsible for authorising the final report
 - a qualified assessor, or assessment team, needs to demonstrate competence in two areas: the professional practice of internal auditing; and the external assessment process, and it is for the CIA of the body being assessed to determine whether the assessor or team is sufficiently competent. Where a team is undertaking the inspection, these competencies must be held by the team collectively and not necessarily by all individuals within the team.

28. External assessors express an opinion on the entire spectrum of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in carrying out its charter and meeting the expectations of stakeholders.

Reporting on the Quality Assurance and Improvement Programme (PSIAS 1320)

29. The CIA will report the results of the QAIP, via Committee papers, to the SMT and the Committee.

International Standards for the Professional Practice of Internal Auditing' (PSIAS 1321)

30. The CIA shall only state that the internal audit activity conforms with PSIAS if the results of the QAIP support this.

Disclosure of Non-conformance (PSIAS 1322)

31. The CIA shall report any instances of non-conformance with the PSIAS to the Committee and consider including any significant deviations from the PSIAS in the governance statement where there is evidence to support this.

Performance

Managing the Internal Audit Activity (PSIAS 2000)

32. The work of Internal Audit is specified to deliver upon the requirements of the Annual Internal Audit Plan in accordance with the Charter and this Manual.
33. Internal audit activities are reviewed as part of the each audit assignment prior to the issuing of reports. This is to ensure that the work continues to reflect the definitions per the Charter and the Manual. The Manual in this iteration has been specified to reflect the requirements of the PSIAS published in March 2017.

Planning (PSIAS 2010)

34. The Annual Internal Audit Plan is based on a documented risk assessment process. The Internal Audit plan will be developed based on a prioritisation of those key risks facing the Council including input of the SMT and the Committee. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:
- the Council's risk registers and risk management framework
 - a balance of coverage across all operational areas (this constitutes the assurance nature of the plan ensuring an adequate level of internal audit review annually within each service)
 - experience gained from previous Internal Audit activity
 - the impact of national issues (e.g. economic factors, the introduction of new legislation)
 - the impact of local issues (e.g. corporate or service action plans)
 - periodic review of core financial and operational systems
 - the available audit resource and skills
 - staff development and training
 - time needed for the management of the Internal Audit service
 - contingency set aside for consultancy, reviews or investigations
 - liaison with other assurance providers such as the External Auditor and other scrutiny bodies.

35. The risk based plan will include suitable flexibility to reflect the changing risks and priorities of the organisation with this being kept under review by the CIA during the course of the year. Such action may be taken in response to changes in the Council's business, risks, operations, programmes, systems and controls.
36. Internal Audit may also provide consultancy work on the basis that it improves the management of risks, adds value and improves the Council's operations. A specific contingency will be made in the internal audit plan to allow for management requests and consultancy work. The CIA will consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. Such consultancy work will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Committee before any significant unplanned consultancy work is accepted.

Communication and Approval (PSIAS 2020)

37. The CIA communicates the planned internal audit activities, along with the resource requirements to the Committee for approval. Any significant revisions in the plan, resource limitations or requirements for additional resources shall be communicated to the SMT and the Committee for approval.

Resource Management (PSIAS 2030)

38. The CIPFA Local Government Application note for applying PSIAS states that *'No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage'*.
39. It is the CIA's responsibility to ensure that resourcing arrangements are in place to deliver the annual risk based internal audit plan and that those resources are flexible enough to cope with special requests. Where applicable the CIA may seek additional input from external providers.
40. The internal audit plan will document the budgeted resource requirements for the audit year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the Committee.

Policies and Procedures (PSIAS 2040)

41. This Manual serves as the Internal Audit's policies and procedures. The Manual is specifically aligned to the provisions of the PSIAS and in complying with the Manual the team are demonstrating compliance with the standards. The Manual is reviewed, and presented to the Committee for approval, on an annual basis.

Coordination and Reliance (PSIAS 2050)

42. The CIA is required to share information as appropriate with other providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.
43. In preparing the Internal Audit Annual Plan, the CIA shall seek to establish the extent to which assurance can be placed on the work planned by external scrutiny bodies such as the Council's External Auditors, Audit Scotland and also any internal control reviews undertaken by local management. This work informs our planned activities for the year with other sources of assurance being used to inform the annual assurance statement as well as future audit planning. However, the

CIA accepts their accountability and responsibility for ensuring adequate support for conclusions and opinions reached by the assurance activity, no matter the source.

Reporting to Senior Management and the Board (PSIAS 2060)

44. The CIA shall prepare and present performance reports to each sitting of the Committee. Performance reports will capture the activities of Internal Audit relative to the plan.
45. Ongoing reporting will also highlight specific issues as they relate to risk exposures, control issues, fraud, governance or any other matters that the CIA deems appropriate for consideration by the Committee. Significant issues will also be captured within the annual internal audit report.

External Provider & Organisational Responsibility for Internal Auditing (PSIAS 2070)

46. Under any circumstances where an external internal audit service provider acts as the internal audit activity, the provider shall ensure that the Council is aware that the responsibility for maintaining an effective internal audit activity remains the responsibility of the Council. This is not applicable in the financial year 2021/22.

Nature of the Work

47. Internal audit activity shall evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach as outlined in the Charter.
48. Planned audit work includes consideration of a number of different types of audit assignments including systems, regularity, performance, consultancy, risk and IT. This varied application of audit resources ensures that different aspects of Council business have been subjected to testing with assurances being sought over a range of activities.

Governance (PSIAS 2110)

49. The work of Internal Audit will include reviews to improve the Council's governance processes for:
 - making strategic and operational decisions
 - overseeing risk management and control
 - promoting appropriate ethics and values within the Council
 - ensuring effective organisational performance management and accountability
 - communicating risk and control information to appropriate areas of the Council
 - coordinating the activities of and communicating information among the Committee, external and internal auditors, other assurance providers and management.
50. The work of Internal Audit shall also consider the design, implementation, and effectiveness of the Council's ethics-related objectives, programmes and activities and that the Council's information technology governance supports the organisation's strategies and objectives.

Risk Management (PSIAS 2120)

51. The work of Internal Audit shall evaluate the effectiveness of the Council's risk management processes by determining whether:
 - organisational objectives support and align with the Council's mission
 - significant risks are identified and assessed
 - appropriate risk responses are selected that align risks with the Council's risk appetite

- relevant risk information is captured and communicated in a timely manner across the Council, thus enabling the staff, management and the board to carry out their responsibilities.
52. Internal Audit will evaluate the risk exposure relating to the Council's governance, operations and information systems regarding the:
- achievement the Council's strategic objectives.
 - reliability and integrity of financial and operational information
 - effectiveness and efficiency of operations and programmes
 - safeguarding of assets.
 - Compliance with laws, regulations, policies, procedures and contracts.
53. The consideration of risk shall be included in all audit assignments including those consultancy reports to ensure that they are consistent with the objectives of the engagement.
54. In completing audit assignments internal auditors shall also be alert to other significant risks and note these accordingly – informing management of possible work outside the scope of the audit where appropriate.
55. When assisting management in establishing or improving risk management processes, internal auditors must refrain from managing risks themselves, which would in effect lead to them taking on management responsibility,

Control (PSIAS 2130)

56. The work of Internal Audit evaluates the adequacy and effectiveness of controls in the Council's governance, operations and information systems regarding the:
- achievement of the Council's strategic objectives
 - reliability and integrity of financial and operational information
 - effectiveness and efficiency of operations and programmes
 - safeguarding of assets
 - compliance with laws, regulations, policies, procedures and contracts.
57. Internal auditors will utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes.

Engagement Planning

Engagement Objectives (PSIAS 2210)

58. Auditors are required to ensure that objectives have been agreed for each engagement. Inherent in this process is the need to carry out a preliminary risk assessment and a consideration of the probability of the following, when developing the engagement objectives:
- significant errors
 - fraud
 - non-compliance
 - any other risks
59. At the start of all engagements (including consulting engagements), a Terms of Reference document showing the scope, objectives and associated risks of the review, plus anticipated timelines will be

created. This will be agreed between the CIA and the Internal Audit team member assigned the audit. The Terms of Reference document will also be agreed by the appropriate Head of Service or delegated audit contact.

Engagement Scope (PSIAS 2220)

60. The scope of the audit work should be established so that it is sufficient to satisfy the engagement's objectives. The engagement scope should consider the following relevant areas of the Council (this should also consider relevant areas under the controls of outside parties):
- systems
 - records
 - personnel
 - physical properties.
61. Where significant consulting opportunities have arisen during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be developed and agreed with the CIA.
62. It is accepted that not all areas of a process will be reviewed at each audit, which might include geographical areas; the scope should be sufficient to satisfy the engagement objectives, but should also state, where appropriate, which areas are not covered.
63. For a consulting engagement, the scope of the engagement should be sufficient to address any agreed-upon objectives. If the internal auditors develop any reservations about the scope of a consulting engagement while undertaking that engagement, they are required to discuss those reservations with the relevant officer and the CIA to determine whether to continue with the engagement.
64. During consulting engagements, internal auditors are required to address the controls that are consistent with the objectives of those engagements.

Engagement Resource Allocation (PSIAS 2230)

65. The CIA is required to decide upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on the nature and complexity of each individual engagement, time constraints and the resources available.
66. An initial consideration of the resources required is in the audit plan, but this should be reviewed when the scope and objectives of the engagement are determined.

Engagement Work Programme (PSIAS 2240)

67. The CIA has developed a template work programme which provides a clear link between the programme and the agreed terms of reference and Internal Auditors should use this template for all assignments. The template demonstrates how the work performed meets the agreed engagement objectives.
68. The work programme should be created by the internal audit team member assigned the audit, in discussion with the CIA, and include procedures for identifying, analysing, evaluating and documenting information. Work programmes for consulting engagements may vary in form and content depending on the nature of the engagement. This will require the approval of the CIA.
69. Work programmes must be approved by the CIA prior to implementation for each engagement and amended as necessary.

Performing the Engagement

Identifying Information (PSIAS 2310)

70. Internal auditors are required to identify sufficient, reliable, relevant and useful information to achieve each engagement's objectives.
71. Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

Analysis and Evaluation (PSIAS 2320)

72. When performing audits, internal auditors are required to base their conclusions and engagement results on appropriate analysis and evaluation whilst remaining alert to the possibility of:
 - intentional or unintentional wrongdoing
 - errors and omissions
 - poor value for money
 - failure to comply with Council policy
 - conflicts of interest.

Documenting Information (PSIAS 2330)

73. Internal auditors are required to document the relevant information required to support engagement conclusions and results. This includes the need to ensure that working papers are sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.
74. Records management must be consistent with the Council's overall document retention policy, which is in turn consistent with the requirements of the Information Commissioner's Office. Internal Audit record keeping must also be consistent with the specific requirements of the area audited, for example EU audits require documents to be kept for 7 years after the last payment has been made.
75. Electronic engagement records are kept in a restricted folder and on Sharepoint. ICT are responsible for the security controls, and the CIA is responsible for specifying who should have access to this.
76. The CIA shall obtain the approval of senior management and/or legal counsel as appropriate before releasing any engagement records to external parties.

Engagement Supervision (PSIAS 2340)

77. All internal audit engagements shall be properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed.
78. Appropriate evidence of supervision and management review should be documented and retained for each engagement.

Communicating Results

79. Communicating the results of our internal audit work is a crucial aspect of the audit process and is the key link to our stakeholders including the SMT, Heads of Service, Elected Members, the Committee and (where appropriate) the public.

Criteria for Communicating (PSIAS 2410)

80. All audit reports are to be drafted using the template developed by the CIA. This template requires, as a minimum, the overall audit opinion, executive summary, objectives and summary assessment, detailed findings, and an action plan. Any deviation from the template report requires approval by the CIA.
81. Prior to issuing the draft report internal auditors are required to discuss the draft findings with the appropriate officers to confirm factual accuracy. This will generally be carried out at a clearance meetings and a template has been created to facilitate and document that meeting.
82. Where auditors make recommendations and include an action plan, such recommendations are graded to allow the significance of findings to be ascertained.
83. Action plans will include a management response that sets out the agreed action and timescales for the completion of improvement actions. Internal Audit will enter the agreed actions and timescales in the internal audit follow up database.
84. Where there are any areas of disagreement between the internal auditors and management, which cannot be resolved by discussion, such disagreements should be recorded in the action plan and the residual risk highlighted. As all audit reports are reported to the Committee in their entirety this disagreement will be reported to the Committee as and when the report is presented.
85. In completing audit activities auditors are required to include and disclose all material facts identified as part of their audit work and subsequent reports which, if not disclosed, could distort their reports or conceal unlawful practice. Such disclosures should be made with reference to confidentiality requirements or other considerations that may preclude the release of information into the public domain.

Quality of Communications (PSIAS 2420)

86. The work of Internal Audit should always seek to ensure that communications are accurate, objective, clear, concise, constructive, complete, and timely.

Errors and Omissions (PSIAS 2421)

87. It is the CIA's responsibility to ensure that where a final report contains a significant error or omission, subsequent changes, revisions or corrections are communicated to all parties who received the original communication.

Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' (PSIAS 2430)

88. Internal Audit planning and the production of the audit reports will include reference to work being carried out 'in conformance with the PSIAS'. Such disclosure requires underlying activities, such as the results of any QAIP and an assessment of conformance with the Manual. Such a statement can only be made where there is work to support this disclosure.

Engagement Disclosure of Non-Conformance (PSIAS 2431)

89. Where any non-conformance with the PSIAS or Code of Ethics has impacted on a specific engagement, the communication of the results should include the following disclosures:
 - the principle(s) or rule(s) of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved
 - the reason(s) for non-conformance
 - the impact of non-conformance on the engagement and the engagement results.

Disseminating Results (PSIAS 2440)

90. The CIA is responsible for determining the circulation of audit reports within the Council. This circulation should be mindful of confidentiality or the possibility of other legislative requirements. Standard practice is for the report to be issued to the:

- Chief Executive
- relevant Executive Director
- Head of Financial Services
- SMT Admin (for inclusion in SMT meeting)
- key audit contact
- external audit
- the Committee.

91. The CIA shall determine whether there is any specific reason for the distribution list to be amended for any specific report. All audit reports are submitted in their entirety to the Committee which, through the transparent provision of committee papers, makes them public documents. In the event that the report contains sensitive information they may be restricted however this decision will only be taken in consultation with senior management and legal counsel as appropriate.

Overall Opinion (PSIAS 2450)

92. The CIA will deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement.

93. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and include a statement on conformance with the PSIAS and the results of the QAIP.

Monitoring Progress (PSIAS 2500)

94. Internal Audit are responsible for following up on agreed action plans to ensure those actions are properly implemented. On a quarterly basis services are contacted and asked to provide an update on progress against all open action plan points (which are recorded in an internal audit database). This is reported to the SMT on a quarterly basis and as a standard agenda item to the Committee. Where a service reports an action has been closed Internal Audit ask for evidence to support that status. All action plan points will remain open until appropriate action is demonstrably taken by management or the risk of no action is formally accepted.

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****15 MARCH 2022**

SCRUTINY FRAMEWORK AND MANUAL UPDATE

1. SUMMARY

- 1.1 This report outlines the proposed changes to the Council's Scrutiny Framework and Manual. Both have been updated to reflect amendments to the scrutiny process following the Scrutiny development session held on 27 April 2021 as approved at the Audit and Scrutiny (the Committee) on 15 June 2021.

2. RECOMMENDATIONS

- 2.1 To approve the amended Scrutiny Manual (Appendix 1).
- 2.2 To approve the amended Scrutiny Framework (Appendix 2).

3.0 DETAIL

- 3.1 In March 2018 the Committee approved the Council's Scrutiny Framework which incorporated the scrutiny prioritisation process. In June 2018 the Committee endorsed a Scrutiny Manual which provided more detailed guidance on how to carry out a scrutiny review.
- 3.2 In the four years since those two governance documents were approved we have continued to evolve our approach to scrutiny as we have reflected on what works well, where improvements can be made and alternative ways of performing scrutiny in addition to the current Scrutiny Panel approach.
- 3.3 In March 2020 the Committee considered a 'Scrutiny- Lessons Learned' report. The 'Lessons Learned' were those identified by:
- Scrutiny Panel members
 - Scrutiny Panel witnesses (both internal and external to the Council)
 - the Chief Internal Auditor (CIA and scrutiny officers)
- 3.4 The Lessons learned report also reflected on discussions that had been held during Committees about whether there were different ways that the Committee could perform scrutiny that would complement the Scrutiny Panel approach. For example by inviting council officers to brief the Committees on topics of specific interest.
- 3.5 In April 2021 a development session was held to discuss potential scrutiny topics for review and consider amendments to the scrutiny process.

3.6 The scrutiny topic identification, prioritisation and overall approach adopted at that time was outlined to the Committee. The Committee were asked to consider some key questions and the responses are summarised below:

- There needs to be a degree of flexibility to change topics and to be able to react quickly to an ever changing environment.
- It is for the Committee to determine scrutiny topics
- Depending on the number of emerging topics, the Committee may need to meet more often, however these could be less formal and held virtually
- An annual Scrutiny Plan is not required, topics should be allowed to emerge
- The prioritisation process is there as a tool if needed, but there is no need to assess every scrutiny topic
- There has been value in having full panel meetings but these are resource intensive and scrutiny lite should be adopted where appropriate.

3.7 The Scrutiny Manual (Appendix 1) and Scrutiny Framework (Appendix 2) have been further revised to reflect our evolving approach. The paragraphs below provide a summary of the material changes to both documents (very minor changes have not been detailed):

3.8 Scrutiny Manual Changes

Page	Para	Summary of Change	Reason for Change
3	2 and 4	Potential topics replaced with identified topics	It was agreed that it is for the Committee to identify topics for scrutiny review, other members and senior council officers will no longer be requested to submit potential topics for scrutiny.
App 1 and App 2		Removed reference to Scrutiny Work Plan	It was agreed that an annual scrutiny plan is not required as topics should be allowed to emerge.
App 1 and App 2		CIA contact email address updated to internal audit team address	The CIA has been appointed to the Head of Service Roll additionally it is considered more appropriate that any communication received can be accessed by the scrutiny officers to address any minor matters or escalate if appropriate.

3.9 Scrutiny Framework Changes

Page	Para	Summary of change	Reason for Change
4 and App	10	Removed reference to Scrutiny Work Plan	It was agreed that an annual scrutiny plan is not required as topics should be allowed to emerge.

1			
5	14	Paragraph updated to explain revised flexible approach to identify topics for scrutiny review	It was agreed that there needs to be a degree of flexibility to change topics and to be able to react quickly to an ever changing environment.

4.0 CONCLUSION

- 4.1 The CIA has updated the Scrutiny Framework and Scrutiny Manual to reflect decisions taken at the development session held on 27 April 2021 and the Council's evolving approach to scrutiny.

5 IMPLICATIONS

- 5.1 Policy - None
- 5.2 Financial –None
- 5.3 Legal –None
- 5.4 HR – None
- 5.5 Fairer Scotland Duty – None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty – None
- 5.6 Climate Change - None
- 5.7 Risk – None
- 5.8 Customer Service – None

For further information please contact Internal Audit (01546 604146)

Moir Weatherstone
Interim Chief Internal Auditor
15 March 2022

Appendices

- Appendix 1 - Scrutiny Manual**
- Appendix 2 - Scrutiny Framework**

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Argyll and Bute Council

Scrutiny Manual

March 2022



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Introduction

1. In March 2021 the Audit and Scrutiny Committee (the Committee) approved Argyll and Bute Council's (the Council) updated Scrutiny Framework (the Framework). This was first approved in March 2018 and it establishes the framework for scrutiny within the Council. It is for the use of anyone involved in the scrutiny process including:
 - members of the Audit and Scrutiny Committee
 - all elected members of the Council
 - staff involved in the scrutiny process and those who may be required to provide evidence as part of a scrutiny review
 - members of the public, partners and external organisations who may be invited to provide evidence as part of a scrutiny review.
2. The Framework sets out the process adopted to identify scrutiny topics and confirms that the Chief Internal Auditor (CIA) will develop and maintain guidance on the performance of scrutiny reviews. This manual, first approved by the Committee in 2018 and last updated in March 2022, provides that guidance and is designed to be a reference tool for officers carrying out scrutiny reviews, it is not intended to be prescriptive, but to help ensure the scrutiny review process is a more structured and informed one.

Scrutiny Reviews

3. Scrutiny reviews can be broken down into five stages as illustrated in exhibit 1. The process is cyclical as it can be necessary to revisit earlier steps as the review progresses.

Exhibit 1 – Five Stages of a Scrutiny Review



Stage 1-2 – Scoping and Identifying Required Evidence

4. Initially the identified scrutiny topic may be quite loosely defined. If it is required to be assessed against the prioritisation process defined in the Framework there may already have been a need for it to be clarified. However, if chosen for scrutiny, further clarification may be required to help determine a precise focus. This should be carried out by the appointed scrutiny officer in consultation with the topic proposer and the appropriate council service.
5. Once the topic is clearly defined the scope of the review should be determined. In particular we need to establish the:
 - purpose and objectives
 - specific areas to be covered and any exclusions
 - approach to be adopted
 - evidence required
 - people to be interviewed or invited to give evidence
 - anticipated outputs
 - timescales.
6. Defining the scope of the review will normally happen during an initial panel briefing meeting which is attended by the three Scrutiny Panel members (a subset of the Audit and Scrutiny Committee), the CIA and the appointed scrutiny officer.
7. That initial panel should also agree indicative timescales for panels to allow a provisional plan for the key stages of the review to be created.
8. Once the Scrutiny Panel have agreed the scope and objectives they should be shared with all members of the Audit and Scrutiny Committee. This will be done by e-mail as waiting for the next meeting of the Committee might result in too much time elapsing.

Stage 3 – Evidence Gathering

9. When considering how the evidence is to be gathered it is important to remember there is no definitive process. Every scrutiny review will be different and there are a range of different approaches that should be considered. These include:
 - public meetings
 - surveys
 - workshops / focus groups
 - site visits (internal and external)
 - sourcing data and reports
 - literature research
 - SWOT/PESTLE analysis
 - investigating good practice
 - reviewing performance and financial data including trends and comparisons
 - process mapping
 - investigating potential collaborators and/or alternative suppliers
 - interviewing experts
 - working with officers and elected members to research issues.
10. The evidence can be categorised as either ‘written and secondary evidence’ or ‘oral evidence’.

Written and Secondary Evidence

11. This includes:

- written evidence from internal and external individuals and organisations
- notes taken by the scrutiny officer during interviews or site visits
- existing council plans, policies, strategies, and reports relevant to the subject area
- relevant national guidance, legislation and documentation
- relevant guidance, good practice guides from national and regional bodies
- good practice and innovative reports and plans from other councils.

12. All written evidence considered as part of the review should be kept on file and retained in a manner consistent with the requirements of the Council's records management plan. These files be stored on a SharePoint site managed by Scrutiny Officers.

Oral Evidence

13. The gathering of written evidence may identify a benefit in inviting internal and external individuals to provide oral evidence either to the scrutiny officer as part of the review, or directly to the Committee at an informal and private meeting. The scrutiny process should be inclusive and ensure that all those who wish to contribute whether as councillors, officers, external experts or members of the public feel valued and are able to speak freely and openly.

14. It is important that, all internal and external individuals invited to give evidence, are:

- treated with courtesy and respect
- given ample notice of the time, date and place of meeting
- informed of the review scope
- provided with questions, or the line of questioning, in advance with an explanation that this will not be a restrictive list
- provided with copies of any relevant reports, papers and background information
- given the opportunity to submit written evidence in advance of the meeting which is circulated to Committee members
- given the opportunity to decline or to submit written evidence instead of appearing in person
- introduced to the Committee chair prior to the meeting commencing.

15. Minutes from any scrutiny panels should be circulated to scrutiny panel members, and any council officer or external individuals that participated in the panel to enable them to comment on the factual accuracy of the minute before they are finalised. When these are issued a timescale for response should be provided with a statement that they will be accepted as correct if no response is received by the stated timescale.

Council Officers/Elected Members Providing Evidence

16. Council officers invited to give evidence would normally be third tier managers or above (although this could extend to other elected members). The officers to be invited must be agreed with the relevant member of the Council's Senior Management Team and/or relevant Head of Service to ensure they have the necessary knowledge of the topic.

