



Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry

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20 June 2017

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **TUESDAY, 27 JUNE 2017** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST**
- 3. MINUTES** (Pages 1 - 4)
Minutes of the Audit Committee held on Friday 24 March 2017.
- 4. AUDIT AND SCRUTINY COMMITTEE - TERMS OF REFERENCE** (Pages 5 - 8)
Report by Executive Director - Customer Services
- 5. REVIEW OF CODE OF CORPORATE GOVERNANCE** (Pages 9 - 52)
Report by Executive Director – Customer Services
- 6. INTERNAL AUDIT ANNUAL REPORT 2016/17** (Pages 53 - 62)
Report by Chief Internal Auditor
- 7. INTERNAL AUDIT SUMMARY OF ACTIVITIES** (Pages 63 - 70)
Report by Chief Internal Auditor
- 8. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2017/18** (Pages 71 - 142)
Report by Chief Internal Auditor
- 9. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW-UP 2017/18** (Pages 143 - 148)

- Report by Chief Internal Auditor
10. **INTERNAL AUDIT ANNUAL AUDIT PLAN 2017/18** (Pages 149 - 164)
Report by Chief Internal Auditor
 11. **INTERNAL AUDIT CHARTER** (Pages 165 - 182)
Report by Chief Internal Auditor
 12. **AUDIT COMMITTEE ANNUAL REPORT 2016/17** (Pages 183 - 190)
Report by Chair of Audit and Scrutiny Committee
 13. **UNAUDITED FINANCIAL ACCOUNTS** (Pages 191 - 334)
Report by Head of Strategic Finance
 14. **EXTERNAL AUDIT REPORTS** (Pages 335 - 344)
Report by External Audit
 15. **LOCAL SCRUTINY PLAN 2017/18 - AUDIT SCOTLAND** (Pages 345 - 352)
Report by Head of Strategic Finance

Audit and Scrutiny Committee

Martin Caldwell (Chair)
Councillor George Freeman
Councillor Jamie McGrigor
Councillor Alan Reid
Councillor Andrew Vennard

Councillor Jim Findlay
Sheila Hill (Vice-Chair)
Councillor Julie McKenzie
Councillor Sandy Taylor

Contact: Adele Price-Williams 01546 604480

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY,
LOCHGILPHEAD
on FRIDAY, 24 MARCH 2017**

Present: Martin Caldwell (Chair)

Councillor Michael Breslin Councillor Richard Trail
Councillor Roderick McCuish Sheila Hill
Councillor Elaine Robertson

Attending: Kirsty Flanagan, Head of Strategic Finance
Kevin Anderson, Chief Internal Auditor
Graeme Forrester, Area Committee Manager
David McConnell, Audit Scotland
Ursula Lodge, Senior Manager - Audit Scotland

The Chair welcomed Councillor McCuish and Ursula Lodge, Senior Manager from Audit Scotland, to their first meeting of the Audit Committee.

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated on behalf of Councillor Iain MacLean.

2. DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3. MINUTES

The Minutes of the Audit Committee held on Friday 2 December 2016 were approved as a correct record subject to the following additional wording in relation to the All Weather Pitch audit in item 6:

The Audit Committee noted that contrary to the report and specifically to the 3rd paragraph on page 128, the accounts of CCSP were not audited as CCSP had claimed exemption from audit under section 477 of the 2006 Companies Act. However, Financial Statements have been prepared in accordance with relevant legislation and where applicable have been subject to independent examination.

4. INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Committee considered a report which provided an update on Internal Audit activity during Quarter 4 against a number of areas including 2016/17 Audit Plan progress; Individual Audits undertaken; Continuous Monitoring Programme Testing; Internal Audit Development Plan and Performance Indicators.

Decision

The Committee noted the contents of the report.

(Reference: Report by Chief Internal Auditor dated 24 March 2017, submitted)

5. INTERNAL AUDIT REPORTS

The Committee considered a report providing detail in respect of the below 6 audits;

- Education Maintenance Allowance (EMAs);
- Service Planning;
- Common Good Property;
- Use of Pool Cars;
- Sustainable Communities; and
- Risk Management.

Discussion focussed on the use of pool cars and their use in partnership working, SEEMis and potential challenge to Common Good property registers.

Decision

The Committee noted the contents of the summary report and the detail within each individual report.

(Reference: Report by Chief Internal Auditor dated 24 March 2017, submitted)

6. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW-UP 2016 - 2017

Consideration was given by the Committee to a report and attached appendices documenting the results of progress made by departmental management in implementing recommendations made by both External and Internal Audit which were due to be implemented by 31 January 2017.

Decision

The Committee noted the contents of the report.

(Reference: Report by Chief Internal Auditor dated 24 March 2017, submitted)

7. INTERNAL AUDIT ANNUAL PLAN 2017 - 2018

A report introducing the Internal Audit Annual Plan for the financial year 2017/18 was considered by the Audit Committee.

Decision

The Committee agreed and approved the Internal Audit Annual Plan 2017/18

(Reference: Report by Chief Internal Auditor dated 24 March 2017, submitted)

8. EXTERNAL AUDIT PLAN 2017 - 2018

An annual report containing an overview of the planned scope and timing of Audit Scotland's audit which will be carried out in accordance with International Standards on Auditing (ISAs) Code of Audit Practice and other relevant guidance was considered by the Committee. The plan identified how Audit Scotland will provide an opinion on the financial statements and related matters and how it will meet the

wider scope of public sector audit requirements including the new approach to Best Value.

Members were made aware that audit risks 1 and 2 in the plan associated with financial statement issues are requirements of auditing standards and not because anything that has been identified specifically to the Council and it is Audit Scotland's opinion that this year's budget setting process was reasonable and they will therefore not be reporting on this.

Decision

The Committee noted the contents of the report.

(Reference: Report by Audit Scotland dated March 2017, submitted)

9. STRATEGIC RISK ASSURANCE MAPPING

The Committee gave consideration to a report which set out Internal Audit's assessment of the sources of assurance for the Audit Committee on the management of the Council's strategic risks. The report described the approach to the work and the outcomes including recommendations for improvement.

Decision

The Committee noted;

- a) the report: and
- b) the Risk Assurance Map.

(Reference: Report by Grant Thornton dated 24 March 2017, submitted)

10. FINANCIAL STATEMENTS TIMETABLE 2016-2017

The Audit Committee gave consideration to a report advising on the plans for financial year end 31 March 2017 and the preparation of the Council's Unaudited Annual Accounts for 2016-17. The Committee noted that the timescales for the production of the figures for the Integrated Joint Board have been brought forward to 21 April 2017.

Decision

The Committee noted that plans are in place to prepare the Council's Annual Accounts, consistent with the Accounting Code of Practice which are to be submitted to the Council prior to 30 June 2017, in line with the Scottish Government's requirements.

(Reference: Report by Head of Strategic Finance dated 24 March 2017, submitted)

11. DRAFT AUDIT COMMITTEE WORK PLAN 2017 - 2018

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

Decision

The Committee noted the draft workplan.

(Reference: Audit Committee Workplan dated 24 March 2017, submitted)

The Chair thanked Members for their attendance, deliberation and involvement in the Audit Committee to help ensure a reasonable degree of assurance that issues are properly managed.

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****Customer Services****27th June 2017**

Audit and Scrutiny Committee – terms of reference

1.0 EXECUTIVE SUMMARY

- 1.1 Council determined at its meeting on 18th May 2017 to form an Audit and Scrutiny Committee to take forward the functions of the previous Audit Committee and the scrutiny functions of the previous Performance Review and Scrutiny Committee. This report informs members of the expected framework for the development of terms of reference and practice for the new Audit and Scrutiny Committee.

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

Customer Services

27th June 2017

Audit and Scrutiny Committee – terms of reference

2.0 INTRODUCTION

2.1 Council agreed at its meeting on 18th May 2017 to introduce an Audit and Scrutiny Committee to take forward the functions of the previous Audit Committee and the scrutiny functions of the previous Performance Review and Scrutiny Committee. The formation of the new Committee requires the amendment of the Council's Constitution to set terms of reference for the Committee and requires members and officers to consider practice to ensure the functions of the new Committee are appropriately fulfilled.

3.0 RECOMMENDATIONS

3.1 It is recommended that members note the current circumstances and consider the indicative timescale for development of terms of reference and practice for the Audit and Scrutiny Committee

4.0 DETAIL

4.1 Council determined at its meeting on 18th May 2017 to introduce an Audit and Scrutiny Committee. This Committee replaces previous Audit Committee, and takes responsibility for the scrutiny functions previously within the remit of the Performance Review and Scrutiny Committee.

4.2 The independent Chairman of the previous Audit Committee has been invited to fulfil the role of independent chair the new Audit and Scrutiny Committee for the remainder of his term of office.

4.3 Area Committees and strategic committees – Environment, Development and Infrastructure, and Community Services committees – will take responsibility for the performance review business of the previous Performance Review and Scrutiny Committee.

4.4 The creation of the new Audit and Scrutiny Committee requires amendment of the Council's Constitution to include clear terms of reference for the new Committee to include its audit functions and its scrutiny functions. Development of practice within the Committee to apply the terms of reference will be the subject of development days or an away-day to ensure member involvement in development and that Committee members are enabled to access appropriate development opportunities. It is expected that development sessions or an away day will take place by October, with continuation of the previous Audit

Committee's use of regular scheduled development sessions to ensure practice develops as required and members continually develop.

- 4.5 Development of practice within the new Audit and Scrutiny Committee should bear in mind the introduction by Council of a 'reports for noting' protocol designed to promote efficient agenda management and committee effectiveness while assuring of the opportunity for members to determine to debate or discuss fully.

5.0 CONCLUSION

- 5.1 This report informs members of the Council's decision to create an Audit and Scrutiny Committee to take on the functions of the previous Audit Committee and the scrutiny functions of the Performance Review and Scrutiny Committee, and the need to create terms of reference for the new Committee. The report further advised of an indicative timescale for the holding of development sessions for members of the Committee to consider practice and ongoing development, and advised of the application of the Council's 'protocol for noting' designed to improve committee effectiveness.