17. The evidence giving process must be seen as being supportive of scrutiny and not an opportunity to be critical of any officer giving evidence. Questions asked of officers must be focused on reviewing the policies and performance of the Council in relation to the topic being scrutinised. Scrutiny should

never be used to question the capability or competence of officers, or about matters of a disciplinary nature, and questions should never be asked in a way that may be considered confrontational.

18. 'Guidelines for Officers Attending Scrutiny Committees' are included at Appendix 1. A copy of these guidelines should always be provided to officers prior to them attending meetings.

External Experts Proving Evidence

19. External experts can be an essential part of undertaking a scrutiny review and their evidence can be a valuable source of information. Providing information to a scrutiny review or attending a scrutiny committee may be a new experience to some and it should be remembered that external experts are attending on a voluntary basis. It is incumbent on the scrutiny team and Committee members to ensure their experience is positive and stress-free.
20. External experts can be drawn from a wide range of individuals and organisations, for example:
 - elected Members and officers from other councils
 - other external public sector bodies
 - voluntary sector organisations (local, regional and national)
 - professional associations
 - trade unions
 - private sector
 - user groups (local, regional and national)
 - community groups
 - experts in the subject area (academics, public or private sector managers).
21. 'Guidelines for External Experts Attending Scrutiny Committees' are included at Appendix 2. A copy of these guidelines should always be provided to witnesses prior to them attending meetings.

Stage 4-5 - Conclusions and Reporting

22. At the end of a review a draft report should be produced which provides a full picture of the issues under consideration and contains key findings and learning points. The report must be evidence based and relate directly to the review scope.
23. Learning points should focus on delivering improvements in service delivery, policy or strategic direction. The scoping phase of the review will have identified the purpose and objectives of the review and the final report should be closely aligned to those objectives. A template for the report has evolved as the scrutiny process has developed between 2018 and 2021 however we should remain flexible about how we report on scrutiny work as there could be occasions where a different approach might be beneficial. However, as a minimum, the output should include:
 - executive summary
 - introduction (including the background, scope and approach)
 - findings
 - learning points
 - appendices (where required)
24. The draft report should be agreed with the Scrutiny Panel members before being discussed and cleared with the relevant council officers at a meeting attended by the Chair of the Scrutiny Panel, the CIA and possibly the appointed Scrutiny Officer.

25. Once the Scrutiny Panel are satisfied the report can be finalised and submitted to the next scheduled Committee meeting for endorsement, the Committee will also determine at this meeting which, if any, of the other council committees the report should be submitted to for consideration.
26. All scrutiny reports are submitted in their entirety to the Committee which, through the transparent provision of committee papers, makes them public documents. In the event that the report contains sensitive information they may be restricted however this decision will only be taken in consultation with senior management and legal counsel as appropriate.

Appendix 1 – Guidelines for Officers Attending Scrutiny Committees

Giving Evidence to the Audit & Scrutiny Committee – A Guide for Council Officers

Introduction

This document provides guidance to Council staff who have been asked to provide written or oral evidence to the Audit and Scrutiny Committee (the Committee). Scrutiny is a key component of good governance which helps the Council improve our decision making, policy development & implementation and service delivery.

What is the Committee?

The Committee is a cross-party committee made up of seven elected members, (four from the opposition and three from the council administration) and an independent chair. This provides an appropriate political spread within its membership however it is not a political committee and should always conduct itself impartially.

What does the Committee do?

The overall remit of the scrutiny element of the Committee is to *'perform a scrutiny role through the provision and delivery of scrutiny work focused on improving the performance of the Council.'*

In summary it considers the performance of the Council, looking at the effectiveness of policies and service delivery and identifies areas for improvement with, wherever possible, a key focus on outcomes for the community rather than inputs. As such scrutiny adopts a 'critical friend' approach to help promote continuous improvement. The committee does not make policy and does not take decisions about the operation of council services, but it may make recommendations to Council on policy matters.

Scrutiny Support

The Committee is supported by the Chief Internal Auditor and staff from the internal audit section who will be responsible for carrying out scrutiny reviews and drafting the scrutiny reports for the Committee.

The Chief Internal Auditor is responsible for ensuring that officers giving evidence are given good advance notice of any invitation to meet committee members, are properly briefed about the arrangements for the meeting and receive adequate notice of the questions to be discussed at the meeting. If you have any queries about scrutiny or your participation in it then please contact the Chief Internal Auditor (audit.internal@argyll-bute.gov.uk)

Why have you been invited?

You have been asked to meet the Committee because you have knowledge or expertise that is relevant to the topic being reviewed. The meeting also provides you with the opportunity to express your views on any strengths, weaknesses and possible areas for improvement.

What are the arrangements for meeting members of the Committee?

You will be contacted by phone or e-mail by an officer supporting the committee. The officer will explain:

- why you have been invited
- background information about the committee
- background about the topic being investigated

- arrangements for your attendance.

Approximately two weeks before the meeting, you will be sent key themes which will form the basis of the discussion with the committee. This will allow you to come prepared and seek out any information that you may need in advance.

You should inform your line manager that you have been invited to the meeting. If you have any problems or questions, please contact the Chief Internal Auditor.

Meeting location

Historically these meetings take place in one of the Council's administrative buildings however the impact of the COVID pandemic makes it more likely they will be virtual meetings.

What happens at the meeting?

The meetings are informal and are conducted in an open and friendly manner and usually last no longer than two hours. Officers who support the Committee and any independent external expert will also be present. The Chair or nominated lead will open the meeting by welcoming and introducing those present and outlining the process. The key themes will be discussed and you should be open and honest in your responses and feel free to raise additional issues related to the topic.

Please be aware that your participation in the process is very much seen as being supportive of scrutiny and is appreciated by all the Committee members. The scrutiny process is designed to be inclusive and ensure that all those who wish to contribute whether as councillors, officers, external experts or members of the public feel valued and are able to speak freely and openly. It is not an opportunity for Committee members to be critical of any officer giving evidence or to question the competence of any officer. Questions will be focused on reviewing the policies and performance of the Council in relation to the topic being scrutinised.

Notes will be taken of the discussion at the meeting. The meetings are held in private and notes of the evidence will not become record until you have agreed to them.

What happens after the meeting?

After the meeting, you will be sent a summary note of the discussion. You are entitled to make any additions, deletions or amendments to this note and these should be highlighted and the document returned. The note is confidential until it has been agreed by all witnesses. Once the Committee has heard all the evidence, and drawn its conclusions and recommendations, a briefing or report will be written and submitted to a formal meeting of the Committee. At this meeting the Committee will also determine which of the other council committees the report should be submitted to for consideration. This could be to full Council, to the Policy & Resources Committee or to one of the service committees. Scrutiny reports are submitted in their entirety to the Committee which, through the transparent provision of committee papers, makes them public documents. In the event that the report contains sensitive information they may be restricted.

Appendix 2 – Guidelines for External Experts Attending Scrutiny Committees

Giving Evidence to the Audit & Scrutiny Committee – A Guide for External Experts

Introduction

This document provides guidance to external witnesses who have been asked to provide written or oral evidence to the Audit and Scrutiny Committee (the Committee). Scrutiny is a key component of good governance which helps the Council improve its decision making, policy development & implementation and service delivery.

What is the Committee?

The Committee is a cross-party committee made up of seven elected members, (four from the opposition and three from the council administration) and an independent chair. This provides an appropriate political spread within its membership however it is not a political committee and should always conduct itself impartially.

What does the Committee do?

The overall remit of the scrutiny element of the Committee is to *'perform a scrutiny role through the provision and delivery of scrutiny work focused on improving the performance of the Council.'*

In summary it considers the performance of the Council, looking at the effectiveness of policies and service delivery and identifies areas for improvement with, wherever possible, a key focus on outcomes for the community rather than inputs. As such scrutiny adopts a 'critical friend' approach to help promote continuous improvement.

The Committee does not make policy and does not take decisions about the operation of council services, but it may make recommendations to Council on policy matters.

How does the Committee work?

The Committee collects evidence from a wide variety of sources including:

- written evidence from a range of internal and external individuals and organisations
- notes taken by the scrutiny team during interviews or site visits
- existing council plans, policies, strategies, and reports relevant to the subject area
- relevant national guidance, legislation and documentation
- relevant guidance, good practice guides from national and regional bodies
- good practice and innovative reports and plans from other councils.
- questioning witnesses, experts and relevant community groups
- surveys and questionnaires.

Scrutiny Support

The Committee is supported by the Chief Internal Auditor and staff from the internal audit section who will be responsible for supporting scrutiny reviews and drafting the scrutiny reports for the Committee.

The Chief Internal Auditor is responsible for ensuring that external experts giving evidence are given good advance notice of any invitation to meet committee members, are properly briefed about the arrangements for the meeting and receive adequate notice of the themes to be discussed at the meeting. If you have any queries about scrutiny or your participation in it then please contact the Chief Internal Auditor (audit.internal@argyll-bute.gov.uk)

Why have you been invited?

You have been asked to meet the Committee because you have knowledge or expertise that is relevant to the topic being reviewed. The meeting also provides you with the opportunity to express your views on any strengths, weaknesses and possible areas for improvement.

What are the arrangements for meeting members of the Committee?

You will be contacted by phone or e-mail by an officer supporting the committee. The officer will explain:

- why you have been invited
- background information about the committee
- background about the topic being investigated
- arrangements for your attendance.

Approximately two weeks before the meeting, you will be sent key themes which will form the basis of the discussion with the committee however the Committee may not restrict itself to these themes. This will allow you to come prepared and seek out any information that you may need in advance. You are welcome to send an initial written response to these themes before the meeting takes place however this is entirely optional.

Meeting location

Historically these meetings take place in one of the Council's administrative buildings however the impact of the COVID pandemic makes it more likely they will be virtual meetings.

What happens at the meeting?

The meetings are informal and are conducted in an open and friendly manner and usually last no longer than two hours. Officers who support the Committee and any internal or external experts may also be present. The Chair or nominated lead will open the meeting by welcoming and introducing those present and outlining the process. The key questions will be discussed, with supplementary questions being asked where appropriate. The scrutiny process is designed to be inclusive and ensure that all those who wish to contribute whether as councillors, officers, external experts or members of the public feel valued and are able to speak freely and openly.

Notes will be taken of the discussion at the meeting. The meetings are held in private and notes of the evidence will not become record until you have agreed to them.

What happens after the meeting?

After the meeting, you will be sent a summary note of the discussion. You are entitled to make any additions, deletions or amendments to this note and these should be highlighted and the document returned. The note is confidential until it has been agreed by all witnesses. Once the Committee has heard all the evidence, and drawn its conclusions and recommendations, a briefing or report will be written and submitted to a formal meeting of the Committee. At this meeting the Committee will also determine which of the other council committees the report should be submitted to for consideration. This could be to full Council, to the Policy & Resources Committee or to one of the service committees.

Scrutiny reports are submitted in their entirety to the Committee which, through the transparent provision of committee papers, makes them public documents. In the event that the report contains sensitive information they may be restricted.

Am I obliged to attend?

Whilst your participation in the process will be very much appreciated by all the Committee members you are, of course, under no obligation to attend. If you do not wish to be involved in the process or would prefer to just submit written evidence rather than attending to give oral evidence then you are perfectly entitled to make that choice.

Expenses

As you have been invited to attend a meeting the Council would reimburse you for any reasonable travelling expenses.

Argyll and Bute Council
Scrutiny Framework
March 2022



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Introduction

1. The purpose of this document is to explain the framework for scrutiny at Argyll and Bute Council (the Council). It is for the use of anyone who has any involvement in the scrutiny process including:
 - members of the Audit and Scrutiny Committee
 - all elected members of the Council
 - staff involved in the scrutiny process and those who may be required to provide evidence as part of a scrutiny review
 - members of the public, partners and external organisations who may be invited to provide evidence as part of a scrutiny review.
2. In 2017 a decision was taken that the responsibility for the remit of scrutiny would move to a newly established Audit and Scrutiny Committee. The Committee approved a new Scrutiny Framework in March 2018 and this updated version was approved by the Committee in March 2022.

What is Scrutiny?

3. Overview and scrutiny committees were established in England and Wales under the Local Government Act 2000 to provide the opportunity for members of the Council to examine services provided, ask questions on how decisions have been made and consider whether service improvements can be delivered.
4. In Scotland there is no requirement for scrutiny established by statute and consequently scrutiny committees in Scotland have no prescribed powers. This contrasts with the position in England and Wales where scrutiny committees have formal powers to require council officers and elected members to give evidence, require information from the council and require a response to any recommendation put to the council's management team.
5. Whilst there is useful guidance available there is no definitive view on what the role and objectives of scrutiny are in Scotland. Consequently this provides the Council with the opportunity to frame the delivery of governance in the way it feels is most beneficial. The Council's approach to scrutiny focuses on:
 - reviewing the council's effectiveness in achieving policy objectives
 - assessing the impact of council policies
 - making suggestions for improvement.
6. As the primary focus of scrutiny is on council policy it is appropriate to provide a definition of policy.

'Policy – A policy is a formal, concise, accessible statement on how the council intends to conduct business and deliver services. Generally it will be a statement of intent with rules that influence and enable decision making. A policy statement will lessen the risk of conflict and remove the opportunity for unfair selective application of rules'.

Audit and Scrutiny Committee

7. The Council is made up of 36 elected members representing the 11 wards of Argyll and Bute. Elected members play a key role in the Council through their involvement in full council meetings and their representation on the Council's strategic and area committees. A degree of scrutiny is carried out at these committees through performance reporting, ongoing monitoring of service delivery and the consideration of the conclusions from the Council's Performance Improvement Framework (PIF) which sets out the Council's approach to continuous improvement and the agreed mechanism for achieving best value across all services. It is therefore important that the Audit and Scrutiny Committee do not replicate any of the existing scrutiny arrangements and focus its resources in an efficient manner which complements those arrangements.
8. In particular, when assessing potential topics for scrutiny, the Committee should ensure the topic is not already being considered by an existing committee (area or strategic). The Audit and Scrutiny Committee should not generally be seen as the first committee to contact in relation to a topic meriting potential review nor should it be seen as a committee to deal with complaints.
9. The Audit and Scrutiny Committee is a cross-party committee made up of seven elected members, (four from the opposition and three from the council administration) and an independent chair. This provides an appropriate political spread within its membership however it should be stressed that it is not a political committee and should always conduct itself impartially.
10. The terms of reference for the scrutiny element of the Audit and Scrutiny Committee are included in Appendix 3 to this framework however its overall remit is to 'perform a scrutiny role through the provision and delivery of scrutiny work focused on improving the performance of the Council.' The remit of the Audit and Scrutiny Committee would extend to those organisations with whom the Council have entered into any form of formal agreement with for the delivery of statutory services, this would include the Health & Social Care Partnership and Live Argyll. The Audit and Scrutiny Committee is required to meet at least four times every year.

Principles of Good Scrutiny

11. To ensure scrutiny is effective the Centre for Public Scrutiny has put forward four key principles. They being that scrutiny should:
 - provide a 'critical friend' challenge to the council, council officers and agencies
 - reflect the voices and concerns of residents and communities
 - drive improvement in the delivery of public services
 - be delivered by independent minded members.
12. These principles underpin the work of the Council's Audit and Scrutiny Committee.

Scrutiny Support

13. The Audit and Scrutiny Committee is supported by the Chief Internal Auditor and staff from the internal audit section who will be responsible for carrying out scrutiny reviews and drafting the scrutiny reports for the Committee. This ensures impartiality and access to appropriate skills and experience to effectively investigate any aspect of council activity.

Developing the Scrutiny Work Programme

14. The Audit and Scrutiny Committee will identify topics for scrutiny whilst maintaining a degree of flexibility to change these as new topics emerge in an ever changing environment. As there is only a finite amount of resource available to perform scrutiny a clear and transparent prioritisation process has been adopted for assessing multiple potential topics to determine those most likely to have a positive impact on council performance. The prioritisation process will only be required if there is insufficient resource to review all the topics identified by the Committee or if there is any question over whether reviewing the topic would be of material benefit.
15. Stage 1 asks five filtering questions to determine whether the topic passes to stage 2 or is rejected at stage 1. Stage 2 is used to determine whether the topic should be considered as a high or medium priority topic. Appendix 2 illustrates the two stage process.
16. Stage 3 of the prioritisation process applies a weighted scoring system to those topics that successfully progressed from stages 1 and 2. The topic is assessed against eight criteria with weighted scores allocated to each criteria. An overall score is then reached for the topic and this allows the topics with the highest overall score to be prioritised. The score allocated to each criteria will require an appropriate balance of subjective and objective analysis. Appendix 3 illustrates stage 3 of the prioritisation process. There may be circumstances where there is an emerging issue which cannot be fully assessed using the prioritisation process due to there being a lack of supporting evidence. In this circumstance the prioritisation process will still be completed with the selected answers based on a realistic expectation rather than historic evidence. This provides scope for the Audit and Scrutiny Committee to determine whether a topic should be scrutinised despite not being fully subject to the agreed process.

Scrutiny Reviews

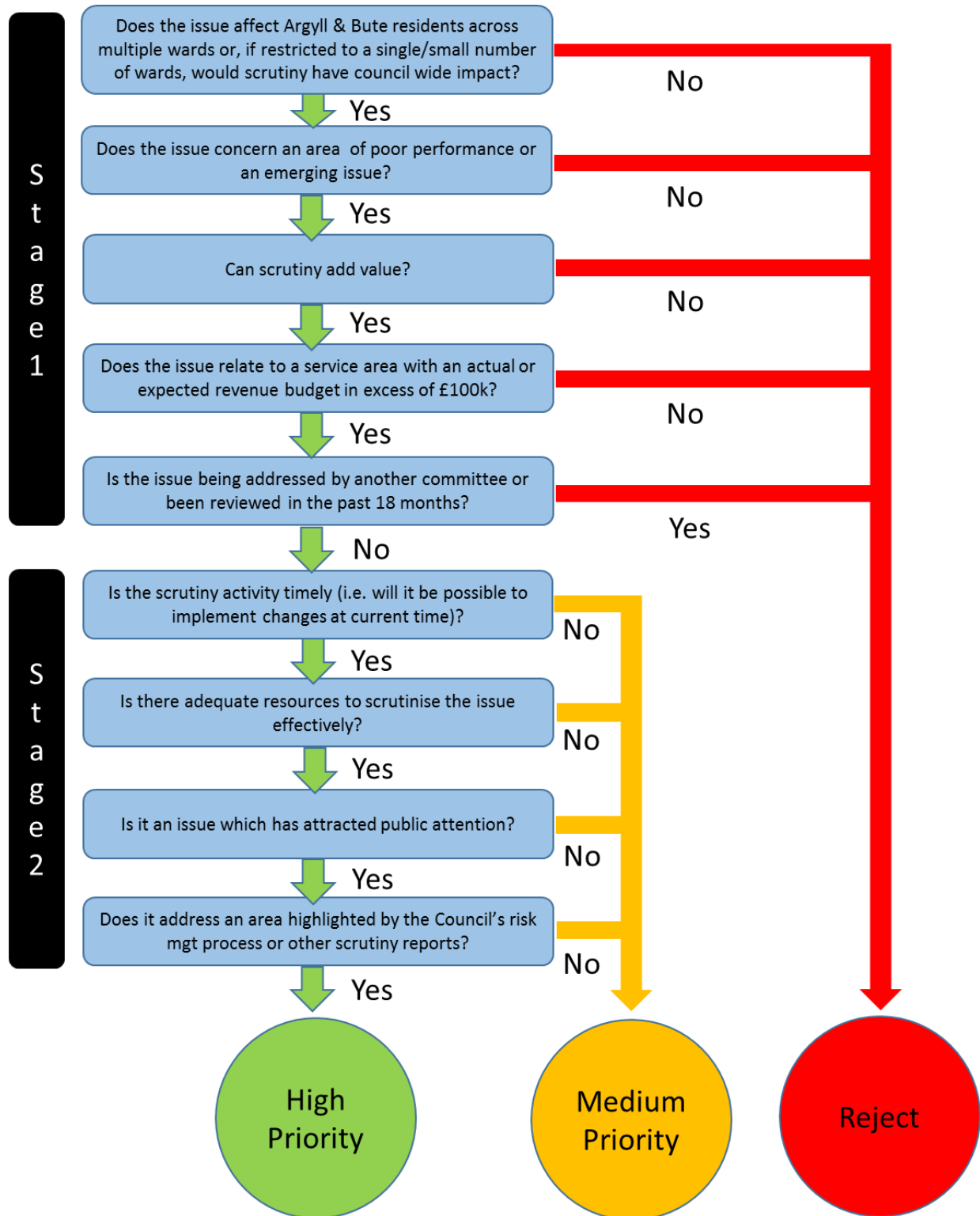
17. Scrutiny reviews are carried out by the scrutiny officer who reports to the Chief Internal Auditor. A review follows a five stage process as set out below:
 - Stage 1 – Scoping
 - Stage 2 – Identifying evidence required and key stakeholders
 - Stage 3 – Evidence gathering
 - Stage 4 – Conclusions and recommendations
 - Stage 5 – Submission of final report
18. Guidance on each of these stages will be developed and maintained by the Chief Internal Auditor.
19. Between 2018 and 2021 scrutiny activity has involved the ‘full panel’ approach which is appropriate for large scale reviews however may be less appropriate if the Committee want to review an emerging issue or where there may be an alternative way of performing scrutiny. Consequently the scrutiny process has evolved to consider alternative ways to perform scrutiny which complement the full panel approach. For example the Committee may wish to invite officers to prepare a formal report or a presentation on a particular topic for Committee to consider or invite them to attend a development session for a more informal discussion.

Appendix 1 – Audit and Scrutiny Committee Terms of Reference (Scrutiny element only)

- To oversee and co-ordinate the scrutiny function including approval of the scrutiny framework and associated policies or procedures.
- To scrutinise the performance of the Council in relation to the achievement of policy objectives and performance targets in relation to all functions of the Council.
- To identify topics for scrutiny work in relation to the performance of the Council and funded third party organisations.
- To consider and make recommendations in respect of scrutiny reports brought to the Committee for consideration.
- To monitor the implementation of scrutiny recommendations accepted by the Council.
- To provide an annual report to the Council on the work of the scrutiny function .
- To periodically review the scrutiny function to ensure it is operating effectively.
- To receive the Council performance report.

Note that the responsibility for scrutiny at service committee level will be incorporated into the service committee terms of reference.

Appendix 2 – Scrutiny Prioritisation Process Stages 1 and 2



Appendix 3 – Scrutiny Prioritisation Process Stage 3

TOPIC TITLE:	Increasing recycling rates						
SUBMITTED BY:	AN Other						
DATE OF SUBMISSION:	08 November 2017						
STAGE 2 ASSESSMENT OUTCOME:	Medium Priority						
	QUESTION	OPTIONS	SELECTION	SCORE	WEIGHTING	TOTAL SCORE	JUSTIFICATION FOR SELECTION
1	What is the current performance based on the council's performance scorecard?	> 10% under target < 10% under target < 10% over target > 10% over target Not applicable	< 10% over target	2	3	6	Business outcome BO24 - Waste is disposed of sustainably has two performance measures. Reduction in waste to landfill of 21,500 and % of waste recycled, composted and recovered of 40%. Current performance is 9,932 and 49.3%. This means we are under target by 54% for target reduction but 23% over for % recycled. As the focus of the topic is increasing recycling the Committee decided to focus on the missed target for reduction.
2	To what extent does the issue contribute to a business outcome aligned to the Council's corporate plan?	Major contribution Significant contribution Medium contribution Slight contribution No contribution	Medium contribution	2	3	6	Whilst recycling is not specifically referenced in the corporate plan, business outcome BO24 ' features in the Roads & Amenity Services service plan. The plan references one of the challenges to the service as being 'Delivery of a revised waste strategy that is affordable and compliant'
3	To what extent is this issue being highlighted as a public concern?	Widespread Significant Medium Slight Not applicable	Slight	1	2	2	There has been a degree of interest and campaigning by local environmental groups however this is not considered to be Council wide and has been mainly isolated to two ward areas.
4	What is the revenue budget commitment to this area of service?	>1m 500k-1m 250k-500k 100k-250k	>1m	4	3	12	Business outcome BO24 has an allocated revenue budget of £11.7m
5	In the past three years what is the pattern of budget performance for this area?	Major under/over spend Significant over/under spend Medium over/under spend Slight over/under spend Largely on budget	Slight over/under spend	1	2	2	Outurns in the previous three financial years have been consistently over budget however in none of these occasions has the budget been exceeded by more than 1.5%.
6	What is the status of national legislation on the issue?	Failure to implement = penalties Current legislation Definite future legislation Possible future legislation Not applicable	Definite future legislation	2	2	4	The service plan established that there is future legislation which will impact upon the service however the full detail of that legislation is not currently clear. Discussion with the Head of Service confirmed that it is likely to involve financial penalties if recycling rates are missed.
7	How widespread is the impact of the issue?	Council wide Multiple wards Single ward Small no of residents No impact	Council wide	4	1	4	For the council to meet future recycling targets our reduction in land fill will need to be improved across all wards. Simply focusing on one or two areas will not deliver the required improvement in performance.
8	Does the issue feature in the Council's risk management registers?	Yes - red risk Yes - amber risk Yes - green risk No	Yes - amber risk	3	3	9	The ORR for D&I includes the following which are relevant to recycling. (RA06-01) Demand Risk - Failure to reduce environmental impact through minimisation of waste to landfill and increasing recycling rates – risk score 8 (RA06-02) Demand Risk – Recycling targets increase – risk score 8
					WEIGHTED TOTAL	45	
					HIGH / MEDIUM FACTOR	1	
					TOTAL SCORE	45	

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****15 MARCH 2022**

UNAUDITED ANNUAL ACCOUNTS 2021-22

1 EXECUTIVE SUMMARY

- 1.1 This report advises the Audit and Scrutiny Committee of the plans in place for financial year end 31 March 2022 and the preparation of the Council's Unaudited Annual Accounts for 2021-22.
- 1.2 The appendices to the report outline the timetables for the closure of the Council's 2021-22 General Ledger, the Social Work Closedown and the Annual Accounts Preparation Plan.
- 1.3 The Committee is asked to note that plans are in place to prepare the Council's Annual Accounts, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2022.

UNAUDITED ANNUAL ACCOUNTS 2021-22

2. INTRODUCTION

2.1 This report advises the Audit and Scrutiny Committee of the plans in place for financial year end 31 March 2022 and the preparation of the Council's Unaudited Annual Accounts for 2021-22.

2.2 Processes have been established to ensure that the Annual Accounts are prepared in accordance with International Financial Reporting Standards (IFRS) on an on-going basis. There are no major changes in accounting practice for 2021-22.

3 RECOMMENDATIONS

3.1 To note that plans are in place to prepare the Council's Annual Accounts, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2022.

4 DETAIL

4.1 "An Audit Committees – Practical Guidance for Local Authorities" has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This suggests that Audit Committees should have an overview of the plans made for preparation of the Council's Annual Accounts.

4.2 A set of instructions for the end of the financial year have been drafted. These cover year-end close down of the Council's financial systems and the preparation of a set of accounts in line with professional and legislative requirements. These are included within appendices 1 and 2.

4.3 The project plan included with the instructions is detailed and includes the following milestones:

- Capital expenditure and treasury management revenue accounts completed by 14 April 2022.
- Revenue expenditure, creditors, debtors, accruals and prepayments completed by 21 April 2022.
- Review and adjustments to ledger and central department cost allocations completed by 12 May 2022.
- Council Tax and NDR entries completed by 13 May 2022.
- Agreement of inter-group balances with Live Argyll and associated journals processed by 29 April 2022.
- Preparation of Unaudited Annual Accounts including report by Section 95

Officer by 3 June 2022.

- Unaudited Annual Accounts considered by a meeting of the Audit and Scrutiny Committee on 14 June 2022.
- Unaudited Annual Accounts considered by a meeting of the Full Council on 23 June 2022.
- Submission of Unaudited Annual Accounts to Accounts Commission by the statutory deadline of 30 June 2022.

4.4 Previously external Audit has been satisfied with the quality of working papers and general arrangements for preparation of the Annual Accounts. The plan should result in Financial Statements prepared by the required deadline of 30 June 2022 and with supporting documentation of a standard to enable completion of the audit by 30 September 2022.

4.5 Whilst there are no major changes in accounting practice for 2021-22, amendments to IFRS 16 Leases were planned to take effect from 01 April 2022, although this is currently under review by CIPFA and may be delayed until 01 April 2023. To ensure compliance with the new standard, preparatory work is underway to make sure the Council is ready should the implementation take effect on 01 April 2022 as previously planned.

5. CONCLUSION

5.1 The timescales are in line with the previous year which should ensure that the Annual Accounts are completed on time and that the working papers meet Audit Scotland's requirements.

5 IMPLICATIONS

5.1	Policy	None at present.
5.2	Financial	None at present.
5.3	Legal	None at present.
5.4	HR	None at present.
5.5	Fairer Scotland Duty	None at present.
5.5.1	Equalities	None at present.
5.5.2	Socio-Economic Duty	None at present.
5.5.3	Islands Duty	None at present.
5.6	Climate Change	None at present.
5.7	Risk	None at present.
5.8	Customer Service	None at present.

Kirsty Flanagan
Section 95 Officer
16 February 2022

Policy Lead for Financial Services and Major Projects - Councillor Gary Mulvaney

For further information please contact Anne Blue, Interim Head of Financial Services, on 01586-555269.

APPENDICES

Appendix 1 – Year End Instructions including General Ledger Closedown and Accounts Preparation Plan.

Appendix 2 - Schedule for Payroll, Overtime and Travel accruals.

Appendix 3 - Health and Social Care Partnership Closedown Timetable



Year End Instructions & General Ledger Closedown Timetable

Draft Financial Year

2021-2022

**YEAR-END INSTRUCTIONS – GENERAL LEDGER CLOSEDOWN
2021/2022 FINANCIAL YEAR**

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1 GENERAL

- 1.1** Appendix 1 gives the detailed year end timetable for the closedown of the general ledger. Achievement of the deadlines highlighted in green are critical to achieving a ledger closedown of **17 May 2022**. **It is vital that any slippage from these deadlines is identified as soon as possible and brought to the attention of Sharon Macalister so that remedial action may be taken.**
- 1.2** Appendix 3 gives the closedown timetable for the Health and Social Care Partnership which will enable figures to be agreed with the Argyll and Bute Integrated Joint Board (IJB) in respect of the Social Work Service. The deadline for reporting an agreed figure back to Health for inclusion in their year-end figures is **Monday 25 April 2022**.
- 1.3** Year-end instructions specific to Development and Infrastructure Services will be issued from their Departmental Financial Services Team.

2 LIVE ARGYLL

- 2.1** In general, unless otherwise stated below, the timescales set out within these instructions for the Council also apply to Live Argyll.
- 2.2** Specifically note that any transfers of actual income/expenditure or budget between the Trust and the Council must be processed in line with the deadlines set out for the Council journals, i.e. 29 April, or 08 April if they contain VAT.
- 2.3** As internal recharges are not processed for Live Argyll, the debtors deadline of 22 March needs to be adhered to for transactions of this nature otherwise they will require to be accrued.
- 2.4** Diane McMillan will collate all invoices and email to creditors eliminating the need for headers. Invoices relating to the 2021/2022 financial year should be E-mailed to **creditors@argyll-bute.gov.uk** no later than 5pm on Friday 18 March for processing through the payables ledger by 24 March. In doing so, no invoices relating to 2022/2023 should be sent to creditors prior Tuesday 5th April 2022 except in circumstances where an Urgent payment is required.

3 REVENUE PAYMENTS AND ACCRUALS

3.1 Creditor Invoices (Manual Batches)

Invoices relating to the 2021/2022 financial year should be E-mailed to **creditors@argyll-bute.gov.uk** no later than 5pm on Friday 18 March for processing through the payables ledger by 24 March. All old year invoices must be batched separately and be clearly marked as **"2021/2022"**.

All invoices still being sent to Creditors by post from Monday 14th March should have a cover sheet clearly showing which financial year the invoices should be processed to and need to be in Campbeltown at Creditors by Friday 18th March. These cover sheets will be issued by Creditors and **must** be used. In addition, as almost all invoices are now being submitted electronically it would be helpful if both the top of the batch header and the subject field of the email could clearly show either the financial year 2021/2022 or 2022/2023.

Invoices for 2022/23 should not be sent to Creditors until after Tuesday 5th April 2022 except in circumstances where an Urgent payment is required.

To enable figures to be agreed with the Argyll and Bute Integrated Joint Board (IJB) in respect of the Social Work Service, Health and Social Care Partnership invoices should be E-mailed to the creditors@argyll-bute.gov.uk by 5pm on 18 March.

3.2 Accruals

All old year invoices received by departments which have failed to make the 5pm Friday 18 March deadline or, the PECOS deadlines detailed at section 3.4, will require to be accrued. In addition, any goods or services received prior to 1 April but not yet invoiced for must also be accrued. These items must be input into the accrual templates which will be emailed to the Departmental Financial Services Teams at the beginning of March for distribution.

The Departmental Financial Services Teams will check, review and collate their respective departmental accruals before returning templates to the Finance Support Team for processing. Each Departmental Financial Services Team will agree with their respective department a timeline for the return of all accrual templates and supporting documentation.

Departmental Financial Services Teams must return all accrual templates and make available supporting documentation to the Finance Support Team, Kilmory by **5pm on Thursday 14th April at the latest.**

In order to comply with Audit requirements, all accruals greater than **£5,000** must have supporting documentation. Auditors may require to understand the basis of the accrual and may test randomly. Acceptable supporting documentation should come in the form of:

- Copy invoice which clearly provides proof of delivery of goods or services on or before 31 March 2022.
- Delivery note dated on or before 31 March 2022.
- Other documentation which provides evidence that the goods or services were provided on or before 31 March 2022.

Orders are not acceptable documentation as they do not show when the goods or services were provided. If you are in any doubt as to what documentation should be provided, please contact your Departmental Financial Services Team.

The Finance Support team will have the accrual templates uploaded by close of play on 21 April. If Departments receive invoices of a material value after their accrual deadline of 14 April, please advise your Financial Services Departmental contact, who will make a determination in conjunction with Financial Services Management as to whether an additional accrual should be processed.

3.3 Invoices relating to 2021/2022 awaiting Credit Notes

If the credit note has not been received in time for the last payment run, and provided the supplier is used regularly, the invoice should be passed for payment and the credit note should be accrued using the invoice accruals template, but shown in the credit column of the accruals template. If the supplier is not used regularly, the invoice should be held awaiting the credit and both the invoice and credit note will require to be accrued.

3.4 PECOS e-Procurement System

All PECOS Invoices are to be submitted to Creditors (pecosinvoices@argyll-bute.gov.uk) by 5pm on Wednesday 16th March. Creditors will ensure all PECOS invoices are keyed to PECOS by 5pm on Friday 18th March.

All PECOS users must ensure unpaid invoices (mismatches or receipt required) are cleared by 5pm on Monday 21st March 2022 to allow Creditors to prepare for the final pay run of the year.

All PECOS users must also ensure all **goods/services/works received/completed** within the old financial year are **receipted** on the system by 5pm on Thursday 31st March 2022.

No access to PECOS will be available on Friday 1st April 2022

A PECOS Accrual report will be run by the Procurement Team on Friday 1st April. This will be issued to the Finance Support Team where the data will be augmented to include the department responsible. This will then be returned to the PECOS Team for issue out to departments on Wednesday 6th April 2022.

- All entries on the PECOS report should be checked by services and accrued where necessary.
- Services will need to ensure that there is sufficient justification in a comments column that will be included on the PECOS report.

- If the order is for over **£5,000** then back-up, in addition to the PECOS system report, will be required and should be submitted to your respective Departmental Financial Services Team by 14 April 2022 at the latest.
- These accruals should be entered onto the main departmental accruals template, which should be completed and returned to the Departmental Finance team.

Any unpaid invoices (mismatches or receipt requirements) cleared after 5pm on Monday 21 March 2022 will be automatically paid from the new financial year. If you require this to be paid from the old financial year, you require to mark it up on the accrual report accordingly.

PECOS will continue to operate as normal from Tuesday 22nd March 2022 (except on Friday 1 April 2022) but all invoices processed after this date will be held, unpaid, until the first pay run of the new financial year restarts in early April (planned as the 6th April) and all payments will be made from the new financial year.

Departments should take the opportunity to review and action all PECOS reports; Unpaid and Open Orders Reports, they received weekly/monthly in the lead up to year-end and rectify as many of the housekeeping issues as possible. Doing this will greatly reduce the number of orders you need to review on your accrual report.

Note:

Review all open orders on the provided report and:

- Close any orders where you are satisfied that the order is complete with no outstanding items or invoices due.
- Receipt any orders completed.
- Clear any mismatches to allow the payment of the invoice or request a credit note if the invoice is incorrect.
- Chase up any missing orders.
- Chase up any outstanding invoices.
- Cancel any orders no longer required.

4 SUNDRY DEBTORS AND INCOME

4.1 Sundry Debtors

The Debtors Section of Financial Services Team, Campbeltown, must receive debtors account input forms, relating to 2021/22, by 22 March. If you have local input of debtor accounts, all accounts for financial year 2021/22 must be input by 29 March. All such accounts must have a service date of 31 March or prior. Any accounts for the old year that are entered on or after 1 April should have the correct service date entered, even if prior to 31 March. These accounts will have to be included within the income accruals template.

New year sundry debtors should be clearly marked 2022/2023 and these will be entered into the sundry debtor system in the new financial year.

4.2 Cash Receipting System

The cash receipting reports for the period 31 March to 1 April will all be processed into the 2021/2022 financial ledger. All income received from Friday 1 April onwards, will be processed into the 2022/2023 financial ledger.

Any income processed through cash receipting for the cash in transit period will be accrued by the cash receipting team.

4.3 Banking of Income

All offices/facilities that collect money and receipt it via the Area Offices should ensure that all money relating to financial year 2021/2022 is taken to the Area Office by 4pm on Thursday 31 March.

For offices/facilities that use the bank, again, all money relating to financial year 2021/2022 should be banked before close of business on 31 March.

It is possible that further monies may be received on that day, after the final banking. If this is the case, these amounts will require to be included on the income accruals template and contact should be made with the appropriate Financial Services Departmental Contact.

4.4 E-Income Journals and Manual Income Journals

Staff who complete E-Income Journals (for cash received other than cash processed through the cash receipting system) should do so on 31 March. Completed E- Income journals should be e-mailed on 31 March to the Cash Section (Financial Services). All other manual income journals should be posted on 31 March to arrive at the Cash Section (Financial Services) no later than Tuesday 5th April.

Separate E-Income journals should be completed for income received from 1 April onwards – this will be processed in financial year 2022/2023. E-Income journals and manual income journals should state clearly which financial year the income on that journal relates to.

4.5 Imprests

The Creditors Section (Financial Services) will issue imprest certificates/returns to imprest holders by Monday 28 February. **Certificates for all establishments, including schools, should be returned to the Creditors Section (Financial Services), Campbeltown as soon as possible after 31 March but no later than Friday 22 April.**

5 CAPITAL

5.1 Capital Expenditure and Capital Journals

All capital invoices relating to 2021/22 should be sent to the Campbeltown Creditors section or E-mailed to ***creditors@argyll-bute.gov.uk*** as soon as they are received, **but no later than 5pm on Friday 18 March.**

All old year capital invoices received by departments but which have failed to make the 18 March deadline will require to be accrued. In addition, capital expenditure incurred prior to 1 April but not yet invoiced / certificated must also be accrued.

These items must be input into the capital accruals template which will be emailed to the departmental capital programme contacts at the beginning of March. The template should be E-mailed to ***gilly.allenby@argyll-bute.gov.uk*** by 5pm on Tuesday 5 April. All capital accruals must have supporting documentation which proves that the expenditure was incurred prior to 1 April.

5.2 Capital Financed from Current Revenue (CFCR)

Where expenditure has been incurred on capital items/assets but funded through the revenue budget, this needs to be identified and a journal to transfer the expenditure to capital put through. A template will be e-mailed to the departmental capital programme contacts, asking for information on any CFCR expenditure incurred during 2021/22.

The template should be E-mailed to ***gilly.allenby@argyll-bute.gov.uk*** by 5pm on Friday 1 March 2022.

6 JOURNALS

- 6.1** Departments will be allowed to process their own journals up to 29 April. Only material adjustments will be processed by the Finance Support Team after this date with agreement of Financial Services Management.

To reflect a normal period end at the end of March, departments will be able to process normal period end journals through the March period in the ledger until Wednesday 23 March. After that, all journals processed by departments must be processed through the “adjust” period and not through “March”. Care should be taken over which period is selected as Adjust and April will all be open.

Journals containing VAT which relate to 2021/2022 should **not be processed at all by any staff after 09 April** without consulting Sandra Coles (Financial Services). Sandra will be preparing the VAT return for March once the payables ledger is closed on 24th March and if there are any VAT adjustments made to the old year after this date they will be missed through the VAT return.

Any journals containing capital codes should follow the deadlines set out in Section 5.1 above i.e. 5pm on Friday 18 March.

7 INTERNAL RECHARGES

7.1 Old Year Internal Recharges

Over £1,000

Internal recharges will be processed by the Finance Support Team.

On 1 March, the Finance Support Team will contact the receiving department of any Internal Recharges that are still outstanding on the system dated 31 January or earlier. These should be returned to the Finance Support Team by 18 March for processing.

Creators of invoices in each section can view all invoices raised against their service that are still outstanding by using the “View Recharges Allocated to my Service” choice on the Main menu.

The final date for producing internal recharges for 2021/2022 is Friday 18 March. These should be sent to receiving departments for coding immediately.

Receiving departments should send all internal recharges to the Finance Support Team, Kilmory as early as possible, but no later than 1pm on Tuesday 22 March. These will be processed and coded into March on Wednesday 23 March.

Any remaining accounts still outstanding will be cleared from the system on 23 March to the cost codes detailed below. A list of charges that have been cleared will be provided to the receiving department.

The following customer department accounts will be debited/credited as appropriate:

Executive Director – Douglas Hendry - Education	E2000010000.29901
Financial Services	C1283010000.29901
Executive Director – Douglas Hendry – non Education	80000000000.29901
Executive Director – Kirsty Flanagan	70000000000.29901
Health & Social Care Partnership	50000030000.29901

Under £1,000

The journal prepared by each department for any Internal recharges less than £1,000 for the March period should be sent to the Finance Support Team by 12 noon on Tuesday 22 March and will be uploaded into the ledger on Wednesday 23 March.

7.2 Mail and Print Room Recharges

The monthly mail and print room charges for the March period should be sent to the Finance Support Team by 12 noon on 22 March and will be uploaded into the ledger on Wednesday 23 March.

7.3 Clearance of Internal Recharges Clearance Account No 29901

Departmental journals should be raised to clear the 29901 accounts. However, it is expected that departments will make all attempts to clear outstanding invoices before any transfer to the 29901 accounts can take place.

It is the responsibility of each department to ensure recharges coded to 29901 are cleared prior to Friday 18 March.

8 STORES/WORK IN PROGRESS

8.1 General

Departments should inform their Principal Accountants as soon as possible if they consider that they will have any difficulty in complying with the following stock and work in progress working paper requirements.

Internal audit will be present at selected stock counts and will be performing sample checks. External audit may also be present.

8.2 Stock Count

All Development and Infrastructure Services (Salt and Fuel), and Social Work stores must perform a full physical stock count on or around 31 March. Instructions will be issued to all Development and Infrastructure Services locations with stores by 1 March by the Development and Infrastructure Services Financial Services Team. The Social Work Departmental Finance Team will issue instructions for the Social Work stores.

Stock certificates must be completed by Roads and Infrastructure Services and Social Work Services and sent to their Departmental Principal Accountant by Friday 08 April. These certificates should be accompanied by detailed working papers including;

- Original stock count working papers.
- Final priced stock sheets (quantity x price) totalled to give stock value for each store.
- Details of obsolete stock and any stock provisions / write-downs.

The Principal Accountants should retain all reviewed certificates and the above stock working papers for inclusion in the year-end working paper files for the external auditors by Thursday 14 April. Where possible electronic working papers should be provided.

8.3 Work in Progress – Roads and Lighting Operational Holding Account

Development and Infrastructure Services are required to prepare a valued list of work in progress for the Roads and Lighting Operational Holding Account by 3 May and this should be passed over to the Principal Accountant – Development and Infrastructure Services for review.

Detailed listings at works order level of work in progress for the Roads and Lighting Operational Holding Account should be retained (preferably in electronic format) to back up the work in progress figure processed through the ledger.

9 CONTROL AND SUSPENSE ACCOUNTS

9.1 Control Accounts

A responsible person has been identified for each control account in the general ledger. Reports will be issued on 24 March to the relevant Finance Contact, giving the current balance on each control account along with a "Carry Forward of Control Account Balance" form. The balance in the control account either requires to be cleared to zero or carried forward to the next financial year. The Finance Contact will complete the appropriate forms once all journal entries have been processed and ensure they are signed off by the responsible person. If a carry forward is required, justification and a reconciliation must be attached to the carry forward form. Care should be taken to ensure that any balances to be carried forward are correct and represent a genuine debtor or creditor.

The "Carry Forward of Control Account Balance" form should be sent to the Finance Support Team (Kilmory) by Thursday 28 April.

All clearance and adjusting journals will be processed by the Finance Support Team by Friday 29 April.

The Revenue and Benefits Finance Manager has until Thursday 13 May to clear the "raw cash" control account balances in conjunction with processing of year-end council tax and NDR journals.

9.2 Suspense Accounts

A responsible person has been identified for each suspense account in the general ledger. Reports will be issued on 24 March giving the balance on each suspense account. This balance requires to be cleared. Under no circumstances should transferring to another suspense account clear the balance. All clearance journals for suspense accounts other than payroll suspense must be completed and input into the ledger by Friday 22 April.

Entries from the monthly Pay07 payroll run which hit the payroll suspense should be cleared by 11 April and cleared by 25 April for the Pay10 teachers' payroll run. This will enable the payroll accruals to be prepared and processed through the ledger.

10 PAYROLL

10.1 General

Deadlines for the receipt of timesheets, expenses and other payroll input from departments will follow normal payroll deadlines. Separate guidance will be issued from Financial Services/Payroll, Campbeltown prior to the year-end.

Any additional questions on payroll and travel claims should be directed as follows:

Payroll – 01586 555211
 Travel Claims– Malcolm Bannatyne – 01586 555256

10.2 Payruns

Details of the method of calculating payroll accruals are noted below and accruals will be processed by the Financial Services Finance Support Team. Appendix 2 gives full details of the year end payroll dates and accruals required.

Payrun	Week/Month No	Payroll	Proportion Accrued	
			Overtime	Travel & Subsistence
Pay 07 Monthly	01	16/31sts	100%	100%
Pay 10 Teachers	01	100% part time hrs *	N/A	100%

* Part time teachers' hours and enhancements relating to March will be 100% accrued.

10.3 Travel Claims

Staff travel claims are mainly submitted via the "MyView" on-line system. The year-end deadlines for "MyView" travel and expense claims are as follows:

- PAY 07 Mth 12 - must be submitted by 21 February 2022 & authorised by 28 February 2022.
- PAY 07 Mth 1 - must be submitted by 24 March 2022 & authorised by 31 March 2022.
- PAY 10 Mth 1 - must be submitted by 14 April 2022 & authorised by 21 April 2022.

The above cut-off dates for travel and expense claims over the year-end period will be clearly displayed on the "MyView" system when staff log in.

All other travel expense claims should be sent to the Creditors Section no later than the above authorised date for the appropriate payroll.

Care should be taken to note the dates for receipt of travel and expense claims at the creditors section in order to ensure that as much travel and expenses as possible for the period up to 31 March 2022 is incorporated within the pay run that will be accrued. It is essential, for accrual purposes, that all business mileage incurred up to and including 31 March is incorporated into one claim and any business mileage incurred on or after 1 April is entered onto a separate claim.