6.0 IMPLICATIONS

- 6.1 Policy - none
- 6.2 Financial – none
- 6.3 Legal – none
- 6.4 HR - none
- 6.5 Equalities - none
- 6.6 Risk – none
- 6.7 Customer Service – none

Executive Director of Customer Services
Policy Lead Cllr Rory Colville
19 June 2017

For further information contact: Graeme B. Forrester, Area Committee Manager,
Tel: 01546 604197

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**ARGYLL & BUTE COUNCIL
CUSTOMER SERVICES
STRATEGIC FINANCE**

AUDIT AND SCRUTINY COMMITTEE

27 June 2017

REVIEW OF CODE OF CORPORATE GOVERNANCE

1. EXECUTIVE SUMMARY

- 1.1. This report advises that the Council's Governance Group has reviewed the action plan for 2016/17 and updated the content of the local code of corporate governance to reflect the governance position within the Council for 2016/17.
- 1.2. The Governance Group has prepared an action plan for 2017/2018.
- 1.3. The review allows the Council to include a statement of governance and internal control in the Annual Accounts for 2016/17.

2. RECOMMENDATIONS

- 2.1 The Audit Committee approve the content of the revised Code of Corporate Governance for 2016/17
- 2.2 The Audit Committee approve the content of the Action Plan for 2017/18
- 2.3 The Audit Committee approve the draft statement of governance and internal control for 2016/17

REVIEW OF CODE OF CORPORATE GOVERNANCE

1. INTRODUCTION

This report advises that the Council's Governance Group has reviewed the content of the local code of corporate governance to reflect the governance position within the Council for 2016/17. The review allows the Council to include a statement of governance and internal control in the Annual Accounts for 2016/17. The Governance Group has prepared an action plan for 2017/2018.

2. RECOMMENDATIONS

- 2.1 The Audit Committee approve the content of the revised Code of Corporate Governance for 2016/17
- 2.2 The Audit Committee approve the content of the Action Plan for 2017/18
- 2.3 The Audit Committee approve the draft statement of governance and internal control for 2016/17

3. DETAIL

- 3.1 CIPFA and SOLACE published a revised Framework for 'Delivering Good Governance in Local Government' in 2007. The Framework was intended to define the principles that should underpin the governance of local authorities and provides a structure to assist authorities with their own approach to governance. The Framework took the six core principles, from the 'Good Governance Standard for Public Services' (2004), and adapted these principles for local government, identifying eighteen supporting principles.
- 3.2 The Council's Governance Group, chaired by the Executive Director of Customer Services as Monitoring Officer, has responsibility for the preparation of the Code of Corporate Governance along with an Action Plan which identifies areas within the Council where work to improve the governance arrangements within the Council is being undertaken or is necessary.

The Governance Group is of the view that the actions on the action plan for 16/17 (appendix 1) have been progressed.

The Governance Group includes:

- Head of Strategic Finance (s95 Officer);
- Head of Improvement & HR;
- Head of Governance and Law;
- Governance and Risk Manager;
- Chief Internal Auditor.

3.3 The six core principles contained in the local code are;

Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

Members & Officers working together to achieve a common purpose with clearly defined functions and roles

Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Developing the capacity and capabilities of members and officers to be effective

Engaging with local people and other stakeholders to ensure robust public accountability

The revised code (appendix 3) includes links to the evidence demonstrating compliance with these six core principles.

3.4 The review of the effectiveness of the system of governance and internal control is informed by the:

- Work of Officers within the Council;
- Work of External and Internal Audit;
- Statements of Governance or Internal Control provided by external bodies;
- External review and inspection reports; and
- Recommendations from the Audit Committee
- Recommendations from the Performance, Review and Scrutiny Committee.

3.5 It is recommended that the Audit Committee approve the revised code of Corporate Governance for 2016/17 (appendix 3), the action plan 17/18 (appendix 2) and the draft statement of governance and internal control for 2016/17 (appendix 4).

4. CONCLUSION

This review of the content of the local code of corporate governance gives

assurance about the robustness of the Council's governance arrangements as level 3 of the CIPFA code.

5. IMPLICATIONS

POLICY In line with SORP and recommended practice

FINANCIAL None

HR None

LEGAL Monitoring Officer statutory role, remit includes governance

EQUALITIES None

RISKS None

CUSTOMER SERVICE None

Douglas Hendry
Executive Director – Customer Services

For further information please contact:
Iain Jackson, Governance and Risk Manager
01546 604188

Appendices

Appendix 1 - Action plan for 16/17

Appendix 2 - Action plan for 17/18

Appendix 3 - Revised code of corporate governance

Appendix 4 - Draft statement of governance and internal control 16/17

Argyll and Bute Council – Corporate Governance Action Plan 2016/2017

Ref	Local Code	Actions to achieve compliance	Success measures	Key dates	Lead	Ref.
CG-1	Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.	The Council's risk management activity has been assessed as Embedded and integrated with individual category scoring demonstrating year on year improvement.	Continue to show year on year improvement against CIPFA benchmarking	31 March 2017	Head SF	CG Code 4.3.1
CG-2	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	Improvement plan in place re the Accounts Commission findings on the Controller of Audits Statutory Report. Council will increase the number of consultations on key issues.	All actions are completed	31 March 2017	Ch Exec Exec Dir – Customer Services	CG Code 3.1.1
CG -3	Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out	PDP's for Members engaged in the process and PRD's for Officers identify relevant training needs and have	Programme of development opportunities/seminars offered to members over the course of the year	31 March 2017	Ch Exec and all Executive Directors	CG Code 5.2.1

Appendix 1

	effectively	development plans in place	Corporate target for completion of Officers PRD's achieved New member induction training programme and materials prepared		Head G&L	
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Argyll and Bute Council – Corporate Governance Action Plan 2017/2018

Ref	Local Code	Actions to achieve compliance	Success measures	Key dates	Lead	Ref.
CG-1	Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.	The Council's risk management activity has been assessed as Embedded and integrated with individual category scoring demonstrating year on year improvement.	Continue to show year on year improvement against CIPFA benchmarking	31 March 2018	Head SF	CG Code 4.3.1
CG-2	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	Improvement plan in place re the Accounts Commission findings on the Controller of Audits Statutory Report.	Outstanding action in relation to local empowerment would be monitored via the Community Empowerment Action Group	31 March 2018	Ch Exec Exec Dir – Community Services	CG Code 3.1.1
CG - 3	Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively	PDP's for Members engaged in the process and PRD's for Officers identify relevant training needs and have development plans in place	Induction programme for Members following LG Elections completed Programme of development opportunities/seminars offered to members over the course of the year	30 June 2017 31 March 2018	Ch Exec and all Executive Directors	CG Code 5.2.1

			Corporate target for completion of Officers PRD's achieved			
CG-4	Ensure that arrangements are in place to enable the authority to engage with all sectors of the community effectively. These arrangements should recognise that different sections of the community have different priorities and established explicit processes for dealing with these competing demands.	Training community groups on the Community-Led Action Planning Toolkit and ensuring that the development of Community-Led Action Plans feed into Area Community Planning Groups.	A number of Community Groups using the Toolkit	31 March 2018	Exec Dir – Community Services	CG Code 6.2.3



Code of Corporate Governance 2016/17

Date 30 May 2017
Version 1.1 – annual update

Principle 1: Focussing on the purpose of the Authority and on the outcomes for the community, and creating and implementing a vision for the local area

1.1 Supporting Principle: Exercising Strategic Leadership by developing and clearly communicating the Authority's purpose and vision and its intended outcome for citizens and service users

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
1.1.1 Develop and promote the Authority's purpose and vision	The Council's strategic objectives are reflected in the Community Plan, Single Outcome Agreement and Corporate Plan Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website	Chief Executive/ ED – Customer	3 3	Head of I and HR
	Clear terms of reference are set for the preparation of service plans in the Planning and Performance Management Framework to ensure fit with the Corporate Plan Service Plans clearly reflect corporate objectives	Chief Executive/ Executive Directors	3 3	All Service Heads
	Documented meetings have taken place to discuss key objectives in Corporate and Service Plans	Chief Executive	3 3	Executive Directors
	A Communications Strategy has been implemented. Public Performance Reporting Strategy has been implemented. Public performance reporting	Chief Executive	3 3	Head of I and HR
	1.1.2 Review on a regular basis the Authority's vision for the local area and its implications for the Authority's governance arrangements	Local Code of Corporate Governance has been developed in line with CIPFA/SOLACE guidelines	ED – Customer	3 3

	Annual review of the Corporate Plan	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Annual review of Service Plans	Executive Directors	3	3	All Service Heads
1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	Corporate framework for all partnerships within Argyll and Bute Community Planning Partnership	Chief Executive	3	3	Head of C & C
	Roles and responsibilities defined for Argyll and Bute Community Planning Partnership				
1.1.4 Publish an Annual Report on a timely basis to communicate the Authority's activities and achievements, its financial position and performance	Prepare and publish an Annual report	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Prepare and publish report for local government benchmarking framework Public Performance reporting	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Prepare and publish Annual Accounts and Efficiency Statements	Chief Executive	3	3	Head of SF

1.2 Supporting Principle: Ensuring that users receive a high quality of service whether directly, in partnership, or by commissioning

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17		Lead Officer
1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	A robust performance management system has been developed which enables all operations to be reported on in terms of meeting performance standards targets and levels of customer satisfaction and linked to PSIF	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Prepare and publish Statutory/Defined Performance Indicator Report. Public performance reporting	Chief Executive/ ED - Customer	3	3	Head of I and HR
	Documented meetings have taken place to discuss performance at service level PRS Committee	Chief Executive/ Leader	3	3	Executive Directors / Members
1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters.	ED – Customer	3	3	Head of G and L