If a travel claim is not going to meet the creditor section's deadline, then the department will require to accrue the travel claim manually. In this instance, it is still preferable to have two separate travel claims for before and after the 31 March, for ease of accrual preparation.

It is imperative that leased car users enter their final milometer reading onto their 2021/2022 claim. Details of Essential and Leased car users business mileage must be communicated to the Inland Revenue and is used to calculate their tax, so it is very important that the figures given are accurate and relate to the correct financial year.

11 AMENDMENTS TO HIERARCHIES / COST CENTRES DURING YEAR END PERIOD

11.1 Any cost centre/account codes that have been used in the period year 2021/2022 that have to be disabled for the year 2022/2023 will not be processed until after the Support Service model has been run through the ledger and the analytical review has been completed.

The control sheets should be E-mailed to astrid.ronald@argyll-bute.gov.uk and will be held until the changes are made. The period that this affects is 31 March 2022 – 31 May 2022.

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
1. Capital Expenditure Processing	1	CFCR template returned to Financial Services	Morag Cupples	Departments	01/03/2022
	2	Processing of CFCR journals by Finance Support Team	Morag Cupples	Finance Support Team	03/03/2022
	3	Deadline for capital payments to Creditors Section	Morag Cupples	Departments	18/03/2022
	4	Processing of final external capital payments	Morag Cupples	Creditors Section	18/03/22 - 22/03/22
	5	Roads Capital Measures	Morag Cupples	Departments	22/03/2022
	6	Final payment run processed capital	Morag Cupples	Creditors Section	23/03/2022
	7	Year-end journals of transfers to/from revenue accounts	Morag Cupples	Morag Cupples	22/03/2022
	8	Property Fee Charges Processed and Infrastructure Design Billing Run	Morag Cupples	Gill Allenby	04/04/2022
	9	Ledger checked daily for capital expenditure	Morag Cupples	Gill Allenby	04/04/22 - 29/04/22
	10	Deadline for capital accruals template/CFCR template/journals to Financial Services (Whitegates)	Morag Cupples	Departments	04/04/2022
	11	Processing of final external capital payments/accruals	Morag Cupples	Astrid Ronald	06/04/2022
	12	Capital expenditure processing complete	Morag Cupples	Gill Allenby	06/04/2022
2. Fixed Assets Non-Current Assets Available for Sale	13	Capital expenditure final download from ledger	Morag Cupples	Gill Allenby	07/04/2022
	14	Allocate Capital Grant	Morag Cupples	Gill Allenby	07/04/2022
	15	Allocation of balance sheet codes to mass allocation journal	Morag Cupples	Gill Allenby	08/04/22 to 29/04/22
	16	Mass allocation processed	Morag Cupples	Astrid Ronald	29/04/2022
	17	Capital expenditure complete	Morag Cupples	Gill Allenby	29/04/2022
Depreciation/Property Plant and Equipment Processing	18	Revaluation of Properties by Estates - including supporting evidence of assets classified for sale	Morag Cupples	Estates	19/04/2022
	19	Update asset register for new assets/additions/disposals/transfers	Morag Cupples	Gill Allenby	03/05/22 to 06/05/22

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	20	Run depreciation/impairment charges and process journal	Morag Cupples	Gill Allenby	06/05/2022
	21	Update Asset Register for Revaluations	Morag Cupples	Gill Allenby	09/05/22 - 10/05/22
	22	Process balance sheet depreciation/revaluation journals	Morag Cupples	Gill Allenby	11/05/22 - 12/05/22
	23	Reconcile asset register to ledger	Morag Cupples	Gill Allenby	13/05/22 - 16/05/22
	24	Capital Accounting Entries Complete	Morag Cupples	Gill Allenby	16/05/2022
3. Loan Charges	25	Complete interest on revenue balances	Moira Miller	Sandra Coles	24/03/2022
	26	Complete PSTM Reconciliations	Moira Miller	Sandra Coles	05/04/22 to 12/04/22
	27	Accrual of Borrowing Interest and Expenses	Moira Miller	Sandra Coles	07/04/22 to 12/04/22
	28	Accrual of Investment Interest and Expenses	Moira Miller	Sandra Coles	07/04/22 to 12/04/22
	29	Financial Services expense allocation	Moira Miller	Sandra Coles	12/04/2022
	30	Provision of capital repayment figures for house loans	Moira Miller	Duncan MacBrayne	28/03/22 to 11/04/22
	31	Calculate weighted capital expenditure in year	Anne Blue	Moira Miller	12/04/2022
	32	Input annuity rate loan charges model and calculate loan charges	Anne Blue	Moira Miller	13/05/2022
	33	Process loans charges/SMGFB (Statement of Movement in General fund) journals	Moira Miller	Sandra Coles	14/04/2022
	34	Loans fund revenue account (ensure nil)	Moira Miller	Sandra Coles	18/05/2022
	35	Management review of loans fund calculations after all journals processed through ledger	Kirsty Flanagan	Anne Blue	16/05/22 - 18/05/22
	36	Loans Charges Complete	Anne Blue	Moira Miller	18/05/2022
4. IFRS Pensions Accounting - Year End Accounting Entries	37	IFRS Pensions Report Received from Actuaries (Hymans Robertson)	Anne Blue	Anne Blue	03/05/2022
	38	Check reasonability of data in report	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	39	Calculate pensions entries in ledger	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	40	Process pensions entries in ledger	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	41	Check no bottom line impact on general fund	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	42	IFRS Pension Entries Complete	Anne Blue	Moira Miller	29/04/2022
<i>5. Creditor Payments</i>	43	Deadline for Health and Social Care Partnership Invoices to Creditors	David Forshaw / Malcolm Bannatyne	Departments	18/03/2022
	44	Departments processing old year invoices	Departments	Departments	18/03/2022
	45	Deadline for passing invoices to Finance (Campbeltown)	Malcolm Bannatyne	Departments	18/03/2022
	46	Processing of final revenue payments 2020-21	Malcolm Bannatyne	Creditors Section	24/03/2022
	47	Final payment run processed	Malcolm Bannatyne	Creditors Section	24/03/2022
		Payables re-opens for processing to April	Malcolm Bannatyne	Creditors Section	05/04/2022
	48	Production and processing of final feeders to road costing	Malcolm Bannatyne	Creditors Section	13/04/2022
	49	Closure of March 2021 Period (5pm)	Mary McCallum	Astrid Ronald	24/03/2022
	50	Reconciliation of Core Payables Liability	Mary McCallum	Duncan MacBrayne	24/03/2022
	51	VAT return completed	Moira Miller	Sandra Coles	15/04/22 - 20/04/22
	52	Creditor Payments and VAT completed	Mary McCallum	Astrid Ronald	20/04/2022
<i>6. Health and Social Care Integration</i>	53	Agree final outturn position with Chief Financial Officer of Integrated Joint Board	David Forshaw	David Forshaw	25/04/2022
<i>7. Revenue Accruals/Prepaid Expenditure</i>	54	Accrued/Prepaid expenditure templates issued to departments	Mary McCallum	Astrid Ronald	14/02/2022
	55	Departments complete accrued / prepaid expenditure templates - this to be collated and checked by Departmental Financial Services Teams	Principal Accountants	Departments / Departmental Support Teams	21/03/2022 - 14/04/2022
	56	Deadline for return of accrued / prepaid expenditure templates to Finance Support Team	Principal Accountants	Departmental Support Teams	14/04/2022
	57	Finance Support team process accrued/prepaid expenditure	Mary McCallum	Astrid Ronald	19/04/22 - 21/04/22
	58	Deadline for Upload of Accrual Templates to General Ledger.	Mary McCallum	Astrid Ronald	21/04/2022
<i>PECOS Accruals</i>	59	All PECOS invoices to be with Creditors for keying by 5pm.	Departments	Departments	16/03/2022
	60	Final keying of PECOS invoices by Creditors.	Malcolm Bannatyne	Creditors Section	18/03/2022

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	61	All unpaid invoices (mismatches and receipts) required to be cleared from PECOS system by 5pm. Procurement will continue to issue weekly reports of all unpaid invoices to Heads of Service for circulation to their staff. Each PECOS requisitioner is responsible for clearing their own unpaid invoices.	Mary McCallum	Departments / Emma Graham	21/03/2022
	62	Final PECOS interface with payables ledger for 2021-22. <i>(Run matching process at 5.30pm on 21st)</i>	Mary McCallum	Creditors Section	22/03/2022
	63	Final PECOS Pay-All of 2021-22	Malcolm Bannatyne	Creditors Section	24/03/2022
	64	All PECOS users to ensure all goods/services/works received/completed within the old financial year are receipted on the system by 5pm.	Departments	Departments	31/03/2022
	65	PECOS Accrual Report run.	Mary McCallum	Emma Graham	01/04/2022
	66	PECOS Accrual Report issued to Finance Support Team to manipulate to include department and return to PECOS team to issue to Departments.	Mary McCallum	Emma Graham / Astrid Ronald	01/04/22 to 06/04/22
	67	Circulation of year end reports to each Department.	Mary McCallum	Emma Graham	06/04/2022
	68	PECOS interfaces to Payables to continue processing into New Year.	Mary McCallum	Procurement/Creditors	05/04/2022
	69	Departments to include unpaid receipted orders on main accrual template.	Principal Accountants	Departments / Departmental Support Teams	06/04/22 to 14/04/22
<i>Holiday Pay Accrual - Teachers</i>	70	Collection of teacher data	Mary McCallum	Mary McCallum	28/03/22 to 07/04/22
	71	Calculation of teachers holiday pay accrual	Mary McCallum	Mary McCallum	01/04/22 to 08/04/22
	72	Process journal and SMR reversing entry	Mary McCallum	Mary McCallum	08/04/2022
<i>Holiday Pay Accrual - Other Staff</i>	73	Completion of holiday pay accrual template based on previous years sample and methodology	Mary McCallum	Mary McCallum	01/04/22 to 08/04/22
	74	Process journal and SMR reversing entry	Mary McCallum	Mary McCallum	08/04/2022
<i>Payroll - Pay 07 MONTHLY (Month 1)</i>	75	Deadline for Travel/Expense Claims to Creditors - Pay 07 Month 1	Malcolm Bannatyne	Departments	24/03/2022
	76	Deadline for Timesheets to Payroll - Pay 07 Month 1	Lorraine Brodie	Departments	05/04/2022
	77	Processing Pay 07 Month 1	Lorraine Brodie	Payroll Section	07/04/2022
	78	Clearance of Pay 07 Month 1 suspense items	Lorraine Brodie	Payroll Section	14/04/2022

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	79	Accrual Pay 07 Month 1	Mary McCallum	Ailsa Laing / Duncan MacBrayne	14/04/22 to 19/04/22
<i>Payroll - Pay 10 TEACHERS (Month 1)</i>	80	Deadline for Travel/Expense Claims to Creditors - Pay 10 Teachers Month 1	Malcolm Bannatyne	Departments	14/04/2022
	81	Deadline for Timesheets to payroll Pay 10 Teachers Month 1	Lorraine Brodie	Departments	20/04/2022
	82	Processing Pay 10 Teachers Month 1	Lorraine Brodie	Payroll Section	21/04/2022
	83	Clearance of Pay 10 Month 1 suspense items	Lorraine Brodie	Payroll Section	27/04/2022
	84	Accrual Pay 10 Teachers Month 1	Mary McCallum	Ailsa Laing / Duncan MacBrayne	28/04/22 to 29/04/22
<i>Payroll - Pay 10 TEACHERS (Month 2)</i>	85	Deadline for Travel/Expenses Claims - Pay 10 Teachers Month 2	Lorraine Brodie	Departments	06/05/2022
	86	Deadline for Timesheets to Payroll Pay 10 Teachers Month 2	Lorraine Brodie	Departments	18/05/2022
	87	Processing Pay 10 Teachers Month 2	Lorraine Brodie	Payroll Section	19/05/2022
8. Cash and Income - Accrued/Deferred Income - Sundry Debtor Accounts	88	Deadline for sending debtor accounts to Debtors Section	Fergus Walker	Departments	22/03/2022
	89	Input of old year debtor accounts (Central and Local)	Fergus Walker	Jennifer Gorman	23/03/22 to 29/03/22
	90	Year end reports produced	Fergus Walker	Jennifer Gorman	05/04/2022
	91	Sundry Debtor account reconciliations	Fergus Walker	Jennifer Gorman	05/04/2022 - 12/04/2022
	92	Calculation of Sundry Debtors Bad Debt Provision	Fergus Walker	David Forshaw	11/04/22 to 14/04/22
	93	Process journal adjusting ledger for change in Sundry Debtors BDP	Fergus Walker	David Forshaw	14/04/2022
	94	Sundry Debtor accounts complete	Fergus Walker	David Forshaw	14/04/2022
<i>Housing Benefit Overpayments</i>	95	Calculation of Housing Benefit Overpayment Debtor	Fergus Walker	Fergus Walker	06/05/2022
	96	Calculate associated bad debt provision	Fergus Walker	Fergus Walker	06/05/2022
	97	Process journals for housing benefit overpayments	Fergus Walker	Fergus Walker	06/05/2022
	98	Housing Benefit Overpayments Complete	Fergus Walker	Fergus Walker	06/05/2022
<i>Banking</i>	99	All monies/cheques should be banked	Departments	Departments	31/03/2022

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22	
<i>E-Income Journals</i>	100	Monies/cheques received after final banking relating to 2021-22 to be added to accruals template	Principal Accountants	Departments	01/04/22 to 05/04/22	
	101	Deadline for E- Income Journals to Cash Section. Kintyre House, Campbeltown.	Margo Turner/Nancy Hope	Departments	31/03/2022	
	102	Cash Section to process year-end E-income journals	Margo Turner/Nancy Hope	Cash Section	01/04/22 to 05/04/22	
	103	Bank reconciliation on expenditure account	Malcolm Bannatyne	Creditors Section	06/04/22 to 22/04/22	
	104	Bank reconciliation on Council Tax and NDR account	Fergus Walker	Alison McGeachy	06/04/22 to 22/04/22	
	105	Bank reconciliation on Income Account	Fergus Walker	Alison McGeachy	06/04/22 to 22/04/22	
	106	Bank reconciliation on Housing Benefit Account	Fergus Walker	Sharon Leitch	06/04/22 to 22/04/22	
<i>Imprests</i>	107	Bank reconciliation on Land Contamination Bank Account	Moira Miller	Sandra Coles	06/04/22 to 22/04/22	
	108	Imprest certificates/returns issued to imprest holders	Malcolm Bannatyne	Graham Munro	28/02/2022	
	109	Establishments complete certificates/returns	Departments	Departments	31/03/22 to 14/04/22	
	110	Deadline for return of Certificates to Creditors Section	Departments	Departments	14/04/2022	
	111	Reconciliation of all Imprest balances (including schools)	Malcolm Bannatyne	Graham Munro	19/04/22 to 21/04/22	
	112	Process final imprest adjustments in ledger	Malcolm Bannatyne	Graham Munro	22/04/2022	
	113	Income Accrual / Deferred Income Templates issued to departments	Mary McCallum	Astrid Ronald	14/02/2022	
	114	Submit Manual journal entries for any Internal Recharges that need to be processed for 21-22 FY. Upload by Finance Support Team	Mary McCallum	Astrid Ronald	05/04/2022	
	<i>Other Income Accruals / Deferred Income</i>	115	Uploaded by finance Support Team	Mary McCallum	Astrid Ronald	06/04/2022
		116	Departments complete other income accrual/ deferred income templates	Principal Accountants	Departments	21/03/2022 - 14/04/2022
117		Deadline for return of accrued / deferred income templates to Finance Support Team.	Principal Accountants	Departmental Support Teams	22/04/2022	
118		Finance Support team process income accruals / deferred income	Mary McCallum	Astrid Ronald	22/04/22 to 26/04/22	
9. Internal Recharges	119	Final date for producing 2021-22 Internal recharges	Departments	Departments	18/03/2022	
	120	Deadline for coded recharges to be sent to Finance Support Team	Departments	Departments	23/03/2022	
	121	Internal Recharges uploaded into the ledger	Mary McCallum	Margaret Ellis	23/03/2022	

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	122	Outstanding Accounts cleared from Internal Recharge system	Mary McCallum	Margaret Ellis	23/03/2022
10. Stores and Work in Progress - Stores	123	Departments to clear 29901 accounts	Departments	Departments	06/04/22 to 08/04/22
	124	Accounting and Budgeting Teams issue instructions to Stores	Morag Cupples / David Forshaw	Departments	28/02/2022
	125	Departments prepare for stock count	Morag Cupples / David Forshaw	Departments	01/03/22 to 30/03/22
	126	Stock count	Morag Cupples / David Forshaw	Departments	31/03/2022
	127	Stock certificates to be completed and sent to Principal Accountants, Development and Infrastructure Services and Social Work	David Forshaw	Departments	01/04/22 to 08/04/22
	128	Stock certificates to be completed and sent to Principal Accountants, Development and Infrastructure Services and Social Work	Morag Cupples	Departments	01/04/22 to 08/04/22
	129	Principal Accountants to review certificates and process final journal	David Forshaw	Departments	11/04/22 to 14/04/22
	130	Principal Accountants to review certificates and process final journal	Morag Cupples	Departments	11/04/22 to 14/04/22
Work in Progress	131	Department prepares a valued list of Works in Progress	Morag Cupples	Departments	01/04/22 to 03/05/22
	132	Pass to Principal Accountant for Review and Journal Processing	Morag Cupples	Morag Cupples	03/05/22 to 04/05/22
	133	Consolidation Adjustments (if any)	Morag Cupples	Morag Cupples	06/05/2022
	134	Finalise Lead Schedule and Working Papers	Morag Cupples	Morag Cupples	06/05/2022
11. Control and Suspense Accounts - Control Accounts	135	Report issued to Control Account Holder	Mary McCallum	Duncan MacBrayne	24/03/2022
	136	Clear balance or complete Carry Forward of Control Account Balance form	Mary McCallum	Control Account Budget Holders	24/03/22 - 29/04/22
	137	Transfer of control account balances to Balance Sheet	Mary McCallum	Duncan MacBrayne	02/05/22 - 04/05/22
Suspense Accounts	138	Report issued to Suspense Account Holder	Mary McCallum	Duncan MacBrayne	24/03/2022
	139	Balance should be cleared (excluding payroll suspense which should be cleared by 06 April for Pay07 entries and 25 April for Pay10)	Mary McCallum	Departments	05/04/22 to 22/04/22

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
12. Journals and Feeders	140	Opening of April and Adjust Periods	Mary McCallum	Astrid Ronald	04/04/2022
	141	Departments prepare and input journals	Principal Accountants	Departments	04/04/22 - 29/04/22
	142	Dept's cut off date for journals	Mary McCallum	Departments	29/04/2022
	143	Processing of Central Finance journals	Mary McCallum	Astrid Ronald	29/04/2022
	144	Final feeders from roads costing to general ledger	Morag Cupples	Joyce Cowan	01/04/22 to 03/05/22
	145	Preparation and input of any final journals identified	Principal Accountants	Departmental Support Teams	04/04/22 - 29/04/22
	146	Central support / departmental admin recharging	Mary McCallum	Mary McCallum	09/05/22 to 12/05/22
	147	Input of Live Argyll Journals and agreement of final Balance Sheet Position	Sharon Macalister	Beth Walkosz	04/04/22 - 29/04/22
	148	Input of Council Tax & NDR Journals / Clearance of Raw Cash Accounts	Fergus Walker	Fergus Walker	04/04/22 - 13/05/22
	149	Closure of 2021-22 ledger	Mary McCallum	Astrid Ronald	17/05/2022

Appendix 1 – Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
1. Year end monitoring and analytical review	1	Completion and return of earmarking requests	Principal Accountants	Finance Contacts	15/04/22 to 06/05/22
	2	Preparation of year-end monitoring reports and analytical review	Mary McCallum	Mary McCallum	09/05/22 to 12/05/22
	3	Perform year-end monitoring and analytical review procedures	Principal Accountants	Finance Contacts	13/05/22 to 20/05/22
	4	Deadline for return of completed monitoring and analytical review templates	Principal Accountants	Principal Accountants	20/05/2022
	5	Preparation of Year-end Revenue Budget Monitoring Corporate Overview and Committee Report, Reserves Report	Mary McCallum	Mary McCallum	23/05/22 to 25/05/22
	6	Deadline for Reports to SMT	Mary McCallum	Mary McCallum	25/05/2022
2. Comprehensive Income and Expenditure Statement	7	Run Retained Earnings Proof	Sharon Macalister	Sharon Macalister	16/05/22 to 18/05/22
	8	Run Comprehensive Income & Expenditure download (cost centres, cost centres and account codes)	Sharon Macalister	Sharon Macalister	16/05/22 to 18/05/22
	9	Final Outturn CI&E based on management structure	Sharon Macalister	Sharon Macalister	16/05/22 to 18/05/22
	10	Complete Comprehensive Income & Expenditure Statement	Sharon Macalister	Sharon Macalister	19/05/2022
	11	Comprehensive Income & Expenditure Statement completed	Sharon Macalister	Sharon Macalister	19/05/2022
3. Expenditure and Funding Analysis	12	Calculate adjustments between funding and accounting basis on management structure	Sharon Macalister	Sharon Macalister	26/05/2022
	13	Complete Note 31 - Note to the Expenditure and Funding Analysis	Sharon Macalister	Sharon Macalister	26/05/2022
	14	Complete main Expenditure and Funding Analysis Statement	Sharon Macalister	Sharon Macalister	26/05/2022
4. Comprehensive Income and Expenditure Statement Notes	15	Complete General Fund Earmarking Note (Note 5)	Mary McCallum	Mary McCallum	16/05/2022
	16	Complete Segmental Reporting Note for Accounts (Note 6) - Analysis of Expenditure and Income by Nature (Note 6.1) and Revenue from contracts with service recipients (Note 6.2)	Sharon Macalister	Sharon Macalister	26/05/2022
	17	Complete Other Operating Income and Expenditure Note (Note 7)	Sharon Macalister	Sharon Macalister	27/05/2022
	18	Complete Agency Income Note (Note 8)	Moira Miller	Moira Miller	24/05/2022

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	19	Community Care and Health (Scotland) Act 2002 (Note 9)	David Forshaw	Abbie MacIver/David Forshaw	16/05/22 to 20/05/22
	20	Complete Waste Management PPP note (Note 11)	Morag Cupples	Morag Cupples	18/05/22 to 20/05/22
	21	Complete Fees Payable to External Auditors note (Note 10)	Mary McCallum	Linda Bain	29/04/2022
<i>Related Parties (Note 13)</i>	22	Complete Grant Income note (Note 12)	Mary McCallum	Gilly Allenby/Mary McCallum	18/05/22 to 20/05/22
	23	Arrange for related party letters to be sent to members and senior officers	Sandra Coles	Fiona Ferguson	28/02/2022
	24	Scottish Government (Note 13.1) - check narrative.	Moira Miller	Moira Miller	13/05/2022
	25	Complete Members related party transactions exceeding £10k table (Note 13.2)	Moira Miller	Moira Miller	18/05/22 to 20/05/22
	26	Complete other related bodies note, identifying those that exceed £10k (Note 13.3)	Moira Miller	Moira Miller	18/05/22 to 20/05/22
	27	Internal Audit to do high level review of disclosures	Chief Internal Auditor	Audit team	01/06/22 to 15/06/22
		28	Comprehensive Income & Expenditure Statement Notes completed	Sharon Macalister	Sharon Macalister
<i>5. Balance Sheet - PPE (Note 14)</i>	29	Complete Movement in Property Plant and Equipment note (Note 14.1)	Morag Cupples	Gilly Allenby	18/05/22 to 20/05/22
	30	Complete Valuation of Property, Plant and Equipment note (Note 14.2)	Morag Cupples	Gilly Allenby	18/05/22 to 20/05/22
	31	Depreciation (Note 14.3)	Morag Cupples	Gilly Allenby	18/05/22 to 20/05/22
	32	Summary of Capital Expenditure and Financing (Note 14.4)	Morag Cupples	Gilly Allenby	18/05/22 to 25/05/22
<i>Heritage Assets (Note 15)</i>	33	Commitments under Capital Contracts (14.5)	Morag Cupples	Gilly Allenby	24/05/22 to 25/05/22
	34	Provide Reconciliation of Carrying Values	Morag Cupples	Gilly Allenby	26/05/2022
<i>Intangible Fixed Assets Note (Note 16)</i>	35	Complete Heritage Asset Disclosures (Note 15)	Morag Cupples	Gilly Allenby	26/05/2022
	36	Complete Movement in Intangible Fixed Assets note (Note 16)	Morag Cupples	Gilly Allenby	26/05/2022
<i>Investment Property (Note 17)</i>	37	Investment Property (Note 17) - check narrative.	Morag Cupples	Gilly Allenby	26/05/2022
	38	Complete Movement in Investment Property note (Note 17.1)	Morag Cupples	Gilly Allenby	26/05/2022
	39	Calculate Investment Property Income and Expenditure and complete note (Note 17.2), ensure reconciles to analysis of investment income on face of CI&E	Morag Cupples	Gilly Allenby	26/05/2022

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
<i>Schools Non Profit Distributing Organisation (Note 18)</i>	40	Complete Assets Held under Schools NPDO /Hub Schools contract note (Note 18 / 18.1)	Morag Cupples	Gilly Allenby	16/05/2022
	41	Complete Schools NPDO /Hub Schools Finance Lease Liability note (Note 18.2)	Moira Miller	Moira Miller	29/04/2022
	42	Complete Payments due to Operator Under Schools NPDO Contract note (Note 18.3)	Moira Miller	Moira Miller	29/04/2022
	43	Complete Payments due to Operator under Hub Schools (Note 18.4)	Moira Miller	Moira Miller	29/04/2022
<i>Operating Leases (Note 19)</i>	44	Request information from departments re operating leases	David Forshaw	Sandra Coles	18/03/2022
	45	Departments complete operating lease template	David Forshaw	Departments	21/03/22 to 22/04/22
	46	Complete Operating Leases - Amounts Paid to Lessors note (Note 19.1)	David Forshaw	Sandra Coles	25/04/22 to 27/04/22
	47	Complete Assets Held Under Operating Leases note (Note 19.2)	David Forshaw	Sandra Coles	25/04/22 to 27/04/22
<i>Finance Leases (Note 20)</i>	48	Request information from departments re finance leases	Moira Miller	Sandra Coles	18/03/2022
	49	Complete Finance Leases - Amounts Paid to Lessors note (Note 20.1)	Moira Miller	Sandra Coles	25/04/2022
	50	Complete Assets Held Under Finance Leases note (Note 20.2)	Moira Miller	Sandra Coles	26/04/2022
	51	Complete Finance Lease Liability note (Note 20.3)	Moira Miller	Sandra Coles	26/04/2022
<i>Long Term Debtors/Investments (Note 21)</i>	52	House Loans (Working Papers Completed)	Mary McCallum	Duncan MacBrayne	12/04/2022
	53	Waste PPP Land Contamination Fund	Moira Miller	Sandra Coles	19/04/2022
	54	Calculation of Charging Orders - Care Home Fees LT Debtor and completion of associated working papers	David Forshaw	David Forshaw/Lorna Semple	14/04/2022
	55	SHF - Loans to Registered Social Landlords	Moira Miller	Sandra Coles	14/04/2022
	56	ALIEA - Alienergy long term debt	Morag Cupples	Morag Cupples	14/04/2022
	57	Calculation and working papers for Other Long Term Debtors (if any)	Moira Miller	Moira Miller	19/05/2022

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	58	Finalise Lead Schedule and Working Papers	Moira Miller	Moira Miller	19/05/2022
<i>Short Term Debtors (Note 22)</i>	59	Completion of LT Debtor Note (21)	Moira Miller	Moira Miller	14/05/2022
	60	Local Tax Collection Debtors - Production of working papers	Fergus Walker	Fergus Walker	16/05/22 to 20/05/22
	61	Sundry Debtor Accounts - Production of Working Papers	Fergus Walker	Jennifer Gorman	19/04/22 to 22/04/22
	62	Housing Benefit Overpayments - Production of Working Papers	Fergus Walker	Fergus Walker	07/04/22 to 14/04/22
	63	VAT Debtor - Production of Working Papers	Moira Miller	Sandra Coles	29/04/2022
<i>Assets Held for Sale (Note 23)</i>	64	Net Debtor/Creditor to Scottish Government for NDR - Finalise Working Papers	Fergus Walker	Mary McCallum	16/05/2022
	65	Other Debtors - Provision of working papers from various departments	Moira Miller	Departments	16/05/22 to 19/05/22
	66	Finalise Lead Schedule and Working Papers	Moira Miller	Elizabeth Moller	20/05/2022
	67	Debtors Note (22)	Moira Miller	Elizabeth Moller	20/05/2022
	68	Complete Assets Held for Sale Note (23)	Morag Cupples	Gilly Allenby	27/05/2022
<i>Cash and Cash Equivalents (Note 24)</i>	69	Finalise Lead Schedule and Working Papers	Morag Cupples	Gilly Allenby	27/05/2022
	70	Cash Held by the Authority (Imprests) - provide working papers	Sandra Coles	Graham Munro	22/04/22 to 29/04/22
<i>CC&E - Short Term Deposits</i>	71	Cash in Transit - Working Papers	Moira Miller	Alison McGeachy	11/05/22 to 13/05/22
	72	Goldman Sachs/Standard Chartered - working papers	Moira Miller	Sandra Coles	27/04/2022
<i>CC&E - Bank Overdraft Working Papers</i>	73	BoS Corporate Deposit - working papers	Moira Miller	Sandra Coles	20/04/2022
	74	CB Instant Access Account - working papers	Moira Miller	Sandra Coles	20/04/2022
	75	Money Market Funds	Moira Miller	Sandra Coles	20/04/2022
	76	Income Bank Account - working papers	Moira Miller	Alison McGeachy	29/04/2022
	77	Expenditure Bank Account - working papers	Moira Miller	Creditors	29/04/2022
	78	Housing Benefits Bank Account - working papers	Moira Miller	Sharon Leitch	29/04/2022
	79	Council Tax / NDR Bank Account - working papers	Moira Miller	Alison McGeachy	29/04/2022

Appendix 1 – Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
<i>Creditors (Note 25)</i>	80	Finalise Lead Schedule and Working Papers	Moira Miller	Sandra Coles	13/05/2022
	81	Complete Cash and Cash Equivalents Note (24)	Moira Miller	Sandra Coles	13/05/2022
	82	Accrued Payrolls - Pull overall figure together for Accrued Payrolls	Mary McCallum	Ailsa Laing / Duncan MacBrayne	29/04/2022
<i>Superannuation</i>	83	Teachers - Identification of year end balance on teachers superannuation control account as at 31 March 2020	Mary McCallum	Astrid Ronald	04/05/2022
	84	Non-teachers - Identification of year end balance on non-teachers superannuation control account as at 31 March 2020	Mary McCallum	Astrid Ronald	04/05/2022
<i>Short Term Accumulating Absences</i>	85	Teachers - Provision of working papers for creditors	Mary McCallum	Mary McCallum	13/04/2022
	86	Non Teachers - Provision of working papers for creditors	Mary McCallum	Mary McCallum	13/04/2022
	87	Creditors System Liability (Core Payables) - Working papers/discoverer report	Mary McCallum	Duncan MacBrayne	13/04/2022
	88	Accrued Expenditure/deferred income - Pull summary sheet together with links to templates to help auditors choose sample	Mary McCallum	Elaine Maxwell	29/04/2022
	89	Other Creditors - various Departmental Support (coordination of working papers)	Mary McCallum	Mary McCallum	03/05/22 to 05/05/22
<i>Borrowings (Financial Instruments) - Note 26</i>	90	Finalise Lead Schedule and working Papers	Mary McCallum	Mary McCallum	06/05/2022
	91	Complete Creditors Note (25)	Mary McCallum	Mary McCallum	06/05/2022
	92	Completion of Borrowings/Financial Instruments Working Papers	Moira Miller	Moira Miller	19/04/22 to 21/04/22
	93	Financial Instruments - Types - Note 26.1	Moira Miller	Moira Miller	20/04/22 to 21/04/22
	94	Financial Instruments - Fair Value - Note 26.2	Moira Miller	Moira Miller	20/04/22 to 21/04/22
	95	Financial Instruments - Gains and Losses - Note 26.3	Moira Miller	Moira Miller	20/04/22 to 21/04/22

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	96	Financial Instruments - Risks - Note 26.4 to 26.9	Moira Miller	Moira Miller	20/04/22 to 21/04/22
	97	Financial Instruments - Note 26.10 to 26.11	Moira Miller	Moira Miller	20/04/22 to 21/04/22
	98	Borrowings/Financial Instruments - Complete Accounts	Moira Miller	Moira Miller	20/04/22 to 21/04/22
<i>Other Liabilities (Note 27)</i>	99	Finance Lease Liability	Sandra/Anne Blue	Moira Miller	26/05/2022
	100	Schools NPDO/Hub Schools Finance Lease Liability	Margaret Moncur	Margaret Moncur	28/04/2022
	101	Waste PPP Land Contamination - Provision of working paper, same as long term debtor.	Moira Miller	Sandra Coles	19/04/2022
	102	Finalise Lead Schedule and Working Papers	Anne Blue	Anne Blue	29/04/2022
	103	Complete Other Liabilities Note (27)	Anne Blue	Anne Blue	29/04/2022
	104	Equal Pay Claims - Calculate provision and provide working papers	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/22 to 06/05/22
	105	Registered Social Landlords - Calculate provision and provide working papers	Fergus Walker	Fergus Walker	03/05/22 to 06/05/22
	106	Reorganisation Redundancy Costs - Calculate provision and provide working papers	Mary McCallum	Mary McCallum	03/05/22 to 06/05/22
	107	Landfill Sites - Restoration and Aftercare Costs - Calculate provision and provide working papers	Moira Miller	Moira Miller	03/05/22 to 06/05/22
	108	Utilities Provision - Calculate provision and provide working papers	Sharon Macalister	Liza McNaughton	03/05/22 to 06/05/22
	109	Other Provisions - Coordinate calculation of 'other' provisions and obtain working papers	Sharon Macalister	Sharon Macalister	03/05/22 to 06/05/22
	110	Split Provisions between short and long term	Sharon Macalister	Sharon Macalister	20/05/2022
	111	Provisions Note (28) - check narrative	Sharon Macalister	Sharon Macalister	20/05/2022
112	Finalise Lead Schedule and Working Papers	Sharon Macalister	Sharon Macalister	20/05/2022	
<i>Capital Grants Received in Advance (Note 29)</i>	113	Ministry of Defence LIBOR Funding	Morag Cupples	Morag Cupples	12/04/2022

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	114	Grant in Aid - Gaelic School Capital Fund	Morag Cupples	Morag Cupples	12/04/2022
	115	Finalise Lead Schedule and Working Papers	Morag Cupples	Morag Cupples	12/04/2022
	116	Complete Capital Grants Received in Advance Note (29)	Morag Cupples	Morag Cupples	12/04/2022
<i>Pension Assets and Liabilities (Note 30)</i>	117	Calculation of Accrued Pension Contribution (30.1)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	118	Transactions Relating to Retirement Benefits (30.2)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	119	Assets and Liabilities in Relation to Post Employment Benefits (30.3)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	120	Pension Assets and Liabilities Recognised in the Balance Sheet (30.4)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	121	Analysis of Pension Fund Assets (30.5)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	122	Basis for Estimating Assets and Liabilities (30.6)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	123	Asset and Liability Matching Strategy (30.7)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	124	Impact on Authority's Cash Flow (30.8)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	125	Teachers' Pensions - Amount Paid Over (30.9)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	126	Teachers' Pensions - Check Contribution Rate (30.9)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	127	Teachers' Pensions - Added Years awarded by Council Calculation (30.9)	Lorna Semple/Abbie MacIver	Lorna Semple/Abbie MacIver	03/05/2022
	128	Balance Sheet Notes Complete	Sharon Macalister	Sharon Macalister	27/05/2022
6. Other Notes to the Financial Statements	129	Note 1 - Review and amend accounting policies	Sharon Macalister	Sharon Macalister	28/02/2022
	130	Note 2 - Accounting Standards Issued but Not Yet Adopted	Sharon Macalister	Sharon Macalister	28/02/2022
	131	Note 3 - Critical Judgements in Applying Accounting Policies	Sharon Macalister	Sharon Macalister	02/05/2022
	132	Note 4 - Assumptions / Estimation Uncertainty	Sharon Macalister	Sharon Macalister	16/05/2022
	133	Note 34 - Contingent Liabilities (consider alongside provisions)	Sharon Macalister	Sharon Macalister	29/04/22 to 06/05/22
	134	Note 35 - Termination Benefits (consider alongside Exit Packages)	Mary McCallum	Mary McCallum	29/04/22 to 06/05/22
	135	Note 36 - Trust Funds and Other Third Party Funds (Part of preparing accounts for charities and other trusts)	Mary McCallum	Astrid Ronald	03/05/22 to 06/05/22

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	136	Note 37 - Common Good Funds (Prepare Accounts for Common Good Funds and collate information for Oban and Campbeltown Funds)	Mary McCallum	Astrid Ronald	03/05/22 to 06/05/22
	137	Note 38 - Tax Incremental Financing (TIF) Projects - Links to NDR Income Account	Moira Miller/Fergus Walker	Moira Miller	25/05/2022
7. Statement of Movement in Reserves - General Fund Balance	138	Analysis of General Fund Balance Movement	Moira Miller	Moira Miller	18/05/2022
	139	Analysis of amounts included in CI&E but excluded from General Fund	Moira Miller	Moira Miller	18/05/2022
	140	Analysis of amounts included in General Fund but excluded from CI&E	Moira Miller	Moira Miller	18/05/2022
	141	Transfer to from General Fund Balance	Moira Miller	Moira Miller	18/05/2022
	142	Breakdown of amounts additional to surplus/deficit on CI&E	Moira Miller	Moira Miller	18/05/2022
<i>Other Usable Reserves (Note 33)</i>	143	Usable Capital Receipts Reserve	Moira Miller	Sandra Coles	03/05/2022
	144	Capital Fund	Moira Miller	Sandra Coles	03/05/2022
	145	Complete Capital Funds Note (33.1)	Moira Miller	Sandra Coles	03/05/2022
	146	Completion of Education R&R Fund Entries and Working Papers	Sharon Macalister	Sandra McLindon	27/04/22 to 28/04/22
	147	Process Ledger entries through MiR Statement	Sharon Macalister	Sandra McLindon	03/05/2022
	148	Complete Repairs and Renewals Note (33.2)	Sharon Macalister	Sandra McLindon	03/05/2022
<i>Unusable Reserves (Note 32)</i>	149	Revaluation Reserve - Check Narrative	Moira Miller	Moira Miller	03/05/2022
	150	Capital Adjustment Account - Check Narrative	Moira Miller	Moira Miller	03/05/2022
	151	Financial Instruments Adjustment Account - Check Narrative	Moira Miller	Moira Miller	13/04/2022
	152	Pensions Reserve - Check Narrative	Sharon Macalister	Sharon Macalister	13/04/2022
	153	Accumulated Absences Account - Check Narrative	Sharon Macalister	Sharon Macalister	12/04/2022
	154	Statement of Movement in Reserves Complete	Moira Miller	Moira Miller	18/05/2022

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
8. Cash Flow Statement - Analysis of Balance Sheet Movements	155	Revaluation Reserve	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	156	Capital Adjustment Account	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	157	Capital Activities Cash/Non Cash Transactions	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	158	Other Revenue Items not involving the movement of funds	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	159	Accrual Adjustments	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	160	Complete Operating Activities (Note 39)	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	161	Complete Operating Activities Section of Statement	Moira Miller	Moira Miller	27/05/22 to 03/06/22
<i>Other Cash Flow Activities</i>	162	Investing Activities (Note 40)	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	163	Financing Activities (Note 41)	Moira Miller	Moira Miller	27/05/22 to 03/06/22
	164	Cash Flow Statement Complete	Moira Miller	Moira Miller	03/06/2022
9. Council Tax Income Account	165	Prepare CTI Main Accounting Statement	Fergus Walker	Fergus Walker	16/05/22 to 19/05/22
	166	Prepare and complete Calculation of Council Tax Base note	Fergus Walker	Fergus Walker	20/05/2022
	167	Council Tax Income Account Complete	Fergus Walker	Fergus Walker	20/05/2022
10. NDR Income Account	168	NDRI Main Accounting Statement	Fergus Walker	Fergus Walker	20/05/2022
	169	Analysis of Rateable Values	Fergus Walker	Fergus Walker	20/05/2022
	170	NDR Charge	Fergus Walker	Fergus Walker	20/05/2022
	171	NDR Income Account Complete	Fergus Walker	Fergus Walker	20/05/2022
11. Remuneration Report	172	Councillors - Review Narrative on policy and arrangements for changes	Sharon Macalister	Sharon Macalister/Mary McCallum	07/03/2022
	173	Completion of Pension Template for Senior Officers/Senior Members and submit to Pensions Office.	Mary McCallum	Mary McCallum	14/05/2022
	174	Councillors Remuneration	Mary McCallum	Mary McCallum	11/05/2022
	175	Senior Councillors' Remuneration	Mary McCallum	Mary McCallum	12/05/2022
	176	Obtain Pension Information for Senior Members	Mary McCallum	Mary McCallum	13/05/2022
	177	Senior Councillors Pension Benefits	Mary McCallum	Mary McCallum	16/05/2022
	178	Review policy and arrangements - senior employees Narrative	Sharon Macalister	Sharon Macalister/Mary McCallum	07/03/2022

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	179	Employees remuneration (Bands over £50,000)	Mary McCallum	Ailsa Laing	11/05/2022
	180	Senior Employees' Remuneration	Mary McCallum	Mary McCallum	12/05/2022
	181	Obtain Pension Information for Senior Employees	Mary McCallum	Mary McCallum	13/05/2022
	182	Senior Employees' Pension Benefits	Mary McCallum	Mary McCallum	16/05/2022
	183	Employee Exit Packages (consider alongside provisions)	Mary McCallum	Mary McCallum	29/04/22 to 06/05/22
	184	Remuneration Report Complete	Sharon Macalister	Sharon Macalister	17/05/2022
12. Group Accounts	185	Determination of Group Structure	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	28/02/2022
	186	Single Entity Accounts	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	187	Common Good Accounts	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	188	Associates Accounts	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	189	Health and Social Care Integration Accounts	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	190	Live Argyll - Leisure Trust Accounts (Group Consolidation)	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	191	Consolidation	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	192	Completion of Group Accounts and Notes	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	23/05/22 to 30/05/22
	193	Group Cashflow	Moira Miller	Moira Miller	23/05/22 to 30/05/22
	194	Group Accounts and Notes Complete	Sharon Macalister/Anne Blue	Sharon Macalister/Anne Blue	30/05/2022
13. Corporate Governance Statement	195	Completion of Corporate Governance Statement	Laurence Slavin	Laurence Slavin	By 31/05/2022
14. Management Commentary	196	Completion of Management Commentary	Kirsty Flanagan/Head of Financial Services	Kirsty Flanagan/Head of Financial Services	By 31/05/2022
	197	2020-21 ANNUAL ACCOUNTS COMPLETE	Sharon Macalister	Sharon Macalister	31/05/2022
15. Summary Accounts and Financial Snapshot	198	Complete Summary Accounts and Financial Snapshot	Sharon Macalister	Sharon Macalister	27/05/22 to 31/05/22
16. Treasury Management Annual Report	199	Complete Treasury Management Annual Report	Moira Miller	Sandra Coles	16/05/22 to 31/05/22
17. Year-end Capital Plan Monitoring Report	200	Complete Year-end Capital Plan Monitoring Report and covering Committee Report	Morag Cupples	Gilly Allenby	16/05/22 to 31/05/22
18. Strategic Housing Fund Annual Report	201	Complete Strategic Housing Fund Annual Report	Morag Cupples	Douglas Whyte	16/05/22 to 31/05/22
19. Earmarked Reserves Report	202	Complete Earmarked Reserves Report	Mary McCallum	Mary McCallum	16/05/22 to 31/05/22
20. Revenue Budget Monitoring Report	203	Complete Revenue Budget Monitoring Report	Mary McCallum	Mary McCallum	16/05/22 to 31/05/22
21. S106 Charity Accounts Prepared	204	Prepare S106 Charity Accounts	Mary McCallum	Astrid Ronald	16/05/22 to 31/05/22
22. Final Procedures	205	Strategic Management Team Meeting (SMT) - Draft to be tabled on the day	Kirsty Flanagan	Kirsty Flanagan	30/05/2022

Appendix 1 – Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	206	Section 95 Officer final review of Annual Accounts, and accompanying year end reports (See above 15-20)	Kirsty Flanagan	Kirsty Flanagan	31/05/22 to 03/06/22
	207	SMT/Full Council/ Audit Committee Papers ready (complete year end pack) to be sent Legal and Regulatory Support	Kirsty Flanagan	Kirsty Flanagan	31/05/2022
	208	Brief Council Leader/senior politicians on Annual Accounts and accompanying reports pack.	Kirsty Flanagan	Kirsty Flanagan	w/c - 30/05/2022
	209	Audit and Scrutiny Committee	Kirsty Flanagan	Kirsty Flanagan	14/06/2022
	210	Full Council Meeting	Kirsty Flanagan	Kirsty Flanagan	23/06/2022
	211	Signature by Section 95 Officer	Kirsty Flanagan	Kirsty Flanagan	24/06/2022
	212	Unaudited Accounts produced and submitted to appointed auditor	Sharon Macalister	Sharon Macalister	24/06/2022
	213	Unaudited Accounts published on Local Authority website.	Mary McCallum	Margaret Ellis	24/06/2022
23. Notice of Public Right to Inspect and Object to Accounts		Disclosure Checklist to be Completed	Sharon Macalister	Liza McNaughton	18/07/2022
	214	Preparation of Public Notice for placing in local papers (provided by Sharon Macalister)	Mary McCallum	Margaret Ellis	01/06/2022
		Preparation of Public Notice for placing in local papers (IJB - James Gow)	Mary McCallum	Margaret Ellis	01/06/2022
	215	Public Notice placed in local papers (Section 195 of the 1973 Act)	Mary McCallum	Margaret Ellis	09/06/22 to 10/06/22
	216	Public Notice placed on Local Authority website	Mary McCallum	Margaret Ellis	13/06/22 to 15/06/22
	217	Public Notice placed in offices of the Local Authority	Mary McCallum	Margaret Ellis	13/06/22 to 15/06/22
	218	Distribution of Unaudited Annual Accounts to Area Offices	Mary McCallum	Margaret Ellis	23/06/2022
24. Whole of Government Accounts Return	219	Period of Inspection of Unaudited Annual Accounts	General Public	General Public	27/06/22 to 15/07/22
	220	Period for registering an objection	General Public	General Public	27/06/22 to 15/07/22
	221	Net Cost of Service Analysis	Moira Miller	Moira Miller	27/06/22 to 15/07/22
	222	Net Operating Expenditure (Group Accounts)	Moira Miller	Moira Miller	27/06/22 to 15/07/22
	223	Counter Party Data	Moira Miller	Moira Miller	27/06/22 to 15/07/22
	224	Infrastructure Assets	Morag Cupples	Departments - Roads and Amenity	27/06/22 to 15/07/22
	225	Additional Disclosures	Moira Miller	Moira Miller	27/06/22 to 15/07/22

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Work Area	Task No.	Task Description	Lead Responsibility 2021-22	Undertaking Task 2021-22	Completion Date 2021-22
	226	Unaudited WGA Return complete and returned to Scottish Government	Moira Miller	Moira Miller	27/07/2022
	227	Submission of Unaudited WGA Return to External Audit	Moira Miller	Moira Miller	27/07/2022
	228	Sign off of WGA Return and electronic submission to Scottish Government	External Audit/Moira Miller	Moira Miller	29/09/2022
25. Final Accounts Audit	229	Final Accounts Audit Field Work	External Audit	External Audit	27/06/22 to 19/08/22
	230	Final Clearance Meeting with Head of Strategic finance	John Cornett (Audit Scotland) and Head of Financial Services	John Cornett (Audit Scotland) and Head of Strategic Finance	25/08/2022
	231	Amendments processed and Production of Final Accounts complete with Audit Certificate for signing	Sharon Macalister	Sharon Macalister	26/08/22 to 09/09/22
	232	Production and agreement of ISA 260 report from External Audit	External Audit	External Audit	26/08/22 to 09/09/22
	233	Audit Committee - Consideration of ISA 260 report and Final Audited Accounts	Audit Committee	Audit Committee	20/09/2022
	234	Signing of Final Audited Accounts - Leader, Chief Executive, Head of Strategic Finance	Leader, Chief Executive, Head of Strategic Finance	Leader, Chief Executive, Head of Strategic Finance	20/09/2022
	235	Signing of Final Audited Accounts - Audit Certificate	John Cornett - Audit Scotland	John Cornett - Audit Scotland	20/09/2022
	236	Signed Audited Annual Accounts published on Website and distributed to local area offices and libraries.	Mary McCallum	Margaret Ellis	26/10/22 to 28/10/22

YEAR END 2021/2022

Appendix 2 - Schedule for Payroll, Overtime and Travel Accruals

PAYRUN	MTH NO	PROCESSING DATE	PAY DATE	PERIOD ENDING	PAYROLL COSTS % ACCRUED/PREPAID	OVERTIME COSTS % ACCRUED	TIMESHEETS TO PAYROLL BY:	**TRAVEL CLAIMS TO CREDITORS BY:	TRAVEL & SUBSISTENCE % ACCRUED	Additional Notes
Pay 07 Monthly	01	07/04/2022	14/04/2022	15/04/2022	16/31sts accrued	100% accrued	05/04/2022	24/03/2022	100% accrued	Old Year Claims Only
Pay 10 Teachers	01	21/04/2022	29/04/2022	30/04/2022	100% part time hours for this period - See note *	N/A	20/04/2022	14/04/2022	100% accrued	Old Year Claims Only
Pay 10 Teachers	02	19/05/2022	27/05/2022	31/05/2022	See note *	N/A	18/05/2022	06/05/2022	N/A	N/A

Notes

* Pay 10 Teachers Month 01: Part time Teachers hours and enhancements relating to March will be 100% accrued.