	<p>Audit Committee meetings Part D of Constitution</p> <p>Performance, Review and Scrutiny Committee has also been established PRS Committee</p>			
	<p>The Council is proactive in reviewing its services through the internal audit team and external auditors</p> <p>Internal Audit Plan in place</p>	Chief Executive	3 3	Head of SF
	<p>The Council has a formally established complaints policy and procedure</p> <p>Complaints procedure web</p> <p>Unified approach to complaints handling across the organisation with a common point of entry.</p> <p>Staff have been trained in dealing with complaints and empowered and supported to deal with complaints</p>	ED – Customer	3 3	Head of G and L
	<p>The complaints system records actions taken to prevent complaints recurring, and evidence that complaints inform positive service improvement.</p> <p>Regular testing of the complaints handling system to ensure it meets consumer needs and expectations</p>	ED – Customer	3 3	Head of G and L
	<p>The Council has in place robust Critical Activity Recovery Plans for its identified critical activities which are subject to regular review and testing</p>	ED - Customer	3 3	Head of G and L

1.3 Supporting Principle: Ensuring that the Authority makes best use of resources and that tax payers and service users receive excellent value for money

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
1.3.1 Decide how value for money (VFM) is to be measured and make sure the Authority has the information needed to review VFM and performance effectively. Measure the environmental impact of policies, plans and decisions.	Reviews of Council services to ensure best value principles adhered to Benchmarking: comparing economy, efficiency and effectiveness of services through our involvement in the Local Government Benchmarking Framework benchmarking framework Asset Management BV review	Chief Executive	3 3	All Directors
	A robust performance management system has been developed which enables all operations to be reported on in terms of meeting performance standards targets and levels of customer satisfaction and linked to PSIF	Chief Executive/ ED - Customer	3 3	Head of I and HR
	The authority responds positively to and acts upon the findings and recommendations of external scrutiny	Chief Executive	3 3	Chief Executive
	The Council is proactive in reviewing its services through the internal audit team and external auditors Audit Committee Performance Review and Scrutiny Committee	SMT Audit Committee	3 3	Head of SF
	Prepare and publish Annual Accounts and Efficiency Statements	Chief Executive	3 3	Head of SF
	Prepare and publish report for local government benchmarking framework	Chief Executive/ ED - Customer	3 3	Head of I and HR

Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles

2.1 Supporting Principle: Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions, and the roles and responsibilities of the scrutiny function

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of senior officers	Statement of roles of Leader and Chief Executive included within the Council Constitution and will be reviewed annually. Part A of constitution	ED – Customer	3 3	Head of G and L
	The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution	ED – Customer	3 3	Head of G and L
	Local Code of Corporate Governance developed in line with CIPFA/SOLACE guidelines	ED – Customer	3 3	Head of G and L
	Roles and responsibilities defined for Argyll and Bute Community Planning Partnership	Chief Executive	3 3	Head of C and C

2.2 Supporting Principle: Ensuring that a constructive working relationship exists between the authority members and officers, and that the responsibilities of members and officers are carried out to a high standard

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
2.2.1 Determine a scheme of delegation and reserve powers within the constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.	The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution	ED – Customer	3 3	Head of G and L
	There are Terms of Reference and reporting arrangements for all sub-committees of the Authority Part C of Constitution	ED – Customer	3 3	Head of G and L
2.2.2 Make the Chief Executive responsible and accountable to the authority for all aspects of operational management.	Responsibilities of Chief Executive detailed within Council Constitution Part A of Constitution	ED – Customer	3 3	Head of G and L
2.2.3 Make a senior officer (the Section 95 Officer) responsible to the authority for ensuring that appropriate advice is given for all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control.	Section 95 Officer role identified in the Council Constitution and included as a member of the Strategic Management Team Part A of Constitution	Chief Executive ED – Customer	3 3	Head of SF
	Standing Orders and financial regulations contained in the Council Constitution Constitution	ED – Customer	3 3	Heads of G and L C and S SF
	Council Accounts comply with statutory and professional reporting standards and are prepared and approved in accordance with a preset timetable Part D of Constitution	Chief Executive	3 3	Head of SF
2.2.4 Make a senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.	Senior Officer designated as Monitoring Officer. Role and responsibilities set out in the Council Constitution taking account of comments from Audit Scotland report. Constitution Monitoring Officer Protocol in place	ED – Customer	3 3	ED – Customer

2.3 Supporting Principle: Ensuring relationships between the authority, its partners and the public are clear so that each other knows what to expect of the other

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
2.3.1 Develop protocols to ensure effective communication between members and officers in their respective roles	<p>Protocols for Member / Officer relations detailed in the Council Constitution Constitution</p> <p>The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution</p> <p>Recommendations in Audit Scotland Report approved and Action Plan agreed</p> <p>Monitoring Officer Protocol in place</p>	ED – Customer	3 3	Head of G and L
2.3.2 Ensure that an established scheme for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place.	<p>Structured pay scales reflecting competence for Officers; Core Conditions of Service for Officers Core conditions of service</p> <p>Scheme for Member remuneration and allowances. Part F of Constitution</p>	Chief Executive/ ED – Customer	3 3	Head of I and HR
2.3.3 When working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.	<p>Roles and responsibilities defined for Argyll and Bute Community Planning Partnership</p> <p>Reference within Councillor Code of Conduct to partnership working Part F of Constitution</p> <p>Members Training refers to Improvement Service notebook on Corporate Governance</p>	Chief Executive	3 3	Head of C and C

Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

3.1 Supporting Principle: Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance

<u>Evaluation Key</u>
1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
3.1.1 Ensure that the authority’s leadership sets a tone for the organisation by creating a climate of openness, support and respect.	The authority responds positively to and acts upon the findings and recommendations of external scrutiny.	ED – Customer	3 3	Head of G and L
	The Council Constitution contains Standing Orders for meetings, a Scheme of Administration and Delegations, an Ethical Framework and a Code of Conduct Constitution		3 3	
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3 3	Head of G and L
	The Council has a formally established complaints policy and procedure. Complaints procedure Complaints procedure web	ED – Customer	3 3	Head of G and L
	Minutes and Committee reports are published on the Council’s website mod.gov	ED – Customer	3 3	Head of G and L
	Compliance with the Data Protection and Freedom of Information Acts FOI and DP	ED – Customer	3 3	Head of G and L
3.1.2 Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and	Protocols for Member / Officer relations detailed in the Council Constitution.	ED – Customer	3 3	Head of G and L

between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution				
3.1.3 Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution	ED – Customer	3	3	Head of G and L
	Register of Members Interests is maintained Form issued to Members	ED – Customer	3	3	Head of G and L

3.2 Supporting Principle: Ensuring that organisational values are put into practice and are effective

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17		Lead Officer
3.2.1 Develop and maintain shared values for both the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	The Council's strategic objectives are reflected in the Community Plan, Single outcome agreement and Corporate Plan Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website	Chief Executive	3	3	Head of I and HR
3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	The Council Constitution includes Standing Orders for Meetings, Scheme of Administration and Delegations, and an Ethical Framework Constitution	ED – Customer	3	3	Head of G and L
	The Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution	ED – Customer	3	3	Head of G and L

Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and risk

4.1 Supporting Principle: Being rigorous and transparent about how decisions are taken, and listening and acting on the outcome of constructive scrutiny

Evaluation Key

1. Not compliant with local code requirements
2. Partially compliant with local code requirements
3. Fully compliant with local code requirements
4. Exceeds the requirements of the local code

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenges and enhances the authority's performance overall and that of any organisation for which it is responsible.	The role of scrutiny has been established through a scheme of delegation and committee structures. Part C of Constitution Performance review and Scrutiny Committee has been established	ED – Customer	3 3	Head of G and L
4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	Minutes and Committee reports are published on the Council's website mod.gov	ED – Customer	3 3	Head of G and L
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3 3	Head of G and L
4.1.3 Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	Protocols of Member / Officer relations detailed in the Council Constitution Part F of Constitution	ED – Customer	3 3	Head of G and L
	Protocols for Member / Officer relations detailed in the Council Constitution. The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Part F of Constitution	ED – Customer	3 3	Head of G and L

	The Council Constitution contains the Councillors Code, Audit Committee Terms of Reference, guidelines on the conduct of employees, protocol on Member / Officer relations, Public Interest Disclosure Policy Constitution	ED – Customer	3	3	Head of G and L
	Register of Members Interests is maintained Form issued to Members	ED – Customer	3	3	Head of G and L
	The Council Constitution contains Standing Orders relating to Contracts Part E of Constitution	ED – Customer	3	3	Heads of G and L C and S, SF
4.1.4 Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other arrangements for the discharge of the functions of such a committee.	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Performance, Review and Scrutiny Committee in place. Audit Committee meetings Part D of Constitution	ED – Customer	3	3	Head of G and L

4.2 Supporting Principle: Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16	16/17	Lead Officer
4.2.1 Ensure that those making decisions are provided with information that is fit for purpose, relevant, timely, and gives clear explanations of technical issues and their implications.	Relevant information available to decision makers	Executive Directors	3	3	Executive Directors
4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately.	Relevant advice and information available to decision makers	Executive Directors	3	3	Executive Directors

4.3 Supporting Principle: Ensuring that an effective risk management system is in place

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
4.3.1 Ensuring that risk management is embedded into the culture of the Authority with members and managers at all levels, recognising that risk management is part of their jobs.	A risk based approach is a key component of the Council's approach to Planning and Performance Management (Service Planning process requires identification of associated risks. Budget Monitoring process is risk based where a number of criteria are used to classify risk category of particular cost centres.) Service Plans	Chief Executive	3 3	Head of SF
	Strategic and Operational Risk management procedures and processes in place The Strategic Risk Register was presented to Policy and Resource Committee Aug 2016 SRR report Risk Management Reports including Risk Assurance map to Audit Committee December 2016 and March 2017. Audit Committee 2 December 2016 Audit Committee 24 March 2017 Operational risk registers are maintained on a live basis and a report submitted to the Strategic Risk Group whose work is now subsumed into SMT The Council is a member of the CIPFA benchmarking club for risk management.	Chief Executive	3 3	Head of SF
	Appropriate training on risk management is provided to Members and Officers. Risk Management Training	Chief Executive	3 3	Head of SF