** This relates to manual travel claims, not those through "my view" for which separate deadlines have been set by payroll.

* Pay 10 - Month 02 accrual will be done by the Financial Services Accounting and Budgeting - Education Departmental Team. Due to timing of Month 01 period end date, it's unlikely there will be many March hours requiring accrual.

Appendix 3 – Health and Social Care Partnership Timetable

Work Area	Task Nbr	Task Description	2021/22 Dates	Lead Responsibility	Monitored / Actioned By	Comments
1. Stores & Work in Progress	1.1	Equipment store stock take to be completed	31/03/2022	Equipment Store Manager	Abbie	Abbie to liaise with equipment store manager
	1.2	Cut off date for submission of stock certificate and detailed working papers to IS Finance Team	08/04/2022	Equipment Store Manager	Abbie	Abbie to liaise with equipment store manager
	1.3	Cut off date for checking, signing and submission of stock certificates to Corporate Accounting	11/04/2022	Principal Accountant - Social Work	Abbie and Lorna	Check and agree stock certificate
	1.4	Calculate net movement in the value of equipment owned by the SW Equipment Store and provide to Principal Accountant - Social Work	14/04/2022	Principal Accountant - Social Work	Abbie and Lorna	Calculate the movement in the stock value and supply to Linda Taylor
2. Creditors Payments	2.1	Cut off date for submission of 2021/22 supplier invoices to creditors (posting or email)	18/03/2022	Department	Abbie and Lorna	E-mail to areas to remind them about deadline
	2.2	Cut off date for processing of 2021/22 SW supplier invoices through payables	18/03/2022	Creditors Section	Creditors	Malcolm to let Abbie and Lorna know when all SW batches are processed
	2.3	Final cheque run processed involving SW invoices	24/03/2022	Creditors Section	Creditors	Malcolm to let Abbie and Lorna know when payrun is posted to general ledger
3. Revenue Accruals	3.1	Accrued/Prepaid expenditure templates issued to department	14/02/2022	Finance Support Team	Astrid	
	3.2	IS Finance Team issue accrual/prepayment calculation templates to department	07/03/2022	IS Finance Team	Abbie and Lorna	
	3.3	Department completes accrued/prepaid expenditure template	21/03/2022 - 08/04/2022	Department	Finance Contacts	Provide support to admin and budget holders as necessary, monitor progress. <u>Evidence only required for charges of £5k or more.</u>
	3.4	Accrued/prepaid expenditure template submitted to IS Finance Team for checking and consolidation	08/04/2022 - 5pm	Department	Alistair, Alison and Karen	Make sure that all of the area service's templates have been returned
	3.5	Cut off date for checking and consolidation of accrued/prepaid expenditure templates for SW	14/04/2022 - 3pm	IS Finance Team	Abbie and Lorna	Review templates and backup

Appendix 3 – Health and Social Care Partnership Timetable

Work Area	Task Nbr	Task Description	2021/22 Dates	Lead Responsibility	Monitored / Actioned By	Comments
4. PECOS	4.1	Issue SW PECOS reports to finance contacts for review and follow-up on queries with budget holders.	15/03/2022	IS Finance Team	Abbie and Lorna	Request report from PECOS Administrator. Issue with other year end documents and guidance
	4.2	Mismatches to be cleared from PECOS system	21/03/2022	Department	Alistair, Karen and Alison	Monitor progress of requisitioners
	4.3	Unpaid PECOS orders report to be issued to IS Finance Team for inclusion on accruals template	06/04/2022	Finance Support Team	Astrid	
	4.4	PECOS accruals to be added to central template	14/04/2022 - 3pm	IS Finance Team	Alistair	
5. Debtors	5.1	Cut off date for processing debtors invoices in 2021/22	22/03/2022	Department	Abbie and Lorna	Include in year end instructions and issue reminder e-mail. Alistair and Alison to prepare year end recharges to NHS
	5.2	Cut off date for preparing residential and non-residential care debtors accruals	14/03/2022	IS Finance Team	Moira and Alison	
	5.3	Calculate adjustment to bad debt provision	14/04/2022	Debtors Team	Corporate	Should be completed by F Walker / J Gorman - check to ensure that correct split between Council and IJB is in place for debt before and after 01/04/2016.
6. Payroll	6.1	Payroll 07 accrual prepared	19/04/2022	Finance Support Team	Abbie and Lorna	Astrid to let Abbie and Lorna know when completed
7. CareFirst	7.1	Cut off for processing of charges to be charged to 2021/22	31/03/2022	Department	Abbie and Lorna	Instruction in year end guidance and e-mail reminder. Final day to ensure invoices are included in payrun on the 22nd is the 18th March
	7.2	Final payables interface generated from CareFirst	22/03/2022	IS Finance Team	Karen	
	7.3	Snapshot of outstanding transactions taken from CareFirst	31/03/2022	IS Finance Team	Karen	Run year end reports for homecare, residential care, direct payments, fostering and adoption

Appendix 3 – Health and Social Care Partnership Timetable

Work Area	Task Nbr	Task Description	2021/22 Dates	Lead Responsibility	Monitored / Actioned By	Comments
7. CareFirst	7.4	Recommence processing of invoices via CareFirst - all to be charged to April 2022/23 with year end adjustments processed via accrued/prepaid expenditure templates	04/04/2022	Department / Creditors	Karen	Instruction in year end guidance and e-mail reminder
8. Long Term Debt - Charging Orders	8.1	Prepare charging order journal entries and agree with Corporate Team	14/04/2022	IS Finance Team	Lorna and Abbie	To be checked and agreed with Lorna and Sharon Macalister
9. TOTAL System Charges	9.1	Check that TRANMAN interface has been run for SW vehicles.	22/04/2022	Fleet Team	Tranman	To be confirmed with Cara/Tranman when run has been processed
10. Consolidation	10.1	Take snapshot of general ledger following payrun including last of the SW supplier invoices being processed into 2021/22	25/03/2022	IS Finance Team	Lorna and Abbie	
	10.2	Create consolidation template to produce outturn	25/03/2022	IS Finance Team	Lorna and Abbie	
	10.3	Report outturn position to James and Kirsty	25/04/2022	IS Finance Team	Lorna and Abbie	Pass figure to James Gow, IJB CFO

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****FINANCIAL SERVICES****15 MARCH 2022**

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

1. EXECUTIVE SUMMARY

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Strategy to be approved by Council for the forthcoming financial year. This report seeks Member's endorsement of the proposed Treasury Management Strategy Statement and Annual Investment Strategy. The report also sets out the policy for the repayment of loans fund advances for 2022-23.
- 1.2 If the Audit and Scrutiny Committee identify any recommendations in relation to the strategy these will be presented to full Council on 28 April 2022.
- 1.3 The Council uses Link Group Treasury Solutions as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.
- 1.4 Section 2 of the attached document outlines the Council's Capital Prudential and Treasury Indicators which Members are asked to endorse.
- 1.5 In 2016 new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year as detailed in section 2.5 of the strategy. The policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.
- 1.6 A review of the Council's loan fund advance repayments was undertaken in 2019-20 with advice from our external treasury management advisors. The review was undertaken to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances.
- 1.7 The review considered new loans fund advances and historic loans fund advances to assess whether the repayment methodology was still the most prudent option. In doing so a revised policy on loans fund advance repayment profiling was introduced as follows:

For all new loans fund advances the policy for repayment is:

- **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using a 5.1% annuity rate;
- **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream using a 5.1% annuity rate. This would be utilised where the asset will generate income which can be used to repay the debt or as a result of spend to save schemes where again the savings can be used to repay the loans fund advances.

- 1.8 Section 3 of the document outlines the current actual external debt against the capital financing requirement highlighting any over or under borrowing. There is information on the interest rates projections and the borrowing strategy.
- 1.9 Section 4 of the document outlines the annual investment strategy. The Council's investment priorities will be security first, liquidity second and then return. It explains the creditworthiness policy and the use of Link Group Treasury Solutions in this respect as well as the Country and Sector limits.
- 1.10 There are a number of appendices in Section 5. Some of this information has been provided by the Council's external treasury management advisors.

2. RECOMMENDATIONS

2.1 Members are requested to:

- a) Endorse the proposed Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within.
- b) Note the continued use of the asset life method for the repayment of loan fund advances using a 5.1% annuity interest rate, with the exception of spend to save schemes where the funding/income profile method could be used.
- c) Note the proposed asset repayment periods as detailed within section 2.6 of the Treasury Management Strategy Statement.
- d) Note the ability to continue to use countries with a sovereign rating of AA- and above, as recommended by the Council's external treasury management advisors.

3. IMPLICATIONS

- 3.1 Policy – Sets the policy for borrowing and investment decisions.
- 3.2 Financial – An effective Treasury Management Strategy forms a significant part of the Council's financial arrangements and its financial well-being.
- 3.3 Legal - None.
- 3.4 HR - None.

- 3.5 Fairer Scotland Duty – None.
- 3.5.1 Equalities – None.
- 3.5.2 Socio-Economic Duty – None.
- 3.5.3 Islands Duty – None.
- 3.6 Climate Change – None.
- 3.7 Risk - This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.
- 3.8 Customer Service - None.

**Policy Lead for Financial Services and Capital Regeneration Projects:
Councillor Gary Mulvaney**

**Kirsty Flanagan
Section 95 Officer
10 February 2022**

For further information please contact:
Anne Blue, Interim Head of Financial Services 01586-555269

APPENDICES

Appendix 1 – Treasury Management Strategy Statement and Annual
Investment Strategy 2022-23



**Treasury Management Strategy Statement
and Annual Investment Strategy 2022-2023**

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1 INTRODUCTION

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised Codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address Environmental, Social and Governance (ESG) issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Code TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing / leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Treasury Management reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

An annual Treasury Management Strategy Statement (this report) – this is the first and most important report which is submitted to full Council before the start of the financial year. The Council approve this Strategy in February, after which the Audit and Scrutiny Committee have an opportunity to make comments and recommendations. If required the Strategy would then go back to Council in April to approve any amendments recommended by the Audit and Scrutiny Committee. The Strategy covers:

- The capital plans (including prudential indicators);
- A policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- A permitted investment strategy (the parameters on how investments are to be managed).

A mid-year Treasury Management Review Report - this will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision. Monitoring reports are submitted to each Policy and Resources Committee.

An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report is presented to Council after the end of each financial year.

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy was reported to members on 14 October 2021 and the decision taken that an updated strategy be presented to members in the early life of the new Council in 2022.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators.
- The loans fund repayment policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government loans fund repayment regulations and investment regulations.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (Audit and Scutiny Committee).

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Group, Treasury Solutions as its external treasury management consultants.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the 2022/23 budget setting.

The table below summarises the capital expenditure plans as outlined within the proposed capital plan 2022-25.

Capital Expenditure £'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Executive Director - Douglas Hendry					
Education	3,012	8,938	4,415	4,273	2,226
Facility Services - Shared Offices	79	2,089	2,475	481	428
Major Projects/CHORD	7,644	17,125	3,923	285	0
Executive Director - Kirsty Flanagan					
ICT	811	1,662	1,376	983	771
Roads and Infrastructure	9,360	22,454	51,948	26,579	37,037
Development and Economic Growth	1,176	3,746	2,324	186	0
Live Argyll	182	472	998	431	428
Health and Social Care Partnership	290	392	1,729	447	428
Total	22,554	56,878	69,188	33,665	41,318

The table below summarises the above capital expenditure plans and how capital or revenue resources are financing them. Any shortfall of resources results in a funding borrowing need. (The financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.)

Capital Expenditure £'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Total Capital Expenditure	22,554	56,878	69,188	33,665	41,318
Financed by:					
Capital Receipts	0	806	1,387	2,095	0
Capital Grants	13,496	10,723	13,347	8,691	8,691
Capital Reserves	0	0	0	0	0
Revenue	744	39,879	2,755	186	0
Net Financing need for the year	8,314	5,470	51,699	22,693	32,627

2.2 The Council's Overall Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made, called the Loan Fund Principal Repayment, which reflects the useful life of capital assets financed by borrowing. This charge reduces the CFR each year. From 1 April 2016, authorities may choose whether to use scheduled debt amortisation, (loans pool charges), or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £122m of such schemes within the CFR.

The CFR projections are noted in the following table.

	2020/21	2021/22	2022/23	2023/24	2024/25
£'000	Actual	Estimate	Estimate	Estimate	Estimate
Capital Financing Requirement					
Opening CFR	296,187	296,662	292,303	333,145	344,451
Closing CFR	296,662	292,303	333,145	344,451	365,252
Movement in CFR	475	(4,359)	40,842	11,306	20,801
Movement in CFR represented by					
	2020/21	2021/22	2022/23	2023/24	2024/25
£'000	Actual	Estimate	Estimate	Estimate	Estimate
Net financing need for the year (above)	8,314	5,470	51,699	22,693	32,627
Less scheduled debt Amortisation	7,839	9,829	10,857	11,387	11,826
Movement in CFR	475	(4,359)	40,842	11,306	20,801

2.3 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Expected Investments	98,138	88,300	80,000	70,000	60,000

2.4 Limits to Borrowing Activity

The operational boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £'m	2020/21 Actual	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	200	196	223	247	267
Other long term liabilities	124	120	117	118	113
Total	324	316	340	365	380

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- a) The authorised limits for external debt for the current year and two subsequent years are the legislative limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.
- b) The Council is asked to approve the following authorised limit:

Authorised Limit £'m	2020/21 Actual	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	205	201	228	252	272
Other long term liabilities	127	123	120	121	116
Total	332	324	348	373	388

2.5 Statutory repayment of loans fund advances

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to Councils so long as a prudent provision is made each year. A review of the Council's loan fund advances was undertaken during 2019-20 to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances.

For all new loans fund advances the policy for the repayment is:-

1. **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using a 5.1% annuity rate;
2. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

The annuity rate applied to current loans fund repayments is based on historic interest rates over a 15 year period ensuring that a prudent rate is used. The current rate is 3.41%, however it is still considered prudent to use the average historic rate at this time.

2.6 Asset Repayment Periods

Using the asset life method, the Council is required to ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The table below details the repayment period that applies for each asset type.

Asset Type	Repayment Period (Years)
Land (including cemeteries)	100
Road Structures - Bridges, Retaining Walls, Sea Walls, Flood Defences	60
Piers and Harbours - Major Structural Work	60
Piers and Harbours - Medium Term Works e.g painting/cathodic protection	20
Piers and Harbours - Limited Lifespan Improvements	10
Roads and Footways	20
Street Lighting	30
Vehicles & Plant	7
IT Equipment	5
Major Regeneration Works (Public Realm etc)	60
New Builds including Schools	60
Buildings - Electrical	40
Buildings - Plant	20
Buildings - Roofing	35
Buildings - Windows & External Doors	20
Buildings - Structural	25

3 TREASURY MANAGEMENT STRATEGY

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2021 and at 31 December 2021 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual 31.3.21	Actual 31.3.21	Current 31.12.21	Current 31.12.21
	£000	%	£000	%
Treasury investments				
Banks	50,518	46%	79,356	69%
Building Societies - rated	0	0%	0	0%
Local Authorities	37,500	34%	17,500	15%
Money Market Funds	17,290	16%	14,330	12%
Certificates of Deposit	0	0%	0	0%
Third Party Loans	3,994	4%	3,828	3%
Total managed in house	109,302	100%	115,014	100%
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	0	0%	0	0%
Total Treasury Investments	109,302	100%	115,014	100%
Treasury external borrowing				
PWLB	122,615	71%	118,843	70%
LOBOs	39,255	23%	39,255	23%
Market	11,000	6%	10,000	6%
Special	174	0%	50	0%
Temporary Borrowing	562	0%	602	0%
Local Bonds	33	0%	26	0%
Total External Borrowing	173,639	100%	168,776	100%
Net Treasury Investments / (Borrowing)	(64,337)		(53,762)	

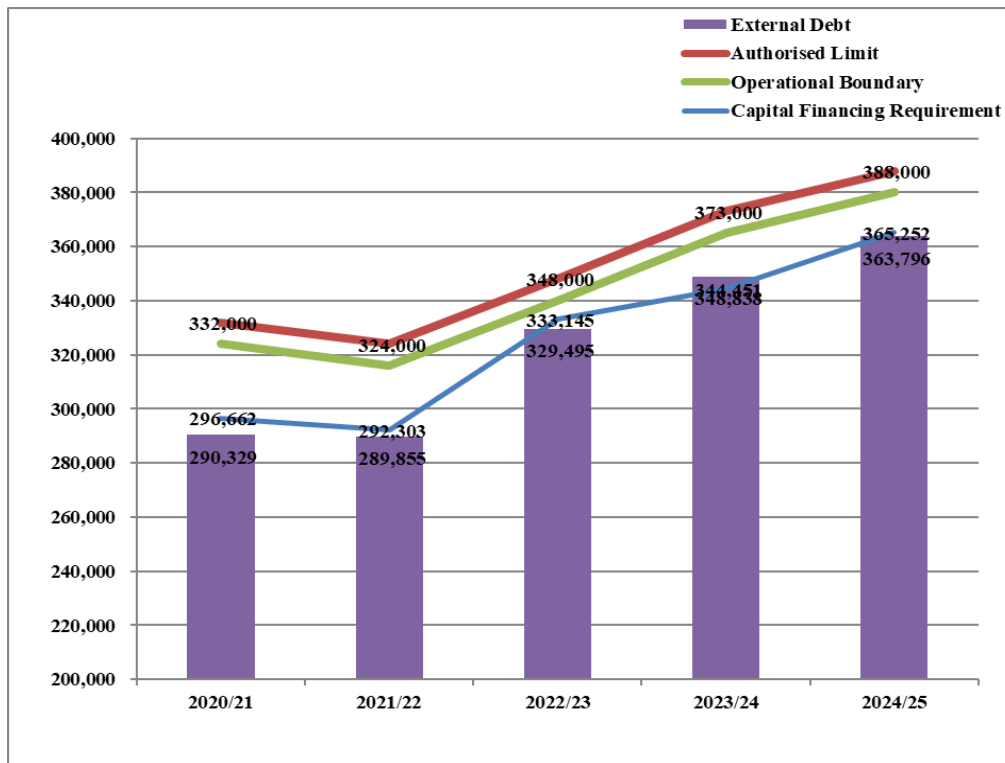
A more detailed analysis of the above table showing actual investments placed with individual counterparties can be found in Appendix 2.

The Council's forward projections for borrowing, are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt					
Debt as 1st April	173,639	168,805	173,174	212,431	236,654
Change in Debt (In Year)	(4,834)	4,369	39,257	24,223	19,996
Other long-term liabilities (OLTL) at 1st April	124,117	121,524	116,681	117,064	112,184
Change in OLTL (In Year)	(2,593)	(4,843)	383	(4,880)	(5,038)
Actual gross debt at 31st March	290,329	289,855	329,495	348,838	363,796
The Capital Financing Requirement	296,662	292,303	333,145	344,451	365,252
Under / (Over) borrowing	6,333	2,448	3,650	(4,387)	1,456

The figures in the above tables include an allowance for the introduction of IFRS16 – Leasing which is being introduced in the 22/23 financial year, having been deferred in December 2020. The change requires local authorities to account for leased assets previously treated as operating leases (off balance sheet) as finance leases (on balance sheet), which increases capital expenditure and the gross debt required to finance them. Work is underway to identify and evaluate the operating leases affected and, in the meantime, the figures used in the calculations above represent a high level estimate of the potential impact on the Council's Capital Financing Requirement.

The following graph shows the the CFR compared to the expected net debt in each of the years and the under / (over) borrowed position, also shown is the Council's authorised limit for debt and it's operational boundary (see paragraph 2.4 above).



Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not taken for revenue or speculative purposes.

The Section 95 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View		20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00	
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10	
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20	
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00	
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30	
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50	
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30	

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Link Asset Services have also provided commentary in relation to interest rates and this is included within Appendix 3.

3.3 Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates that had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority, which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -
 - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if an authority is seeking to avoid a “cost of carry” but also wishes to mitigate future re-financing risk.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a *cost of carry*, (the difference

between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

3.4 Borrowing strategy

Over the past few years, the Council has benefited from lower borrowing costs due to low interest rates, in particular utilisation of short term temporary borrowing and internal borrowing (use of existing cash).

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. Any decisions will be reported to the appropriate committee at the next available opportunity. In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Section 95 Officer, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting a pragmatic approach to changing circumstances.

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

If rescheduling was done, it will be reported to the appropriate Committee at the earliest meeting following its action.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long and Short term Borrowing

A list of approved sources of long and short term borrowing is shown below:

On Balance Sheet	Fixed	Variable
PWLB	√	√
Municipal bond agency	√	√
Local authorities	√	√
Banks	√	√
Pension funds	√	√
Insurance companies	√	√
UK Infrastructure Bank	√	√
Market (long-term)	√	√
Market (temporary)	√	√
Market (LOBOs)	√	√
Stock issues	√	√
Local temporary	√	√
Local Bonds	√	
Local authority bills	√	√
Overdraft		√
Negotiable bonds	√	√
Internal (capital receipts & revenue balances)	√	√
Commercial paper	√	
Medium Term Notes	√	
Finance leases	√	√

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy implements the requirements of the Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2018.

The above regulations and guidance place a high priority on the management of risk. **The Council's investment priorities will be security first, liquidity second and then return.** This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of types of investment instruments that are permitted investments authorised for use in Appendix 5. Appendix 6 expands on the risks involved in each type of investment and the mitigating controls.
5. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix 7.
6. Transaction limits are set for each type of investment in Appendix 5.
7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.5).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2021/22 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

The Council recognises the vital importance of credit-worthiness checks on the counterparties it uses for investments.

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following further overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Further explanation of the approach for creditworthiness used by Link Group is found in Appendix 7.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt in. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered) will be considered for investment purposes.

4.3 Country and sector limits

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 24 months). Greater returns are usually obtainable by investing for longer periods. While cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for a first increase in Bank Rate in May 2022, though it could come in February..

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.50%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	1.25%
Long term later years	2.00%	2.00%

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Negative investment Rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably

having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Investment treasury indicator and limit

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested for longer than 365 days			
£m	2022/23	2023/24	2024/25
Principal sums invested for longer than 365 days	20	20	20

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days).

4.5 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of SONIA (Sterling Overnight Interest Average). This benchmark will be used from 1st April 2022 and replaces 7 day LIBID.

4.6 End of year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 APPENDICES

Appendix 1 – Capital Prudential and Treasury Indicators 2022/23 – 2024/25

1. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2020/21	2021/22	2022/23	2023/24	2024/25
%	Actual	Estimate	Estimate	Estimate	Estimate
Ratio	4.64%	4.90%	2.70%	4.56%	4.57%

The estimates of financing costs include current commitments and the proposals in this budget report.

2. Maturity structure of borrowing

The purpose of this indicator is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if this is set to be too restrictive it will impair the opportunities to reduce costs/improve performance. The indicator is "Maturity structure of borrowing". These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicator and limits.

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	Upper
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	100%
10 years to 20 years	0%	100%
10 years to 20 years	0%	100%

10 years to 20 years	0%	100%
10 years and above	0%	100%

The interest rate exposure in respect of the Council's external debt will be monitored on an ongoing basis by keeping the proportion of variable interest rate debt at an appropriate level given the total amount of external debt and the interest rate environment within which the Council is operating. When interest rates are increasing the Council will look to move to fixed rate borrowing and if interest rates are likely to fall then the level of variable rate borrowing will be increased to minimise future interest payments.

%	2021/22	2022/23	2023/24	2024/25
Interest rate exposure				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	195%	190%	190%	190%
Limits on variable interest rates based on net debt	60%	60%	60%	60%

Appendix 2 – Detailed Current Portfolio Position

TREASURY PORTFOLIO					
		Actual	Actual	Current	Current
		31.3.21	31.3.21	31.12.21	31.12.21
		£000	%	£000	%
Treasury investments					
Banks	Clydesdale Bank	15,518	14%	4,356	4%
	Goldman Sachs	0	0%	10,000	9%
	Qatar National Bank	10,000	9%	15,000	13%
	Santander	15,000	14%	5,000	4%
	Close Brothers	5,000	5%	15,000	13%
	First Abu Dhabi Bank	0	0%	5,000	4%
	AL Rayan Kank	5,000	5%	15,000	13%
		50,518	46%	79,356	69%
Local Authorities	Dudley Metropolitan Borough Council	5,000	5%	0	0%
	Lancashire County Council	5,000	5%	0	0%
	London Borough of Croydon	7,500	7%	7,500	7%
	Rotherham Metropolitan Borough Council	7,500	7%	7,500	7%
	Thurrock Borough Council	10,000	9%	0	0%
	Cheshire West & Chester Council	2,500	2%	2,500	2%
		37,500	34%	17,500	15%
Money Market Funds	BNP Paribas Inticast Fund	0	0%	3,110	3%
	Federated	2,290	2%	0	0%
	CCLA	15,000	14%	11,220	10%
		17,290	16%	14,330	12%
Third Party Loans	Argyll Community Housing Association	2,502	2%	2,434	2%
	Fyne Homes	76	0%	0	0%
	West Highland Housing Association Ltd	866	1%	844	1%
	The Port Ellen Station	58	0%	58	0%
	Hubco Sub Debt	492	0%	492	0%
		3,994	4%	3,828	3%
Total Treasury Investments		109,302	100%	115,014	100%

		Actual 31.3.21	Actual 31.3.21	Current 31.12.21	Current 31.12.21
Treasury external borrowing					
Local Authorities		0	0%	0	0%
PWLB		122,615	71%	118,843	70%
LOBOs	Commerzbank Finance & Covered Bonds S.A.	13,000	7%	13,000	8%
	FMS Wertmanagement	5,255	3%	5,255	3%
	Bayerische Landesbank	21,000	12%	21,000	12%
		39,255	23%	39,255	23%
Market	Barclays (formerly LOBO)	10,000	6%	10,000	6%
	Prudential assurance co	1,000	1%	0	0%
		11,000	6%	10,000	6%
Special	Prudential assurance co	14	0%	10	0%
	Scottish Government (Formerly Salix Finance Ltd)	160	0%	40	0%
		174	0%	50	0%
Temporary Borrowing		562	0%	602	0%
Local Bonds		33	0%	26	0%
Total External Borrowing		173,639	100%	168,776	100%
Net Treasury Investments / (Borrowing)		(64,337)		(53,762)	

Appendix 3 – Interest Rate Forecasts 2021 - 2024 and Commentary Provided by Link Asset Services (at 20.12.21)

Link Group Interest Ra 20.12.21													
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25	-	-	-	-	-
5yr PWLB Rate													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
10yr PWLB Rate													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks**, for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside

over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the \$900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend \$1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its \$120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ruptures in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to

keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.

- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- **For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Appendix 4 – Economic Background Provided by Link Asset Services (at 22.12.21)

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.

- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16th DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of

itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%**. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- On the other hand, it did also comment that "**the Omicron variant is likely to weigh on near-term activity**". But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation from Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)
- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time**, which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a **“modest tightening”** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory**, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).
- **The MPC’s forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:
 - Raising Bank Rate as “the active instrument in most circumstances”.
 - Raising Bank Rate to 0.50% before starting on reducing its holdings.
 - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
 - Once Bank Rate had risen to at least 1%, it would start selling its holdings.
- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed’s 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed’s meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly \$120bn QE purchases announced at its November 3rd meeting, was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the

chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow roll out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November’s inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB’s target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime

Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.
- The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.
- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.
- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as

central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES.** The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Appendix 5 - Treasury Management Practice (TMP1) Permitted Investments

This Council approves the following forms of investment instrument for use as permitted investments as set out in table 1.

Treasury risks

All the investment instruments in table 1 are subject to the following risks: -

- **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.
- **Liquidity risk:** this is the risk that cash will not be available when needed. Whilst it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: -
 - a. Cash may not be available until a settlement date up to three days after the sale
 - b. There is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.

The column in table 1 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

- **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long-term increase in value.
- **Interest rate risk:** this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instrument have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown).
- **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

- **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.2 and 4.3.
- **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.
- **Market risk:** this authority purchases Certificates of Deposit (CD's), as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional circumstances, they can be quickly sold at the current market value, (which may vary from the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.
- **Interest rate risk:** this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 4.4.

Legal and regulatory risk: this authority will not undertake any form of investing until it has ensured that it has all necessary powers and complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown in table 1 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The authority has given the following types of investment an unlimited category: -

- **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.
- **High credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £20m of the total portfolio can be placed with UK banks and £10m in any single non UK bank institution or group at any one time.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

Deposits

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.
- **Term deposits with high credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that no more than £20m of the total portfolio can be placed with any UK bank and £10m with any single non UK bank institution or group. In addition, longer-term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer-term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer-term investment is made, that cash is locked in until the maturity date.
- **Call accounts with high credit worthiness banks and building societies.** The objectives are as for term deposits above but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.
- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.
- **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

- **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for term deposits in the previous section, but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.
- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

- **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

Money Market Funds (MMFs). MMFs are regulated under The European Money Market Fund Regulation (EU) 2017/1131. The Regulation was implemented in full on 21 March 2019. They typically carry a AAA money fund rating and can be priced using the following methods. Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV) and Variable Net Asset Value (VNAV). The majority of MMFs are priced using the LVNAV pricing method, which allows for constant pricing in normal market conditions. They are highly diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and competitive rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as they are actively managed giving the opportunity to lock in investments earning higher rates of interest than might be available in the market. MMFs also help an authority to diversify its own portfolio as e.g., a £2m investment placed directly with HSBC is a 100%

- risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with

risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still delivering superior rates of return available through the DMADF.

Ultra short dated bond funds. Ultra short dated bond funds. These funds are similar to MMFs and can carry a AAA bond fund rating. Due to the longer dated nature of the assets they invest in the funds use a VNAV pricing method meaning the price will move up and down inline with market movements. They aim to achieve a higher yield and to do this either take longer term credit risk by using floating rate notes or by investing in longer durations, which means their assets are more volatile. Typically, these funds can have weighted average maturities of up to 360 days and weighted average life's beyond 5 years. Their primary objective is to firstly generate a competitive total return, whilst preserving capital. They therefore carry a higher level of risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

- **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.
- **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills.

- **Treasury bills.** These are short-term bills, (up to 18 months but usually 9 months or less), issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.
- **Gilts.** These are longer-term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.
- **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

- **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.
- **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

- a. **Certificates of deposit (CDs).** These are shorter-term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.
- b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.
- c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.
- d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

OTHER

Property fund. This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Table 1: permitted investments in house

This table is for use by the in house treasury management team.

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	term	no	100	6 months
Term deposits – local authorities	--	term	no	100	2 years
Call accounts – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	instant	no	100	Up to 5 yrs Up to 2 yrs Up to 1 yr Up to 1 yr Up to 6 mths Up to 100 days Not for use
Term deposits – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	term	no	100	Up to 5 yrs Up to 2 yrs Up to 1 yr Up to 1 yr Up to 6 mths Up to 100 days Not for use
Fixed term deposits with variable rate and variable maturities: - Structured deposits.	Green	term	no	50	2 years
Collateralised deposit (see note 1)	UK sovereign rating	term	no	50	1 year

Note 1. As collateralised deposits are backed by e.g. AAA rated local authority LOBOs, this investment instrument is effectively a AAA rated investment

1.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	term	no	100	1 Year
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	UK Sovereign Rating or Blue	term	no	100	1 Year
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Green	term	yes	100	1 Year

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1a. Money Market Funds CNAV	AAA	instant	No see note 1	100	1 Year
1b. Money Market Funds LVNAV	AAA	Instant to T+5	No see note 1	100	1 Year
1c. Money Market Funds VNAV	AAA	instant to T+5	No see note 1	100	1 Year
2. Ultra short dated bond funds with a credit score of 1.25	AAA	T+1 to T+5	yes	100	1 Year
3. Ultra short dated bond funds with a credit score of 1.5	AAA	T+1 to T+5	yes	100	1 Year
4. Bond Funds	AAA	T+2 or longer	yes	100	1 Year
5. Gilt Funds	UK sovereign rating	T+2 or longer	yes	100	1 Year

Note 1. The objective of MMFs is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

1.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	80	1 Year

1.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	Green	Sale T+0	yes	50	2 Years
Commercial paper other	Green	Sale T+0	yes	20	2 Years
Floating rate notes	Green	Sale T+0	yes	20	2 Years
Corporate Bonds other	Green	Sale T+3	yes	20	2 Years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

1.6 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	--	T+4	yes	100	5 Years

Appendix 6 – Treasury Management Practice (TMP2) Credit and Counterparty Risk Management

The following table is for use by the Treasury team and is a list of current counterparties. However, the use of counterparties depends on credit ratings and the Council may stop using certain counterparties and may stop using certain counterparties and/or decide to use alternative counterparties within its permitted investments. If for unavoidable short term operation reasons, limits are breached this will be communicated to management immediately.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link Group, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 95 Officer, and if required new counterparties which meet the criteria will be added to the list.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Cash type instruments				
a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies (Very low risk)	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£unlimited, maximum 2 year. Limit of £10m per local Authority or public body	£unlimited, maximum 2 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
	Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.			
c. Money Market Funds (MMFs) – CNAV/LVNAV/VNAV (Low to very low risk)	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£15m per fund	100%
d. Ultra short dated bond funds (low risk)	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£15m per fund	100%
e. Call account deposit accounts with financial institutions (banks and building societies) (Low risk depending on credit rating)	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poor’s. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) (Low to medium risk depending)	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poor’s. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
on period & credit rating)	broken with the agreement of the counterparty, and penalties may apply.			
g. Government Gilts and Treasury Bills (Very low risk)	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity).	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£10m maximum 1 year.	100% maximum 1 year.
h. Certificates of deposits with financial institutions (Low risk)	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£10m per counterparty maximum 1 year.	20% maximum 1 year.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) (Low to medium risk)	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
depending on period & credit rating)	of the counterparty (penalties may apply).	will be further strengthened by the use of additional market intelligence.		
j. Corporate bonds (Medium to high risk depending on period & credit rating)	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£5m and maximum 1 year.	£20% and maximum 1 year.
Other types of investments				
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	£10m	20%.
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£10m and maximum 5 years.	10% and maximum 5 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
c. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	50%	20%
d. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	5%	100%
e. Loans to third parties as part of the Council's Empty Homes Strategy	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Section 95 Officer approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£1.5m and a maximum of 10 years.	N/A
f. Loans to third parties as part of the Council's SHF Front Funding Facility	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Section 95 Officer approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 3 years.	N/A

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
g. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Section 95 Officer approval and each application is supported by the service rationale behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 30 years.	N/A
h. Hub Co sub debt	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be highly illiquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss.	£10m	N/A
i. Investment in a project run by a Local Authority or Local Authority Joint Committee	These are investments which may exhibit market risks and will only be considered for medium to longer term investments	Each investment requires approval by the Section 95 Officer up to £250,000, and, above this level, member approval. Each application will be supported by the service rationale behind the investment and the likelihood of loss.	£10m	N/A

Appendix 7 – Creditworthiness policy

Service and Information provided by Link Asset Services

This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit rates, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration of investments.

Based on the Link Group approach, the Council will therefore use counterparties within the following durational bands:

Yellow	5 years*
Dark pink	5 years for Ultra short dated bond funds with a credit score of 1.25
Light pink	5 years for Ultra short dated bond funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

**The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.*

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored at least weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

No more than £20m can be invested with each UK bank and £10m with any single other counterparty. The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing deposits with the Council's bankers is currently £5m.

Deposits can be placed with Local Authorities and other public sector bodies for a period up to 2 years.

The Council can invest an unlimited amount of money with the Debt Management Agency Deposit Facility (operated by the Debt Management Office which is part of HM Treasury). The longest period for a term deposit with the DMADF is 6 months.

Creditworthiness.

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Appendix 8 – Approved Countries for Investments (22-12-21)

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

Appendix 9 – Treasury Management Scheme of Delegation

The Council

- Overall responsibility for Treasury Management Strategy.
- Adoption of Treasury Policy Statements.
- Receive an Annual Report and other reports on the Treasury Management Operation and on the exercise of delegated treasury management powers.

The Policy and Resources Committee

- Responsibility for the overall investment of money under the control of the Council.
- Keeping under review the level of borrowing.
- Approval of Annual Strategy Statement.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Treasury Policy Statements.
- Implementation and monitoring of Treasury Management Policies and Practices.

The Audit and Scrutiny Committee

- Review the overall internal and management control framework related to the treasury function.
- Review internal and external audit reports related to treasury management.
- Review provision in the internal and external audit plans to ensure there is adequate audit coverage of treasury management.
- Monitor progress with implementing recommendations in internal and external audit reports.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 10 – The Treasury Management Role of the Section 95 Officer

Section 95 Officer:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Suubmitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Reviewing and considering risk management in terms of treasury activities.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following: -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that*

appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

The nominated Elected Member (Policy Lead for Financial Services and Major Projects):

- Acting as spokesperson for treasury management.
- Taking a lead for elected Members in overseeing the operation of the treasury function.
- Review the treasury management policy, strategy and reports.
- Support and challenge the development of treasury management.

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ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CHIEF EXECUTIVE

15 MARCH 2022

BEST VALUE IMPROVEMENT ACTION PLAN UPDATE

1.0 EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to provide members a further update on the Best Value Improvement Action Plan which emerged from the Accounts Commission findings on the Controller of Audits Statutory Report on the Council.
- 1.2. The action plan was agreed by the Council in June 2020 and an update was provided to the Audit and Scrutiny Committee 16 March 2021. Audit Scotland's 2020/21 Annual Audit Report (December 2021) concludes that the Council has made good progress in addressing the recommendations and performance management arrangements remained effective during the COVID 19 pandemic.
- 1.3. The action plan has been reviewed to ensure key dates are appropriate to ensure pace and momentum into the work to address the recommendations that have been delayed due to the COVID 19 pandemic.
- 1.4. Members are asked to note the full update as set out within appendix 1.

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CHIEF EXECUTIVE

15 MARCH 2022

BEST VALUE IMPROVEMENT ACTION PLAN UPDATE

2.0 INTRODUCTION

2.1 The purpose of this report is to provide members a further update on the Best Value Improvement Action Plan which emerged from the Accounts Commission findings on the Controller of Audits Statutory Report on the Council.

3.0 RECOMMENDATIONS

3.1 The Audit and Scrutiny Committee notes below an update against the themes of the Best Value Improvement Action Plan.

3.2 Member are also asked to note the full update as set out within appendix 1.

4.0 DETAIL

4.1 In September 2020, the Audit and Scrutiny Committee considered the findings report and recommendations from the Accounts Commission Findings on the Controller of Audit Scotland's Statutory Report on the Council. The Committee also noted the action plan that was agreed by the Council in June 2020 and this report provides a second update on the plan.

4.2 As with the rest of the UK, the Council and partners remains in 'response' mode to the COVID 19 pandemic, nonetheless, as noted by Audit Scotland (December 2021), the Council has made good progress against the plan and a summary of themes can be found below.

- 4.3 Theme 1; Develop the transformation agenda, supported by an affordable and achievable medium to longer term financial strategy.
- 4.4 There is a commitment on the part of the Council to move toward developing multiyear savings proposals to facilitate longer term planning and this continues to be difficult where there is uncertainty over future years funding due to single year settlements.
- 4.5 The 2021/22 budget approach identified specific themes which officers led to identify savings options and this laid the foundations for future year savings. The thematic approach to budget setting was agreed for a second consecutive year and a timetable to progress this was agreed by the Council in June 2021. The themes are;
- Digital by Default – through greater digital working.
 - Amenity Services – through service transformation.
 - Fleet – through managing the Council's property portfolio
 - Transportation – through progressing the action plan
 - Modernising Education – through transforming the delivery of education
 - Energy – through reducing the Council's utility costs
- 4.6 A cross party Budget Working Group (BWG) with trade union representation was again established to assist in the savings identification process by providing a degree of scrutiny and make recommendations to either the Council or Policy and Resources Committee. The Policy and Resources Committee agreed recommendations by the BWG on 09 December 2021.
- 4.7 A revised Medium to Long Term Financial Strategy 2021-22 to 2030-31 was endorsed by the Policy and Resources Committee in August 2021. An update on the emerging Capital Investment Strategy was considered by the Policy and Resources Committee in October 2021 and agreed the high level principles of the emerging plan and note the final strategy will be submitted to the new Council in 2022.
- 4.8 Theme 2; Improve performance management reporting to provide a balanced picture of long term trends in performance against targets.
- 4.9 A review of the Council's performance management arrangements was completed and recommendations agreed by the Council September 2021 to simplify our existing performance framework and empower members to scrutinise performance, shape policy and improve outcomes through;

- A suite of Corporate Outcome Indicators reported to Strategic Committees.
- Pilot a more immersive method of assessment of performance via inquiries by Strategic Committees.
- Members review and consider priorities within the Local Government Benchmarking Framework.

- 4.10 The changes were developed after extensive engagement with all senior officers and Members. Regarding a new system, a procurement exercise was undertaken with no satisfactory outcome with regards to price. Further to positive learning from Aberdeen City Council's approach to building a 'self-serving' performance system, the Council's Executive Leadership Team agreed January 2022 in principle to the development of an in-house system using Microsoft 365 technology as part of a new and wider data initiative as set out in para 4.13 below.
- 4.11 The end date for the development of a new system has been revised to March 2023. The recommendations agreed by the Council as listed above will go ahead as planned with effect from the new financial year using our existing system until a new system is developed. This interim arrangement is considered acceptable, improved best value and will lead to a better outcome for the Council.
- 4.12 Theme 3; Increase the pace of transformational change to deliver the business outcomes. Much of this activity is reported under theme 1 with exception to the following actions.
- 4.13 Action BV3.3 within the action plan sets out an action to develop data analytics/business intelligence as a tool to inform transformation and improvement. This work was initially delayed due to the COVID 19 pandemic. In November 2021, the Executive Leadership Team learned from Aberdeen City Council on their journey to become empowered to make better decisions with data every day to improve outcomes for communities and stakeholders. This is a highly ambitious initiative to explore centralising some data from across various systems into a single 'data platform' using self-service tools. A 'data platform' is a standard generic name for the integrated set of technologies that collectively creates the data in an accessible format (i.e. dashboards).
- 4.14 The Council's Executive Leadership Team agreed January 2022 to request from ICT business case information to consider options for the development of our own in-house system using Microsoft 365 technology. The Executive

Leadership Team also agreed to create an internal Data Advisory Group consisting of senior officers from across the organisation, the group will facilitate a corporate approach to harnessing our data to improve an evidence led approach to performance management, service design, budgets, policy development, strategies and other decisions that impacts on outcomes for our communities and stakeholders. The Head of Customer Support Services is the Senior Responsible Officer and will Chair the Data Advisory Group.

- 4.15 Regarding the implementation programme for modernising education services, a report on key findings of all 10 workstreams was considered by the Community Services Committee in June 2021 where it was agreed to;
- Progress with a programme of engagement with communities, staff, representative bodies and wider stakeholders on the school leadership model.
 - Bring a further report to the Committee in 2022.
- 4.16 Regarding the first bullet point above, an 'Empowering our Educators' community engagement and consultation exercise commenced November 21 running through to March 2022 to discuss and co-develop proposals.
- 4.17 The Council is on track to reduce the number of ICT applications in use by 10% by March 2023 with the implementation of MS 365 contributing to the reduction of standalone applications.
- 4.18 With regards to making full use of improved technology to transform service delivery and reduce burden on front line services, a number of related activities have been running in parallel. The Council's Heads of Services and Executive Leadership Team participated in related development sessions as follows;
- 4.18.1 Visioning for a Modern Council with the Chief Digital Officer of the Scottish Local Government Digital Office involving Heads of Service and the Executive Leadership Team to explore what a digital council can look like. Exploring new ways of working, the session looked at current best practice and emerging technology of tomorrow with regards to assets, citizens and employees.
- 4.18.2 Cyber Resilience with the Scottish Governments National Cyber Resilience Unit and the Scottish Local Government Digital Office. This session provided an overview of the evolution and threats from cyber-attacks whilst understanding what is required to prevent, mitigate and deal with attacks. The session is being followed up with a cyber-resilience exercise involving

Heads of Service and the Executive Leadership Team in March to assess the Councils preparation and identify areas for improvement.

- 4.19 The Executive Leadership Team is planning for Service Redesign during the period of the next Council and the Heads of Service and the Executive Leadership Team participated in an introductory session to the Scottish Approach to Service Design. Promoted by the Scottish Government, this approach aims to empower citizens to participate in the design of public services with an emphasis on the Council designing services with people instead of for people using an insights driven approach. Bespoke training has now been rolled out to targeted staff to support them when the time comes to redesign their service.
- 4.20 Another ambitious initiative is 'Our Modern Workspace' which is a corporate approach to review and rationalise our office requirements fit for a modern workspace in a post COVID hybrid working model. This emerged from a Council decision in February 2021 to deliver more than £400,000 by 2024 by reducing the number of operational offices and the associated costs from utilities, maintenance, cleaning, NDR and insurance. The benefits of this initiative are as follows;
- Reduced footprint of assets
 - Increased agile working for employees including home working
 - Modern 'hub office' environments with 'flexible desk' arrangements for hybrid working.
 - Digital First approach using technology for remote working and online collaboration.
 - Repurposing of surplus assets for alternative economic or community benefit.
 - Cash saving.
- 4.21 After the successful completion of engagement of employees and a review of our 6 main towns, the project will take forward the programme in phases over a 3 year period.
- 4.22 Theme 4; Assess the extent to which regeneration and economic development initiatives are delivering the vision and corporate outcomes.
- 4.23 For the review, appraisal and monitoring of regeneration and economic initiatives, the Council now has in place adoption of best practice as set out by the UK Government (i.e. Her Majesty's Treasury Green Book Guidance).
- 4.24 The Council's Executive Leadership Team reviewed the corporate approach to managing the Council's capital and regeneration projects and agreed to trial

a temporary post for a programme manager to work with project managers to lead on the development, coordination and delivery of a portfolio of projects which reflects the vision, values and strategic objectives of the Council and that contributes to the financial sustainability of the organisation. The post will be advertised internally to secure an existing employee on secondment. The post holder will report directly to the Executive Leadership Team.