	Key documents to underpin the approach to risk management include a Risk Management Policy Statement and Risk Management Guidance.	Chief Executive	3 3	Head of SF
	The SMT has a role to oversee the effectiveness of risk management	Chief Executive	3 3	Head of SF
	Progress reports on the development of risk management have been submitted to the Audit Committee during the year. This included the commissioning by the Audit Committee of an assurance map using the recognised 3 lines of defence model.	ED – Customer	3 3	Head of G and L
4.3.2 Ensure that arrangements are in place for whistle-blowing to which staff and all those contracting with the authority have access.	Whistle blowing policy Public Interest Disclosure Policy in Council Constitution Part D of Constitution - anti-fraud strategy including public interest disclosure policy	ED – Customer	3 3	Head of G and L

4.4 Supporting Principle: Using their legal powers to the full benefit of the citizens and communities in their area

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
4.4.1 Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities.	Council Constitution reflects the legal requirements placed upon the authority Constitution	ED – Customer	3 3	Head of G and L
	Statutory Plans, for example Local Development Plan local development plan	ED – D and I	3 3	Head of P and R
	Senior Officer designated as Monitoring Officer. Role and responsibilities set out in the Council Constitution. Constitution	ED – Customer	3 3	ED – Cus S
4.4.2 Recognise the limits of lawful action and observe both the specific requirements of	Training provided to relevant Members and Officers in areas of identified need, for example	ED – Customer	3 3	Head of G and L

legislation and the general responsibilities placed on local authorities by public law	Planning and Licensing matters Elected Member Resources				
	Advice from the Council's Chief Legal Officer or their nominated Officer is available at all decision making meetings Legal advice is available to all departments from the Council's Legal Services department	ED – Customer	3	3	Head of G and L
4.4.3 Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice, into their procedures and decision making processes.	Council Constitution reflects the legal requirements placed upon the Council Constitution	ED – Customer	3	3	Head of G and L
	Senior Officer designated as Monitoring Officer. Roles and responsibilities set out in the Council Constitution Constitution	ED – Customer	3	3	ED – Customer

Principle 5: Developing the capacity and capabilities of members and officers to be effective

5.1 Supporting Principle: Making sure that members and officers have the skills, knowledge and experience, and resources they need to perform their roles well		Evaluation Key		
		<ol style="list-style-type: none"> 1. Not compliant with local code requirements 2. Partially compliant with local code requirements 3. Fully compliant with local code requirements 4. Exceeds the requirements of the local code 		
Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
5.1.1 Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	Induction Training provided to all new Elected Members	ED – Customer	3 3	Head of G and L
	The Council has fully endorsed the Councillor's Code of Conduct introduced under the Standards In Public Life etc (Scotland) Act 2000 and has provided a copy of the Code to all Members Code of conduct in Constitution	ED – Customer	3 3	Head of G and L
	Corporate Induction Programme in place for all new employees	ED – Customer	3 3	Head of I and HR
	Development and performance review process in place for eligible employees, with training and development plans	ED – Customer	3 3	Head of I and HR
5.1.2 Ensure that statutory officers have the skills, resources and support necessary to perform actively in their roles and that these roles are properly understood throughout the authority.	Development and performance review process in place for eligible employees, with training and development plans	ED – Customer	3 3	Head of I and HR
	Job descriptions and Person Specifications in place for employees	ED – Customer	3 3	Head of I and HR

5.2 Supporting Principle: Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
5.2.1 Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.	Development and performance review process in place for eligible employees, with training and development plans PRD process	ED – Customer	3 3	Head of I and HR
	PDP process for Members			
	Training provided to relevant Members and Officers in areas of identified need Elected Member Resources Council has signed up to Improvement Service CPD Framework IS CPD Framework	ED – Customer	3 3	Heads of I and HR G and L
5.2.2 Develop skills on a continuing basis to improve the performance, including the ability to scrutinise and challenge and to recognise when outside advice is needed.	Development and performance review process in place for eligible employees, with training and development plans PRD process	ED – Customer	3 3	Head of I and HR
	PDP process for members			
	Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources Council has signed up to Improvement Service CPD Framework IS CPD Framework	ED – Customer	3 3	Heads of I and HR G and L
	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Audit Committee meetings Part D of Constitution	ED – Customer	3 3	Head of G and L

5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might for example, aim to address any training or development needs.	An Audit Committee has been established. Terms of Reference include governance and risk in addition to financial matters. Audit Committee meetings Part D of Constitution	ED – Customer	3	3	Head of G and L
	Development and performance review process in place for eligible employees, with training and development plans PRD process PDP process for members Council has signed up to Improvement Service CPD Framework IS CPD Framework	ED – Customer	3	3	Head of I and HR
	Training provided to relevant Members and Officers in areas of identified need, for example Planning and Licensing matters Elected Member Resources	ED – Customer	3	3	Heads of I and HR G and L

5.3 Supporting Principle: Encouraging new talent so that best use can be made of individuals skills and resources in balancing continuity and renewal

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer	
5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all section of the community to engage with, contribute to and participate in the work of the Authority.	Community Planning activity Better Community Engagement Pack	Chief Executive	3	3	Executive Directors

Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability

6.1 Supporting Principle: Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships		Evaluation Key			
		1. Not compliant with local code requirements			
		2. Partially compliant with local code requirements			
		3. Fully compliant with local code requirements			
		4. Exceeds the requirements of the local code			
Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17		Lead Officer
6.1.1 Clearly defined lines of accountability	Public Performance Reporting Strategy Communications Strategy Better Community Engagement Pack	Chief Executive/ ED – Customer	3	3	Head of I and HR
	The Council's strategic objectives are reflected in the Community Plan, Single outcome agreement and Corporate Plan Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website	Chief Executive/ ED – Customer	3	3	Head of I and HR
6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required.	Ability to communicate with discrete groups in an appropriate manner Communications Strategy	Chief Executive	3	3	Executive Directors
6.1.3 Produce an annual report on the activity of the scrutiny function.	Annual Audit Committee report Annual Audit Committee Report	Chief Executive	3	3	Head of SF

6.2 Supporting Principle: Taking an active and planned approach to dialogue with, and accountability to, the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17	Lead Officer
6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively.	Ability to communicate with all groups in an appropriate manner Social Media Policy Communications Strategy	ED – Customer	3 3	Head of I and HR
6.2.2 Hold meetings in public unless there are good reasons for confidentiality	Minutes and Committee reports are published on the Council's website mod.gov	ED – Customer	3 3	Head of G and L
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3 3	Head of G and L
	Compliance with the Data Protection and Freedom of Information Acts FOI and DP	ED – Customer	3 3	Head of G and L
6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sectors of the community effectively. These arrangements should recognise that different sections of the community have different priorities and established explicit processes for dealing with these competing demands.	Ability to communicate with discrete groups in an appropriate manner Better Community Engagement Pack	Chief Executive	3 3	Executive Directors
6.2.4 On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and satisfaction of service users in the previous period.	The Council's strategic objectives are reflected in the Community Plan, Single outcome agreement and Corporate Plan	Chief Executive/ ED – Customer	3 3	Head of I and HR
	Corporate Plan and Single Outcome Agreement approved by Council and published on the Council's website			
	Prepare and publish Annual Accounts and Efficiency Statements	Chief Executive	3 3	Head of SF
	Prepare and publish an Annual Report	Chief Executive/	3 3	Head of

		ED – Customer			I and HR
	Prepare and publish report for local government benchmarking framework Public performance reporting	ED – Customer	3	3	Head of I and HR
6.2.5 Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	Minutes and Committee reports are published on the Council’s website mod.gov	ED – Customer	3	3	Head of G and L
	Formal meetings of the Council and its Committees held in private in accordance with legislation	ED – Customer	3	3	Head of G and L
	Compliance with the Data Protection and Freedom of Information Acts FOI and DP	ED – Customer	3	3	Head of G and L

6.3 Supporting Principle: Making best use of human resources by taking an active and planned approach

Local Code	Evidence Demonstrating Compliance with links to full documents/further information	Responsible	Evaluation 15/16 16/17		Lead Officer
6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.	The Council has in place an Employee Joint Consultative Committee (EJCC)	ED – Customer	3	3	Head of I and HR
	Structure for Trade Union engagement in place				
	Development and performance review process in place for all employees, with training and development plans PRD process employees	ED – Customer	3	3	Head of I and HR
	PDP process for Members				
	Mechanisms and processes are in place for communication and engagement with employees The Hub – news – cascade	ED – Customer	3	3	Head of I and HR
6.3.2 Planned approach to securing a workforce for the future	The Council has in place strategies for the Recruitment and Retention of employees	ED – Customer	3	3	Head of I and HR

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BACKGROUND / SCOPE OF RESPONSIBILITY

The governance framework includes the systems, processes and culture by which the Council is controlled, and engages with its communities. It allows the Council to monitor the achievement of its strategic objectives. Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

The system of internal control is a key part of the framework, and is designed to manage risk to an acceptable level.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). This Statement explains how Argyll & Bute Council has complied with the standard and meets the requirements of current good practice.

A copy of the Code may be obtained from the Head of Governance and Law, Kilmory, Lochgilphead, PA31 8RT and is also available on the Council's website.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies. The six key principles of our governance arrangements in 2016-17 are described in the Code, along with our supporting principles and key aspects of our arrangements to ensure compliance. Key features of our arrangements are summarised below.

1. Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area

Our Corporate Plan 2015-17 sets out our mission "To make Argyll and Bute a place people choose to live, learn, work and do business". The Corporate Plan supports the Local Outcome Improvement Plan and Delivery Plan. The focus of the priorities is to ensure that more jobs and more people are attracted into Argyll & Bute and progress against outcomes and targets is monitored on a regular basis by the Community Planning Partnership.

We have a Planning and Performance Management Framework (PPMF) that ensures performance is integral to the work of the Council. The PPMF details the structure and process for performance management at all levels. Plans specify the outcomes to be achieved aligned to success measures, as well as risks to be reduced. During the year the PPMF was reviewed and following Council approval was updated to the Performance Improvement Framework (PIF) with an enhanced focus on strategic outcomes to support improved scrutiny by elected members.