- 4.25 Part of the justification for this temporary role is to support the Council during a period of unprecedented activity in relation to the availability of funding for economic interventions and regeneration. In addition to the £75m Rural Growth Deal which is well established, the Council will in 2022 bid for the UK Government's 'Levelling Up Fund' for a series of ambitious infrastructure projects. If successful, this will generate further significant activity in relation to full business case developments for individual components, procurement, implementation, monitoring and benefits assessments.
- 4.26 Theme 5; Work with communities and community groups to improve engagement.
- 4.27 Actions in relation to measuring satisfaction with communities (BV5.1 and 5.2) have commenced and are on track to be completed by the amended timescale of June 2022. As part of the performance excellence project, the project team is working with the Customer Engagement and Transformation Manager to develop a new corporate customer satisfaction survey.
- 4.28 An action to gather information from communities on what we are doing well is completed and is available on line [here](#). Nearly 1,000 responses were received and the report sets out in detail the feedback received which resulted in 18 actions being identified to further improve satisfaction with customer service.
- 4.29 On identifying priorities for better future engagement, The Executive Leadership Team (ELT) directed a review and agreed in January 2022 a new Community Engagement Guidance document that will be rolled out to employees. The ELT also agreed to establish a working group to further evolve the guidance into a clear framework to provide greater guidance, flowchart and tools for services to engage the community.
- 4.30 The Asset Transfer Group **put** in place a new process allowing communities to progress their proposal directly with officers whilst retaining the option to use the statutory process. A programme for training community groups including use of toolkits and practical experience for working with the Council was delivered by the Council's Community Development Team.

- 4.31 Theme 6; Work with elected members to improve the uptake of training provided; all actions are completed as follows.
- 4.32 A training and development framework was developed for Members and the programme for Members seminars has been adapted to incorporate webinars. This framework now records participation of Members CPD. Remote sessions has seen an increase in attendance levels to 64% (up from 53%) and PDP has been offered to all Members and information on online learning including masterclasses made available.
- 4.33 Theme 7; Improve engagement to ensure staff are bought into the Council's vision.
- 4.34 Employee communication was adapted in response to the COVID 19 pandemic with weekly communications from the Chief Executive, the introduction of podcasts and Wellbeing Wednesday resources all of which have been maintained. The new 'MyCouncilWorks' website providing unrestricted access for all employees to news, information, change and other useful information was highlighted as notable by Audit Scotland in its Annual Audit Report.
- 4.35 Progress; of the 36 actions set out within the improvement plan, 22 are marked as completed. Officers will bring back a further report in 12 months' time to provide an update on the remaining 14 actions that are ongoing.

5.0 CONCLUSION

- 5.1 Progress has been made across all the themes with many now substantially complete; further details can be viewed in appendix 1. Audit Scotland's 2020/21 Annual Audit Report (December 2021) concludes that the Council has made good progress in addressing the recommendations and performance management arrangements remained effective during the COVID 19 pandemic. Officers will return with a report in 12 months' time to provide an update on the remaining actions.

6.0 IMPLICATIONS

- 6.1 Policy; none.
- 6.2 Financial; none.
- 6.3 Legal; the Council requires to comply with the statutory requirements.
- 6.4 HR; none

6.5 Fairer Scotland Duty: none

6.5.1 Equalities - protected characteristics; none

6.5.2 Socio-economic Duty; none

6.5.3 Islands; none

6.6. Climate Change; none.

6.7 Risk; failure to comply with the requirements could result in action by the Accounts Commission.

6.7 Customer Service; none.

Pippa Milne

Chief Executive

22 February 2022

APPENDICES

Appendix 1; Best Value Improvement Action Plan v3

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Act

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV1.1	Develop the transformation agenda, supported by an affordable and achievable medium to longer term financial strategy	Revenue Develop a programme of transformational service redesigns that can be reflected in a 3 year rolling budget setting process.	Redesign process developed and launched	August 2020	Head of FS	Thematic approach taken to budget setting to achieve transformational change agreed for second consecutive year (2021/22) with timetable of activity agreed by Council at June meeting. CEO and Executive Directors participated in review meetings with Heads of Service separately to agree either themes or areas that would be benefit from a Business Process Review.
BV1.2		Capital Complete capital strategy and launch revised capital process.	Capital Strategy and process is launched	May 2021 August 2022	Head of CS	An update was provided to the Policy and Resources Committee on the 14 October 2021. The Capital Investment Strategy will be submitted to the new Council in 2022.
BV1.3		Financial Planning Review and update the medium to longer term to longer term financial strategy	Reviewed Medium to long term Financial Plan is approved	Approved as part of budget process for 2021/22 in February 2021	Head of FS	The Council's draft Financial Strategy was reviewed by the Strategic Management Team January 2021 and considered by the Policy and Resources Committee in August 2021. Complete.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV2.1	Improve performance management reporting to provide a balanced picture of long-term trends in performance against targets.	Review the approach to performance management reflecting: <ul style="list-style-type: none"> - Clear links to strategic priorities - Meaningful indicators, taking account of trend data and benchmarking - The need for a simple and effective system for recording and presenting data 	Performance reporting presentation clearly reflects links	Oct 2021	Head of CSS	Interim governance measures adopted during covid allowed for the trialing of different performance reporting style. The review was completed and recommendations agreed by the Council September 2021 to simplify our existing performance framework and empower members to scrutinise performance, shape policy and improve outcomes by; <ol style="list-style-type: none"> 1. A suite of Corporate Outcome Indicators reported to the Strategic Committees. 2. Pilot a more immersive method of assessment of performance via Inquiries by Strategic Committee. 3. Members to review and consider priorities within the Local Government Benchmarking Framework. 4. Changes to take effect during financial year 2022 – 2023. Complete.
BV2.2			New performance indicators developed	Oct 2021	Head of CSS	Workshops held in January 2021 introduced senior officers to the project and further workshops in February with a range of colleagues will commence the process for developing performance indicators. Corporate Outcome Indicators were drafted and presented to Council September 2021 for reporting 2022 – 2023. Complete.
BV2.3			New system procured or developed in-house	Dec 2021 - March 2023	Head of CSS	The project Team developed a specification for ICT functionality which was signed off by ELT. A procurement Exercise was undertaken with no satisfactory outcome with regards to price. Further to positive learning Aberdeen City Council's approach to

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						building a performance system, we are exploring alternative options for in-house development with expert support in alignment with the MS 365 project. Ongoing.
BV2.4		Introduce improved reporting of performance information to members that support effective scrutiny	Programme of member seminars/webinars on performance and scrutiny delivered	During development stages of new approach	Head of CSS/ Head of LRS	<ul style="list-style-type: none"> January 2021 - Member’s seminar; introduction. Online survey with members launched 21 January closed 07 February. April 2021 - Member’s Seminar 2. Development workshop August 2021 – Online Survey 2 – Performance Scrutiny August 2021 - Member’s Seminar 2 –draft recommendations for Council discussed and agreed. Complete
BV2.5		Improve public performance reporting.	Review of public performance reporting complete	March 2022 2023	Head of CSS	This will feature as part of the new in house system as described at BV2.3 above. Ongoing.
BV3.1	Increase the pace of transformational change to deliver the business outcomes	Develop and agree refreshed approach to Transformational Activity	Themed Transformation Programme, including regular reporting to members, is developed and implemented	Oct 2021	SMT	Thematic approach taken to budget setting to achieve transformational change agreed for second consecutive year (2021/22) with timetable of activity agreed by Council at June meeting.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV3.2		Identify thematic areas of activity and explore opportunities to shift investment towards prevention and more effective and efficient interventions	Scoping of thematic areas for transformational change	Oct 2020	SMT	<p>2020 – 2021; Budget themes were revised by the Members Budget Working Group;</p> <ul style="list-style-type: none"> • 30/09/2020 • 02/11/2020 • 24/11/2020 • 18/12/2020 • 03/02/2021 <p>Initial savings proposals were considered by the Policy and Resources Committee 15.10.20</p> <p>Thematic reviews confirmed for consideration during 2021/22 by the re-established Budget Working Group as follows;</p> <ul style="list-style-type: none"> • Amenity Services Review • Digital by Default • Fleet Review • HROD Prioritisation Review • Property Review • School and Public Transport • Modernising Education • Shared Catering and Cleaning – Council and HSCP
BV3.3		Develop data analytics/business intelligence as a tool to inform Transformation and Improvement	Options appraisal on data analytics approach complete	March 2021 March 2022	Head of CSS	Initially delayed due to Covid. Further to learning from Aberdeen City Council on their ‘data journey’, the Council’s Executive Leadership Team agreed January 2022 in principle to the development of an in-house system using Microsoft 365 technology. This initiative will allow the Council via a self-build to take data from across various systems into a single ‘data platform’ (i.e. integrated set of technologies that collectively creates the data in an accessible format like a dashboards).

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						This initiative is at the 'mandate' stage with an outline business case being worked up for March 2022. The Head of Customer Support Services is the Senior Responsible Officer and will Chair the newly established Data Advisory Group.
BV3.4		Implement programme of modernising education services.	Reports on progress to elected members at appropriate stages of programme	On going	Exec Dir	Proposals discussed with senior leadership June and December 2020. Update on programme went to SMT 14 December 2020. February 2021 - Members Seminar online learning. June 2021 – Education Change Programme ; report on key findings of all 10 workstreams reported to Community Services Committee June where it was agreed to progress with a programme of engagement with communities, staff, representative bodies and wider stakeholders on the school leadership model. Further report to come back to committee in 2022.
BV3.5			Modernisation programme is complete	On going	Exec Dir	See above. 'Empowering our Educators' community engagement and consultation exercise commenced 29.11.21 running through to 04 March to discuss and co-develop proposals.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV3.6		Make full use of improved technology to transform service delivery and reduce burden on front line services	Include transformation and Digital First as key elements of 2020 ICT and Digital Strategy	Dec 2020	Head of CSS	ICT and Digital Strategy 2021-2024 agreed by Policy and Resources Committee 10.12.20 Complete
BV3.7			Include ICT and Digital as an enabling principle in the Transformational change agenda.	As 3.1	Head of CSS	Digital by Default – agreed to be included within thematic reviews for second consecutive year.
BV3.8			Simplify administrative processes by reducing the number of ICT applications in use by 10%	March 2023	Head of CSS	On track. Strategic context set by the approved ICT and Digital Strategy, Digital by Default budget theme will investigate and consolidate processes where possible; implementation of MS365 will contribute to reduction of standalone applications.
BV4.1	Assess the extent to which regeneration and economic development initiatives are delivering the vision and corporate outcomes	Review options appraisal processes and benefits monitoring framework to ensure systems are robust and evaluate the benefits and costs of projects.	Complete overall review and implementation of actions outlined below	April 2022	Major Project Programme Manager (MPPM)	Adoption of Her Majesty’s Treasury Green Book Guidance and Templates as the standard process for options appraisal and benefits monitoring framework for major projects including the Rural Growth Deal (RGD). Evaluation of major projects now undertaken on a more consistent basis using standardised baseline data and assessment methodology. The 5 CHORD Towns will be evaluated upon completion of the last component CHORD project

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						and a framework of other evaluations will be procured for this activity to be applied to other projects such as those included in RGD and other major investment.
BV4.2		Create inter-departmental Project Review Team and scope review of project process to align to BV3 Objective	Project Review Plan to be approved by Capital Investment Board	December 2020 March 2022	Major Project Programme Manager	Key resources identified within Programme & Project Management Service Economic Development, Strategic Finance and Procurement. However Council’s response to COVID pandemic has taken priority for the immediate term. Work plan and programme to be revised.
BV4.3		Implement updated Project Process for Options & Evaluation.	Launch at Capital Investment Board	April 2021-2022	MPPM	As BV4.2 above
BV4.4		Training / Mentoring for Project Practitioners in updated Project Process for Options & Evaluation	Delivery of training recorded	April – September 2021-2022	Project Review Team	To be implemented.
BV5.1	Work with communities and community groups to improve engagement	Engage with communities to understand and improve levels of satisfaction with council services in order to understand	Develop co-ordinated approach to measuring satisfaction with communities.	December 2021- June 2022	Head of CSS	As part of the performance excellence project, the project team is working with the Customer Engagement and Transformation Manager to develop a new corporate customer satisfaction survey.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV5.2		and address their concerns	Trends are measured as well as individual survey outcomes	Dec 2021 June 2022	Head of CSS	The survey described above will ensure trend data over a longer period.
BV5.3		Improve the quality of engagement with our communities and reflect this in service improvements	Gather information from communities on what we are doing well	June 2021	Head of CSS	Customer Engagement Survey was completed March 2021 and available here . Complete
BV5.4			Identify priorities for better future engagement	Sept 2021 June 2022	Head of CSS	The Executive Leadership Team (ELT) is giving consideration to priorities for better engagement in relation to the future of the Council e.g. a co-production approach to Service Design. This measure is on track.
BV5.5		Implement a programme to improve engagement skills across the organisation.	Training materials developed and programme rolled out	June 2022	Head of CSS/ CPP Manager	The Executive Leadership Team (ELT) directed a review and agreed in January a new Community Engagement Guidance document that will be rolled out to employees. The ELT also agreed to establish a working group to further evolve the guidance into a clear framework to provide greater guidance, flowchart and tools for services to engage the community. This activity will link to the training for Service Design that is rolled out this year.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV5.6		Review and simplify the community asset transfer process.	Process reviewed and launched	Feb 2021	Head of CS	<ul style="list-style-type: none"> Asset Transfer Group put in place a non-statutory process (called Expressions of Interest – EOI) allowing communities to progress their proposals directly with council officers, while retaining the option, to use the statutory process. The Group are looking at ways to further promote community interest in taking on council buildings through the Asset Transfer Group. A programme for training community groups and that included toolkits and practical experience for working with the Council and submitting both Expressions of Interest and formal Asset Transfer requests was implemented by the Social Enterprise Officer. Annual overview of asset transfer requests reported to Policy and Resources Committee 15.10.20
BV5.7		Proactively market community asset transfer opportunities	Programme of asset marketing developed and implemented	Dec 2021	Head of CS	<p>As reported to Policy and Resources Committee 15.10.20</p> <p>The Council’s Social Enterprise Officer promotes the asset transfer request process to community groups and supports this activity. The process is promoted on the council’s website.</p> <p>The Social Enterprise Officer delivered an outreach training programme aimed at community groups which covered toolkits and practical experience for working with the Council and submitting both Expressions of Interest and formal Asset Transfer requests.</p> <p>The Asset Transfer Group are also undertaking a pilot to actively market and promote certain assets that may have community group interest. This is focussing on around 10 Public Conveniences across the area at present in partnership with</p>

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						Roads & Infrastructure. Findings from this pilot will be evaluated and consideration given to expanding the dedicated web page and engagement undertaken so far. Complete
BV6.1	Work with elected members to improve the uptake of training provided.	Develop and implement an Elected Members' Training and Development Framework 2020 – 2022 that includes: - participation in Local Government Improvement Service Members CPD Framework. - Annual PDP session offered to each elected member with a senior member of the Governance Team - Offer all members the opportunity of a	Training and Development Framework completed	September 2020.	Head of L&RS	Training and Development Framework developed for issue to all members. Consultation undertaken with political leadership groups and approved in December for roll-out. Complete
BV6.2			Information on Local Government Improvement Service Members CPD Framework provided and process of recording participation by members in place	Dec 2020	Head of L&RS	CPD Framework and facility for recording participation incorporated into revised development framework. Complete
BV6.3			36 PDP sessions offered	Dec 2020 Dec 2021	Head of L&RS	Offer to be extended to all Members - rescheduled to maximise take up. Complete

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
BV6.4		development profiling exercise; self-reflection or '360' - 1-1 Coaching for Senior Elected Members.	Invitation issued to all members	Dec 2020	Head of L&RS	Incorporated into Framework and offer to be extended to all Members - rescheduled to post budget period: 1st March 2021 to maximise take up. Complete
BV6.5		Elected Member Seminar Programme developed to incorporate series of focused skype development sessions which facilitate remote attendance	Skype seminars programme developed	October 2020	Head of L&RS	Seminar programme has been adapted to incorporate webinars and diary dates are scheduled in advance for the full programme of sessions. Remote attendance has had positive effect on participation levels with average attendance at 64% compared to previous 53% for seminar attendance. Complete
BV 6.6		Enhance provision of on-line learning and development activities to increase resources and support for members to address development needs on a remote basis	On line learning facility available	March 2021	Head of L&RS	Programme of virtual seminars and committee development sessions in place. Access to remote learning opportunities provided by Improvement Service and external providers such as LGIU. Access to specific skills development such as MODGov and Teams provided through on-line training. Step – by –step guides developed for members to support uptake of new technologies. Induction provided for 2 new Elected Members predominantly on a virtual basis.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council						
Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
						The Council’s on line learning system, LEON, is currently being replaced and as part of the features within the system, we will be taking up the facility to have a dedicated councillor’s page, which will pull through any/all relevant eLearning modules onto a specific page for ease of access. This would be in addition to hosting dedicated content specifically for Elected Members. Complete
BV6.7		Encourage attendance at masterclasses run by the Local Government Improvement Service and the Digital Office for Scottish Local Government.	Information on masterclasses provided and process of recording attendance by members in place	Dec 2020	Head of L&RS	Elected Members issued invites to webinars by Improvement Services and process for recording attendance will be incorporated in development plan. Link to recorded webinars and presentations on HUB in Members section. Complete
BV7.1	Improve engagement to ensure staff are bought into the council’s vision.	Review and refresh remote delivery of training resources and support	All suitable mandatory training has remote delivery option	Dec 2021	Head of CSS	A new Digital Learning Strategy was presented to SMT in March 2021 Mandatory training delivery has been developed as part of the new online learning platform. Complete
BV7.2		Develop and implement employee engagement programme that involves them in the	Plan developed and implemented	Dec 2020	Head of CSS	Employee communication has been adapted in response to covid with regular communication from the Chief Executive, the introduction of podcasts and Wellbeing Wednesday resources.

Best Value 3 Action Plan – Improving Performance in Argyll and Bute Council

Ref	Theme	Actions to achieve outcome	Success measures	Key dates	Lead	Progress
		ongoing transformation of the organisation				New MyCouncilWorks website provides unrestricted access for all employees to news, information, change and other useful information. Complete

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ARGYLL AND BUTE COUNCIL

Audit and Scrutiny Committee

Legal and Regulatory Support

15 March 2022

Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA)

Annual report

1.0 HEADLINES

1.1 The Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA) places a requirement on public authorities to authorise certain types of covert surveillance during planned investigations.

1.2 The Scottish Government Code of Practice on Covert Surveillance and Property Interference requires an annual report on the use of RIPSA to be reported to Members ('the code of practice')

2.0 RECOMMENDATIONS

2.1 The Audit and Scrutiny Committee note the terms of the report.

3.0 DETAIL

3.1 Regulation of Investigatory Powers (Scotland) Act 2000 places a requirement on public authorities to authorise certain types of covert surveillance during planned investigations.

3.2 The Council has a policy and procedure in place that allows for appropriate authorisation of requests for covert surveillance to be considered/approved/refused and monitored through to completion.

3.2 Between 1 January 2021 and 31 December 2021 the Council undertook no covert surveillance operations.

4.0 CONCLUSION

4.1 The Council has met the requirements of the code of practice by providing this report to Committee.

5.0 IMPLICATIONS

- 5.1 Policy – None
- 5.2 Financial – None
- 5.3 Legal – None
- 5.4 HR - None
- 5.5 Fairer Duty Scotland – None
 - 5.5.1 Equalities – None
 - 5.5.2 Socio-Economic – None
 - 5.5.3 Islands – None
- 5.6 Climate Change - None
- 5.7 Risk – None
- 5.8 Customer Service - None

Douglas Hendry - Executive Director with responsibility for Legal and Regulatory Support

27 January 2021

For further information contact: Iain Jackson, Governance, Risk and Safety Manager 01546 604188

APPENDICES

None

Audit & Scrutiny Committee Work Plan 2021 – 2022

This is an outline plan to facilitate forward planning of reports to the Audit & Scrutiny Committee

Report	Lead Service	Regularity
15 March 2022	Reports to Committee Services by 18 February 2022	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up <i>(Jim Smith to be invited to provide update on progress of actions contained within the Contract Management: Roads and Infrastructure Services audit, presented to A&SC on 14/12/2021)</i>	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee 2022/23 <ul style="list-style-type: none"> • Environmental Health • Purchasing Cards • Live Argyll Budget Monitoring 	Chief Internal Auditor	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
RIPSA Annual Report	Governance and Risk Manager	Annual
Internal Audit 2022/23 Plan	Chief Internal Auditor	Annual
External Audit – 2021/22 Annual Plan	Audit Scotland	Annual
2021/22 Unaudited Annual Accounts Preparation Plan and Timetable	Head of Financial Services	Annual
Treasury Management Strategy and Annual Investment Strategy	Head of Financial Services	Annual
Progress against Best Value Action Plan Update	Chief Executive/Head of Customer Support Services	Annual
Internal Audit Charter and Internal Audit Manual	Chief Internal Auditor	Annual
Scrutiny Manual and Framework Update	Chief Internal Auditor	Annual

Audit & Scrutiny Committee Work Plan 2021 – 2022

XX June 2022	Reports to Committee Services by XX May 2022	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee <ul style="list-style-type: none"> • Climate Change Act • Education Processes • Complaints Handling (HSCP Audit Plan) • Civil Contingencies • Adult Protective Services • ELC Parental Satisfaction • ICT Remote Working • Planning Applications • School Funds • Workforce Planning (HSCP Audit Plan) 	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
Council Performance Report – October 2021 to March 2022	Head of Customer Support Services	Bi-Annual
Audit Scotland Report – Financial Overview 2020/21 (<i>Usually comes in March – delayed in 2022</i>)	Head of Financial Services	Annual
Strategic Risk Register Update	Chief Executive	Annual
Internal Audit 2021/22 Annual Report	Chief Internal Auditor	Annual
Review of Code of Corporate Governance	Governance, Risk and Safety Manager	Annual
External Audit 2021/22 Management Report	Audit Scotland	Annual
Local Government Benchmarking Framework Report	Head of Customer Support Services	Annual
Unaudited Financial Accounts	Head of Financial Services	Annual
Local Government in Scotland: Challenges and Performance 2022	Audit Scotland	Annual

Audit & Scrutiny Committee Work Plan 2021 – 2022

Community Asset Transfer Scrutiny Review	Chief Internal Auditor/Chair of Scrutiny Panel - Martin Caldwell	One-off
Fly Tipping Scrutiny Review	Chief Internal Auditor/Head of Scrutiny Review Panel – Jim Lynch	One-off
XX September 2022	Reports to Committee Services by XX August 2022	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly
Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
PSIAS Self-Assessment	Chief Internal Auditor	Annual
Local Government Benchmarking Framework Report	Head of Customer Support Services	Annual
Corporate Complaints Annual Report 2021/22	Governance, Risk and Safety Manager	Annual
Freedom of Information Annual Report 2021/22	Governance, Risk and Safety Manager	Annual
Audit & Scrutiny Committee 2021/22 Annual Report	Audit & Scrutiny Committee Chair	Annual
Strategic Risk Register – Assurance Mapping	Chief Internal Auditor	Annual
Strategic Risk Register Update	Chief Executive	Annual
Trust Fund Annual Accounts	External Audit	Annual
Local Government in Scotland Overview 2022	Audit Scotland	Annual
Counter Fraud Annual Update (End of 2 year pilot)	Chief Internal Auditor	Annual
XX December 2022	Reports to Committee Services by XX November 2022	
Internal Audit and Counter Fraud Summary of Activities	Chief Internal Auditor	Quarterly
Internal Audit Report Follow Up	Chief Internal Auditor	Quarterly
Internal Audit Reports to Audit and Scrutiny Committee	Chief Internal Auditor	Quarterly
External Audit Update Report	Audit Scotland	Quarterly

Audit & Scrutiny Committee Work Plan 2021 – 2022

Verbal Update by Chair(s) of Scrutiny Panel	Chair and Vice Chair of Audit & Scrutiny Committee	Quarterly
Council 6-month Performance Report – April to September 2022	Chief Executive/Head of Customer Support Services	Bi-Annual