Councillors and senior managers review and scrutinise the Council's performance at all levels to ensure our services are having the desired impact on our communities and customers. At a strategic level performance is scrutinised through our Strategic Committees and more locally at our Area committees. The Performance Review and Scrutiny Committee, which meets four times a year has a key role in reviewing and scrutinising how we are meeting our strategic objectives. The new Council has agreed in May 2017 to develop an Audit and Scrutiny Committee as part of its review of political management arrangements.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

We updated our constitution in June 2016 to define the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The new Council has considered a report from the SLWG on Political Management arrangements and will require to make decisions as to how they will undertake their business as Councillors and adjustments will then be made to the Council constitution to give effect to any changes required.

The constitution includes collective and individual roles and responsibilities of the Leader, Provost, Policy Lead Councillors, other councillors and officers. It also includes a protocol for the role of the Monitoring Officer (the Executive Director for Customer Services).

New auditing arrangements are in place for best value, ie, a new approach to auditing Best Value was agreed in June 2016 whereby Best Value will be now be assessed over the five year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once during this five year period. The BVAR report for Argyll and Bute is not planned in the period covered by this scrutiny plan.

3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

We have four values, which underpin what we do and how we do it:

- we involve and listen to our customers and communities
- we take pride in delivering best value services
- we are open, honest, fair and inclusive
- we respect and value everyone

We have developed and communicated an Ethical Framework within the Council's Constitution, which defines standards of behaviour for members and staff. Protocols for Member/Officer relations are also detailed within the Constitution.

The Councillor's Code of Conduct is set out at a national level, applying to all members in Scottish local authorities. A register of members interests is being developed for inclusion on the Council's website.

The code of conduct and protocols are supported by training and development programmes for elected members by offering PRD plans and on the basis of these we construct training and development programs and seminars.

4. Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk; ensuring effective counter fraud and anti-corruption arrangements are developed and maintained

We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls in place to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful and fair.

Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer and we ensure that our independent Audit Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. Both the Audit Committee and the Performance Review and Scrutiny Committee receive regular reports on the risk management framework. The Performance Review and Scrutiny Committee are developing a handbook on the framework for undertaking scrutiny and have outlined a scrutiny timetable.

The anti-fraud strategy ensures that there are effective arrangements for whistleblowing and for receiving and investigating complaints from the public and partners.

The Counter Fraud Investigation Team is the single point of contact for the DWP regarding Housing Benefit cases. It is responsible for fraud investigation relating to Council Tax discounts and exemptions and the overall Council Tax reduction scheme and assists internal audit in broader counter fraud activities.

5. Developing the capacity and capability of members and officers to be effective

Elected Member Development

We have signed up to the Improvement Service's Continuing Professional Development Framework for elected members. The majority of elected members now have personal development plans in place and dedicated days are set aside for member training and seminars on key issues. Following the election in May, all Members of the new Council were offered and provided with a full induction programme.

The Audit Committee and Performance Review and Scrutiny Committees each held development days in 2016-17, and have agreed workplans for improvement. The Audit Committee self-assessed its effectiveness, and identified key actions which were taken forward during 2016-17, including the development of protocols for co-ordination of work with the PRS Committee, and the development of a materiality matrix.

Officer Development

The council supports officer development through a structured approach, driven by the values set out in the Corporate Plan, supported by a behavioural competency framework and underpinned by a systematic approach to identifying core and mandatory training requirements in all council job descriptions.

The Council has Argyll and Bute Manager and Leadership Programmes, which ensures that all employees who have management responsibilities are knowledgeable and effective in delivering services within the priority management policies and procedures of the council, including finance, performance and people management. The Leadership Programme ensures that senior and aspiring leaders in the organisation have support to develop their leadership behaviours and to improve their overall impact and performance across the organisation.

The council is committed to delivering a programme of annual Performance Review and Development, which in turn informs the Corporate Training Programme that is delivered annually.

6. Engaging with local people and other stakeholders to ensure robust public accountability.

We have established clear channels of communication with the community and other stakeholders through our Communication Strategy. Key mechanisms include;

Annual Budget Consultation

The Council undertakes a wide ranging budget consultation exercise each year, using a range of channels including written, face to face, online, Community Councils and through partner organisations and community groups in the Community Planning Partnership. The results of the consultation are then used to inform the members' budget decision making process and are reported to the Council as part of the budget reports pack.

Consultation Diary

The Council has developed a consultation section on its website which hosts all consultations run by the council, both current and historic. This includes a section which makes public the results and/or outcome of the consultation and the resultant decisions that have been taken, showing how they have been informed by the consultation process.

Public Performance Reporting

The council makes all performance information available to the public on the Performance pages of the website. This includes information on performance scorecards, budgets and other service related information. This ensures that the council is openly accountable to the public for its performance against agreed policies and standards.

Community Engagement

The Council supports good community engagement with the resourcing of Community Development Officers in Community Services and the work of the Youth Forum staff in Youth Services. Both teams have resources and expertise to support children and young people, hard to reach groups and remote communities to have a voice in local service planning, delivery and evaluation, as well as best community engagement practice for any other requirement.

Local Community Development Officers have also been supporting community groups, organisations and individuals, particularly those who do not traditionally engage in community issues, to participate in local area community planning groups.

The Area Governance section of the Council supports community engagement by providing the staff resource to support four Area Community Planning Groups which act as a forum to enable local groups and organisations to participate in community planning at a local area level throughout Argyll & Bute.

It also supports community engagement at grass roots level by providing support to local partnerships which feed into the activities of the Area Community Planning Groups and by resourcing Community Council Liaison activities, including a training programme, which helps to build the capacity of Community Councils.

The Council produced a Community-Led Action Planning Toolkit in partnership with Scottish Community Development Centre (SCDC). Communities are being supported to consider use of the online toolkit in developing action plans that the community can lead on to address issues and needs in their communities. There are a number of existing community-led action plans and these are recognised as important community contributions to Area Community Planning.

A strong Community Planning Partnership (CPP) is in place with each partner assuming a lead role for one of the outcomes. This enhances the shared sense of accountability and ownership of working towards realising the priorities of the CPP.

Council/Committee Meetings

Meetings are always held in public, unless one of the statutory exemptions in the Local Government (Scotland) Act 1973, schedule 7A applies to the content of the report. When this is the case papers are adjusted to ensure that the maximum amount of content is in the public domain.

GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The legislative framework of local government defines a number of posts which are primary to the governance arrangements in the Council. These include the Chief Executive, fulfilling the role of Head of Paid Service. As Monitoring Officer, the Executive Director of Customer Services has responsibility for:

- Overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- Reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service.

Specific responsibilities are assigned to the Head of Strategic Finance, as Chief Finance Officer, to ensure that public funds are properly accounted for. In recognition of the significant role that the Chief Finance Officer has in relation to financial performance and the financial control environment, CIPFA has set out key principles that define the core activities and behaviours that belong to the role. These include, being a key member of the Leadership Team, being actively involved in and influencing decision making, and leading the delivery of good financial management across the whole organisation.

AUDIT SCOTLAND FOLLOW-UP AUDIT

In December 2015, the Accounts Commission published their findings on the Controller of Audit's Statutory Report on the Council with regards to Best Value and focused on the Council's;

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

In January 2016, the Council considered these findings and agreed to the development of an Improvement Plan. A further report was submitted to the Council on 20 April 2017 in relation to the following themes;

1. Establish a more open and transparent culture and style of working
2. Standards
3. Taking a more innovative approach to dealing with financial challenges
4. Community engagement
5. Local empowerment
6. Accessible training and development for elected members

The Council noted the progress made and agreed that the outstanding action in relation to local empowerment would be monitored via the Community Empowerment Action Group. In addition, the Council noted that further updates should come forward in due course including in relation to the budget process review (2016) as per the recommendations of the Accounts Commission.

FINANCIAL SUSTAINABILITY

Creating a financial outlook is challenging, as a number of assumptions need to be made anticipating changes. The Council accepts the current financial climate we are in. The Council is in a period of one year settlements which doesn't give us any degree of certainty into the medium term. The ring fencing of monies limits

what we can do and additional policy and legislative implications, not always fully funded puts financial pressures on Councils.

During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17. Some of the savings were deliverable in 2016-17 and some were from 2017-18 or beyond. This budget created a solid foundation to work from and for the 2017-18 budget most of the savings required to balance the budget had already been agreed as part of the service choices decisions in February 2016 and a series of management efficiency savings agreed in October 2016

The Council agreed, in February 2016, to establish the new flagship “Argyll, Lomond and the Islands Regeneration Initiative” which encompasses all existing and new strategies and plans relating to population and economic growth into a single and cohesive programme to ensure focus in supporting the Local Outcome Improvement Plan’s overarching vision to build the economy through a growing population. Three new investments were agreed, totalling £4.5m: Inward Investment Fund, Rural Resettlement Fund and the Lochgilphead and Tarbert Regeneration Fund. The Council also agreed to create an Asset Management and Investment fund of £2m with the purpose of generating income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return on investment.

The Council is committed to driving forward change through innovation. The Council has previously demonstrated that it is able to work in innovative ways in order to improve service delivery, make savings or generate income. A Transformation Board has now been established to take forward further transformation change. Their main focus is constructing a coherent approach to the medium/long term transformation of the Council which includes the development of a budget strategy delivering improved service efficiency and to help balance the budget in 2018-19 and beyond. The Board are looking at digital transformation, overseeing the catering and cleaning innovation project and exploring investment opportunities in addition to leading on an approach to balancing the budget over the medium term which challenges services to look for different ways to deliver their service, using four approaches – business cost reduction, service re-design, income generation and maximisation and self-financing.

The Council has recognised the need to develop a medium to longer term financial strategy. The purpose of the medium to longer term financial strategy will be to set out in a plan to demonstrate how the council will respond to the demands and pressures whilst ensuring that there is a sustainable council that meets the needs of its communities and one that can take advantage of opportunities that arise. The medium to longer term financial strategy will be underpinned by a set of principles that support the longer term financial sustainability of the council. These principles are summarised as follows and were agreed by Council in February 2017. The financial strategy will be developed during 2017.

- Resources aligned with the Local Outcome Improvement Plan (LOIP)
- Direct provision versus commissioned services (make or buy)

- Digital transformation
- Shared Services
- Commercial activities (via trading accounts)
- Arm's Length External Organisations (ALEOs)
- Commercial sponsorship
- Investment opportunities
- Volunteering for core services
- Fully centralised procurement
- Engaging Trade Unions in full partnership
- Shared and improved asset utilisation
- Management structure
- Work patterns and shift arrangements.

INTERNAL FINANCIAL CONTROL

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.

Development and maintenance of the system is undertaken by officers within the Council and the named bodies mentioned below.

In particular the system includes:

- Comprehensive budgeting systems
- Regular reviews by the Council and the named bodies (mentioned below) of periodic and annual financial reports which indicate financial performance against forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against forecast;
- Clearly defined capital expenditure guidelines;
- Project management disciplines;
- Guidance relating to financial processes, procedures and regulations; and
- An effective Internal Audit Section

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

This annual review also covers the other bodies whose activities are incorporated into our Group Accounts and reliance is placed on the formal audit opinion contained in the financial statements of each individual body.

- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies are well developed. The Chief Executive submits an annual report on Audit and Risk Management to the Audit Committee. The Strategic risk register is currently subject to review in respect of content and format. A well-developed preparation methodology remains in place.

SMT will continue to review risks on a regular basis and ensure that active mitigations are in place.

Operational Risk Registers are reviewed on a regular basis and updated where required to inform performance scorecards. Results from the annual CIPFA benchmarking exercise demonstrated that we maintained an overall Embedded and Integrated rating.

During 2016-17, the Audit Committee considered an updated assurance map, which highlighted the Council's key risks, and the source and level of assurance that the

Council receives on those risks, based on the three lines of defence model. Internal audit plans for 2017-18, where appropriate take cognisance of the areas where additional assurance is required.

A Risk Management Strategy has been developed by Argyll and Bute Health and Social Care Partnership. Further work is required in respect of shared risk arrangement.

INTERNAL AUDIT

Argyll and Bute Council and its Group bodies have internal audit functions, which operate to Public Sector Internal Audit Standards (PSIAS). The work of internal audit is informed by an analysis of the risk to which the Council and its Group bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's Audit Committee endorses the preparation methodology and annual internal audit plans and monitor the performance of Internal Audit in completing the plan.

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council and this states substantial assurance can be taken that the systems of governance and internal control are operating effectively

Internal audit provides Members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. External Audit has and continues to place reliance on the work of internal audit. The Chairman and Vice Chairman are independent lay members of the Audit Committee.

HEALTH AND SOCIAL CARE INTEGRATION

The Argyll and Bute Integration Joint Board has been established as a separate legal entity from either Argyll and Bute Council and NHS Highland, with a separate board of governance. The Integration Joint Board comprises eight voting members with four Elected Members nominated by Argyll and Bute Council and four Board members of NHS Highland. In addition there are a number of non-voting appointees representing other sectors and stakeholder groups, such as the Third Sector, Independent Sector, Patients and Service Users, Carers and Staff. The arrangements for the operation, remit and governance of the Integration Joint Board are set out in the Integration Scheme. The Integration Scheme also outlines the scope and functions of services that are delegated, the clinical and care governance, financial and operational management arrangements.

From 1 April 2016 the Integration Joint Board, via a process of delegation from the Council and Health Board has responsibility and its Chief Officer has responsibility from 1 April 2016 for the planning, resourcing and operational delivery of all integrated health and social care services within Argyll and Bute. The overarching strategic vision, mission and values of the Integration Joint Board are set out in the Strategic Plan and Strategic Objectives are aligned to deliver on the National Outcomes for Adults, Older People and Children.

The Council places reliance on the internal controls in place for the operation of the Integration Joint Board and similarly the IJB places reliance on the procedures, processes, policies and operational systems of Argyll and Bute Council and NHS Highland. The Integration Joint Board operates within an established procedural framework. The roles and responsibilities of Board members and officers are defined within Standing Orders, the Integration Scheme, Financial Regulations and Standing Financial Instructions.

The Integration Joint Board has proportionate internal audit arrangements in place to provide independent assurance on risk management, corporate governance and the system of internal control. A risk based audit plan was carried out in 2016-17 and the internal audit report for the year concluded that the Integration Joint Board has a framework of controls in place that provides reasonable assurance over the effective and efficient achievement of the organisation's objectives and the management of key risks, governance, processes and the overall control environment.

Progress has been made in the first year of the operation of the Integration Joint Board to ensure appropriate governance and information sharing arrangements are in place, further improvement and development of governance arrangements is ongoing to safeguard the future success of the partnership.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2017-18, particularly in the context of continuous improvement within the Council:

- During 2016-17 the Council received 1340 requests for information of which 1264 (94.33% increased from 93% for 15-16) were responded to within the required timescale. The Council received 39 requests for review (2.9% reduced from 3.5% for 15-16).
- The development of a medium to longer term financial strategy
- The Strategic Risk Register is subject to continuing review
- Internal Audit presented 4 out of 30 reports with a limited level of assurance during the year. Management have accepted 100% of recommendations and have a robust follow-up system to track actions arising ensuring timely implementation through the SMT meeting programme.
- Development of delivery plans for the Local Outcome Improvement Plan and ensuring these reflect Council priorities.
- Review and develop the current monitoring and reporting arrangements in respect of the Health and Social Care Partnership
- Ensuring effective engagement with scrutiny bodies who engage with the Council. The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity in Argyll and Bute Council during financial year 2017/18 and is based on a shared risk assessment undertaken by a Local Area Network (LAN).
- The LSP notes the recent Strategic inspection of the Council's education functions which identified areas of strength as well as areas which require improvement. We will work with Education Scotland who will provide support and monitor progress towards improvement on the agreed actions.
- Ensuring that we have a sustainable budget for the future and that reduced budget/resources are aligned to support council priorities and delivery of the Local Outcome Improvement Plan. Whilst we have delivered a number of transformation savings already, we hope this area of work will deliver savings from 2017-18 onwards.
- Ongoing development of performance management and improving performance scrutiny.
- Strategic workforce planning is a key element of the medium to longer term financial strategy and work has commenced on this theme with a

view to ensuring that the Council has a workforce that can support the organisation in the future to meet its medium to longer term financial challenges. It is envisaged that this element of the strategy will be considered by Members in the Autumn.

- Further development of risk management to ensure that it remains embedded within council business.
- Training community groups on the Community-Led Action Planning Toolkit and ensuring that the development of Community-Led Action Plans feed into Area Community Planning Groups.
- Ensuring the internal audit function is fully resourced and work is planned to ensure the 2017-18 audit plan is delivered and that further improvements in the development of internal audit are achieved.
- Ensure good governance and scrutiny arrangements are further developed and maintained in respect of the Health and Social Care Partnership.
- The actions being taken by the Council continues to improve political management arrangements and governance within the Council. The new Council has considered a report from the SLWG on Political Management arrangements and will require to make decisions as to how they will undertake their business as Councillors and adjustments will then be made to the Council constitution to give effect to any changes required.
- Implement new legislation as it applies to and affects the provision of Council Services.
- Further enhance and improve the tone of our correspondence to further develop a climate of openness with our customers.

ASSURANCE

The annual review of the effectiveness of the system of governance and internal financial control is informed by:

- The work of officers within the Council;
- The work of Internal Audit as described above;
- The work of External Audit;
- The Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- External review and inspection reports; and
- Recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2016-17 and that there are no significant weaknesses. This

assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.

Cllr Aileen Morton
Leader

Cleland Sneddon
Chief Executive

Kirsty Flanagan
Head of Strategic Finance

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ARGYLL AND BUTE COUNCIL

AUDIT & SCRUTINY COMMITTEE

CHIEF EXECUTIVES UNIT

27 JUNE 2017

INTERNAL AUDIT – ANNUAL REPORT 2016 - 17

1.0 EXECUTIVE SUMMARY

1.1 This report is a review of Internal Audit for the period 2016/2017 and provides overall opinion on the level of assurance in respect of effectiveness of financial and management controls.

1.2 The Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2017. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing).

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

1.3 This report outlines reporting responsibilities, provides commentary in relation to professional standards and provides an analysis of Internal Audit activity and progress during 2016/2017.

1.4 Members are asked to note the overall Assurance opinion provided and the content of the report.

INTERNAL AUDIT – ANNUAL REPORT 2016 - 17

2.0 INTRODUCTION

2.1 This report provides the opinion that, subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

3.0 RECOMMENDATIONS

3.1 The Audit Committee notes the content of this report.

4.0 DETAIL

4.1 FOREWORD

The annual audit plan for 2016/17 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS).

4.2 SERVICE OUTCOME

Assurance is provided that financial and management controls are operating effectively.

4.3 TERMS OF REFERENCE

Internal Audit is responsible for advising all levels of management and the Council (through its Audit Committee), on the Council's systems of internal control. It is a review activity which continuously reinforces management's responsibility to maintain effective internal controls. Internal Audit supports:

- Management's organisational objectives; and
- The Audit Committee's need for overall assurance on the quality and cost effectiveness of risk management systems and internal controls.

4.4 REPORTING RESPONSIBILITIES

The reporting responsibilities of Internal Audit are:

Section 95 Officer / Head of Strategic Finance

Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer. The Chief Internal Auditor regularly meets with the Head of Strategic Finance to discuss the effectiveness of the system of internal control operated within the Council and Internal Audit performance against plan.

Chief Executive

Internal Audit has a dotted line responsibility to the Chief Executive. Through-out the year Chief Internal Auditor maintained effective communication with the Chief Executive, covering progress of the annual audit plan, issued reports and areas of concern.

Audit Chairperson

The Chief Internal Auditor has a dotted line responsibility to the Audit Chairperson and again effective communication arrangements are in place with regular contact maintained throughout the year.

Audit Committee

Internal Audit prepares and facilitates reports for the Audit Committee and during 2016/17; the following report areas were presented:

Internal Audit Annual Plan	Internal Audit Reports
Annual Risk Management report	Internal Audit Summary Activity
Annual Internal Audit Report	Internal Audit Follow up reports.

External Audit

It is the responsibility of Internal Audit to co-ordinate its activities with External Audit and in 2016/17 Audit Scotland sought to place reliance on the following areas of internal audit work:

Non Domestic Rates	Trade Receivables
Council Tax	Financial Ledger
Payroll	Treasury Management
Trade Payables and Purchasing	Capital Accounting

Under the Code of Audit Practice, External Audit will also place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

Auditee

Internal Audit in 2016/17 maintained contact with Executive Directors and Heads of Service individually and via the Strategic Management Team. Internal Audit provided management with an independent and objective opinion on their controls and risks and where appropriate through dialogue, audit reporting with graded recommendations set out in an agreed action plan.

In 2016/17, Internal Audit approach and reporting formats were in line with PSIAS good practice.

4.5 PROFESSIONAL STANDARDS

It is my opinion that the Internal Audit service is compliant with Public Sector Internal Audit Standards (PSIAS). A self-assessment exercise was carried out which provided assurance that our general approach and documentation is consistent with required standards.

The service will be subject to independent verification during 17/18. A peer to peer review programme is in place via the Scottish Local Authority Chief Internal Auditors Group. An assessment team from Mid Lothian Council will undertake Argyll and Bute's review with staff from our Internal Audit Team undertaking a review of Clackmannanshire Council as part of the reciprocal arrangements.

During the year compliance with PSIAS was the focus of many elements of Internal Audit work including:

- Ensuring revised practice was fully implemented
- Maintaining an Internal Audit Manual and Charter
- Continuous review of audit approach, auditee engagement, stage tracker design and content of reporting

4.6 AUDIT PLAN 2016/17

In compliance with relevant standards, a draft annual audit plan for 2016/17 was presented to the Audit Committee in December 2015; and a

final plan approved in March 2016. The plan was prepared compiled from an analysis covering four key headings as set out in the table below.

1.	Materiality – An assessment of financial data;
2.	Risk – Assessment of operational, strategic and reputational damage;
3.	Control Effectiveness - Assessing external and internal reviews and reports;
4.	Performance Management – Assessing corporate, service and improvement plans.

The output from the analysis exercise was discussed individually with the Chief Executive, Executive Directors and Head of Strategic Finance. Thereafter a final draft audit plan was presented to both the SMT and Audit Committee for approval.

In addition, the audit plan included contingency days for special investigations, reporting recommendations, national fraud initiative work and general management activity.

4.7 GOVERNANCE & INTERNAL CONTROL STATEMENT 2016/17

The Customer Services Department annually test Council compliance with the Code of Corporate Governance. The Code requires the Council to have in place appropriate management and reporting arrangements. The role of Internal Audit is to provide assurance that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law and via dialogue with staff from the Governance and Law service.

Internal Audit also reviews the results of its own work and the reports of External Audit. These audit reports are reviewed along with departmental internal control statements prepared by Head of Services and Executive Directors.

4.8 RESOURCE ALLOCATION 2016/17

The 2016/17 audit plan was based on five full time posts. Specialist support was available via our Strategic Partners, Grant Thornton. The number of available Audit days was impacted due to long term sickness absence.

In addition to planned Audit activity, special investigation, recommendation implementation reporting and national fraud work was also undertaken.

4.9 AUDIT OPINION

Based on audit work carried out in 2016/17 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

The review of corporate governance undertaken by Internal Audit has indicated that the systems for governance are operating effectively, and a draft Joint Governance and Internal Control Statement has been produced. The draft statement has been presented to the Strategic Management Team (SMT) and will be presented to Audit Committee for approval. With specific regard to internal control, I am satisfied that recommendations made have been or are currently being being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented.

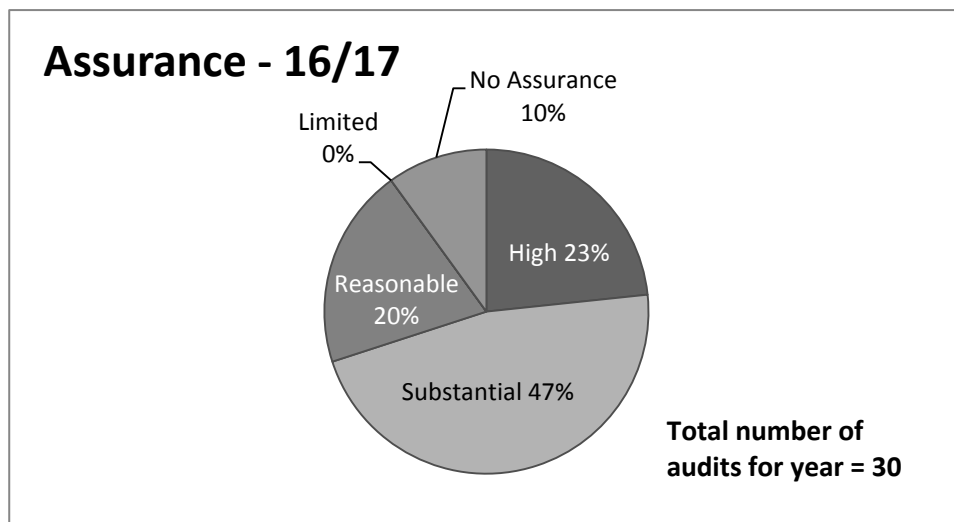
The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit and the Audit Committee is asked to accept the same assurance, based on the audit work completed in 2016/17.

4.10 ANALYSIS OF 2016/17

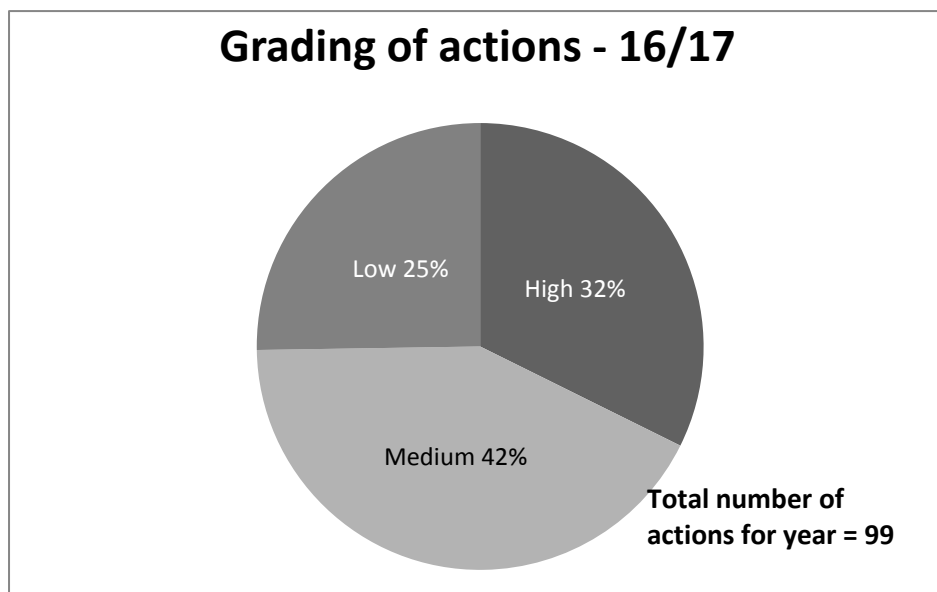
Details of the Audit completed together with Assurance level and number of recommendations is shown in Appendix 1.

In addition to the Audit plan the undernoted activity also took place:

- Continuous Monitoring Programme was rolled out with transactional type testing now undertaken on a regular basis. Detailed reporting is general by exception and there are no outstanding action points. Feedback has been positive with manager taking additional assurance from the on-going programme of testing.
- Quarterly reports were prepared for the Audit Committee advising of progress with the Annual Audit Plan and Quarter Activity. The chart below summarises assurance opinions given during 16/17:



- The chart below summarises the split of high, medium and low actions as a result of audits carried out during 16/17:



- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.
- In 2016/17 Internal Audit held regular meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.
- Analysis of returned client questionnaires in 2016/17 indicates that an average approval score of 4.3 was achieved by Internal Audit. The target for the section is to achieve 4 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 5.

The partnership with Grant Thornton and CIPFA has offered specialist support and advice where required. Grant Thornton undertook specific work in relation to Assurance Mapping and Risk Management as well as providing an IT risk assessment report for the Audit Committee, the results of which have been incorporated into the 17/18 Annual audit plan.

4.11 INTERNAL AUDIT PERFORMANCE

Internal Audit performance was satisfactory and performance indicators were on track throughout the year. The Audit Plan was subject to a slight over-run into April; however was fully completed. The year-end outturn position was within budget with a small underspend of £1,500.

4.12 OVERVIEW

It has been another challenging year for Internal Audit with regards managing available resource and ensuring the timely completion of the Audit plan. It is my opinion the profile of Internal Audit continues to improve within the Council and there is a consistency in quality of reports prepared. Client engagement has improved and out-with Audit plan activity Internal Audit is now being used pro-actively for advice and guidance suggesting a greater confidence in the service. Both Management and External Audit continue to place positive reliance on the work of Internal Audit. Positive developments have also been made in respect of improving links between Audit and Scrutiny activity.

5.0 **CONCLUSION**

5.1 Subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively. The Internal Audit service continues to develop, improve and adapt to the changing operating environment.

6.0 **IMPLICATIONS**

- 6.1 Policy – None. Report is for noting
- 6.2 Financial – None. Report is for noting
- 6.3 Legal – None. Report is for noting
- 6.4 HR – None. Report is for noting
- 6.5 Equalities– None. Report is for noting
- 6.6 Risk– None. Report is for noting
- 6.7 Customer Service– None. Report is for noting

Kevin Anderson
Chief Internal Auditor
27 June 2017

For further information contact:
Kevin Anderson, Chief Internal Auditor 01369 708505

APPENDICES

1. AUDITS COMPLETED DURING 2016/17

APPENDIX 1 – AUDITS COMPLETED DURING 2016/17

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
Charging Scheme – Waivers	No Assurance	12	11
Homecare – Contract Compliance Arrangements	Reasonable	3	0
Strategic Finance: Accounting & Budgeting	Reasonable	8	4
Criminal Justice - National outcome & standards	Substantial	2	0
Children's Units	Substantial	8	1
Housing Repairs & Improvement Grants	Substantial	4	0
Risk Management	Substantial	3	0
HUB North model	Substantial	2	0
Staff Parking Permits	No Assurance	1	1
Tax Incremental Financing	Substantial	3	1
Service Planning	High	1	0
Pool Cars	Substantial	6	2
Procurement - Off Contract Purchasing	High	0	0
Procurement - PECOS	High	0	0
Debt Recovery & Write Off	Substantial	8	1
ICT - Security of Data	Substantial	6	0
CAA Compliance: Airports	Reasonable	5	0

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
LEADER	Reasonable	1	1
Project Certification	Substantial	2	1
Sustainable Communities - 3rd sector grants	Substantial	3	0
Additional Support Needs Analysis	Substantial	2	0
School Staff Census	Reasonable	3	0
Education Maintenance Allowances	High	0	0
All Weather Pitch Facilities	No Assurance	7	7
Property Maintenance	Reasonable	4	1
Common Good Property	Substantial	0	0
Freedom of Information requests	Substantial	3	1
Local Government Benchmarking Framework (LGBF)	High	0	0
Resourcelink - System Upgrade	High	0	0
TOTAL (Roads costing system)	High	2	0

ARGYLL AND BUTE COUNCIL

AUDIT & SCRUTINY COMMITTEE

STRATEGIC FINANCE

27 JUNE 2017

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

- 1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 1.
- 1.2 Core activities together with a progress update statement are shown below.
- **17/18 Audit Plan progress:** The Audit plan is currently on track.
 - **Individual Audits undertaken:** 5 audits have been completed during the period. Of these Audits, one is rated as High and 4 are rated as Substantial.
 - **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.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

27 JUNE 2017

INTERNAL AUDIT SUMMARY OF ACTIVITIES**2. INTRODUCTION**

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 1 against a number of areas;

- 17/18 Audit Plan progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- Internal Audit Development Plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to review and endorse this report.

4. DETAIL

4.1 The 16/17 Audit Plan was completed subject to the exception of one deferral, Waste Management, which has been included in the 17/18 plan.

4.2 Audits completed to May are detailed in Table 1. At the time of writing there is one Quarter 1 Audit, 'Review of Client Accounts', which is in progress and which will be reported to the September meeting of the Committee.

Table 1: Summary of Audits performed in Quarter 1 2017/18

Audit Name	Level of Assurance	No. of Actions	High Actions
2016/17			
Additional Needs Analysis	Substantial	2	0
2017/18			
Crematorium	High	1	0
Education Management Circulars	Substantial	1	0
CAA Compliance: Oban Airport	Substantial	2	0
Charging Orders	Substantial	4	0
Fees & Charges	Reasonable	3	1

4.3 Audits planned for the Quarter 2 17/18 are shown in table 2 below.

Table 2: Audits scheduled for Quarter 2 2017/18

Quarter 2
Records Management Plan
Strategic Housing Fund
Recruitment & Selection
VAT
Piers & Harbours
LEADER
Local Government Benchmarking Framework
Gifts & Hospitality
Travel & Subsistence

4.4 Continuous monitoring programme in general is focused on transactional type activity. These areas are tested on a regular basis and detailed reporting is by exception to Audit Committee. Standard audit tests are applied relevant to each auditable unit. Control design tests look at whether the control in place adequately addresses the potential risk event. Control effectiveness tests the application and or /compliance.

There are 4 assessment levels being Effective, Satisfactory and Improvement Needed and Weak.

Control Effectiveness Scales	
Effective	Indicates minimum uncontrolled risk due to strong controls in place and operating effectively. Tested, monitored and fully compliant
Satisfactory	Control mitigations in place however refinement opportunity exists to further reduce risk and /or enhance compliance.
Improvement Needed	Residual risk exists which place some of system objectives at risk. Indicates a need for improvement in either control design and /or compliance
Weak -	Significant residual risk exists with weaknesses identified in control design /and or compliance

4.5

A follow up process is in place whereby management are advised of findings and where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Table 3 below summarises activity to date outlining issues arising and provides an overall level of assurance together with follow up detail.

Table 3: Continuous monitoring programme results:

Test Area	Controls Tested	Control Design	Control Effectiveness	Issues	Management Commentary
Treasury	Borrowing and Lending Procedures	Effective	Effective	N/A	N/A
Helensburgh Pool	Establishment Visit	Effective	Effective	N/A	N/A
Oban Airport	Establishment Visit	Improvement needed	Improvement needed	Reconciliation required between aircraft movement log and Income received	Remedial Action agreed
Islay High School	Imprest Check	Effective	Effective	Certification slips are not used when cash is removed from tin pending presentation of receipt.	Standard certification slips will be used going forward.
Islay High School	School Fund Check	Effective	Effective	Head Teacher list of account was not kept within school fund folder.	List now included within school fund folder.
Bowmore Primary School	Imprest Check	N/A	N/A	Imprest no longer in use.	Will contact Creditors to arrange close down of account.
Bowmore Primary School	School Fund Check	Satisfactory	Satisfactory	Monthly reconciliation is not reviewed by Head Teacher regularly and annual accounts have not been independently audited.	Head Teacher will review all reconciliations and an arrangement will be put in place for an independent audit of accounts going forward.
Stock Take - Helensburgh -IES Store	Stock control procedures Records to Physical Balance	Improvement needed	Improvement needed	Material value < £10k. However records demonstrate a number of variances	Remedial Action agreed which if implemented so reduce risk of re-occurrence

Test Area	Controls Tested	Control Design	Control Effectiveness	Issues	Management Commentary
Stock Take - Moneydrain-Lighting Store	Stock control procedures	Improvement needed	Improvement needed	Recording of consumables and variation between stock records and physical balances	Remedial Action agreed which if implemented should reduce risk of re-occurrence
Monthly Payroll Testing	Monthly Pay run reports	Effective	Effective	No issues	-
Campbeltown Grammar School	Imprest Check	Satisfactory	Satisfactory	Certification slips are not used when cash is removed from tin pending presentation of receipt.	Standard certification slips will be used going forward.
Campbeltown Grammar School	School Fund Check	Improvement needed	Improvement needed	Monthly reconciliation is not fully completed or signed off by Head Teacher (HT). No bank account list maintained by HT. Historic balance maintained in trip account.	Monthly reconciliation process is now underway. Account list is maintained by HT. Excess monies in trip transferred to GP account by 31/05/17

4.6 Issues identified in relation to Creditors standing data changes were reported to the March Audit committee. It was noted that the Creditors system lacked the functionality to allow the team to independently review any standing data changes actioned. As a result of this it was agreed that, from the 1st April 2017 a new Fraud module from Fiscal (system provider) would report all bank account changes which would allow for an independent check to ensure only authorised changes have been processed. As of 9th June the module is operating with appropriate control arrangement in place. Further follow up testing will be undertaken.

4.7 A follow up process for National/External reports is in place whereby management are advised of recommendations within reports and where appropriate, requested to take required actions. There were no National Reports issued during quarter 1.

- 4.8 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified but 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. The Council is currently on track with NFI upload timetable and where matches have been released these are being reviewed.
- 4.9 This section highlights progress made against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. An additional action has been added in respect of self-assessment activity.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Training and CPD	Formalise our plans for internal audit training, including continuing professional development (CPD)	On Track:	On-going
Audit Plan Preparation	2018/19 Draft Plan submitted to December Audit Committee	On track	December 2017
SharePoint site	Roll – out stakeholder system view	Rescheduled in line with available resource.	March 2018
PSIAS – Internal Self-Assessment	IA team to review process and guidance documentation in preparation for External review	Complete	February 2017

- 4.10 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2017– 18 – FQ1 17/18			
TEAM RESOURCES			
PRDs IA Team G →	TARGET	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	4	4	
Financial			
Revenue Finance	BUDGET	ACTUAL	G
YTD Position	£9,656	£7,772	→
Year End Outturn	£239,947	£239,947	
SF02 Assurance...that financial and management controls are operating effectively			
Audit risk assessment prepared by 31 January	Status	On Track	G
	Target	On Track	↑
Annual Audit Plan	Status	On Track	G
	Target	On Track	→
Annual audit plan approved by 31 March	Status	On Track	G
	Target	On Track	→
% of audit recommendations accepted	Actual	100%	G
	Target	100%	→
	Benchmark	100%	
% Recommendations followed up	Actual	100%	G
	Target	100%	→
Percentage qualified staff	Actual	60%	G
	Target	60%	↑
% satisfaction rates from post audit surveys	Actual	100%	G
	Target	80%	↑
% customer satisfaction with audit reports	Actual	100%	G
	Target	80%	↑
Internal Audit Training days	Actual	12 days	G
	Target	12 days	↑

5. CONCLUSION

- 5.1 The 17/18 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall substantial level of assurance in respect of control design and effectiveness.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach to activity

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – None

6.7 Customer Service - None

**Kevin Anderson,
Chief Internal Auditor
27 June 2017**

For further information contact:

Kevin Anderson, Chief Internal Auditor (01369 708505)

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2017 - 2018

1. EXECUTIVE SUMMARY

- 1.1 There are 6 audits being reported to the Audit Committee.
- 1.2 Internal Audit provides a level of assurance upon completion of audit work, this is evaluated as follows:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

- 1.3 The attached reports contain the action plans which detail those findings where Internal Audit, in agreement with management, has classified the findings either high or medium. Findings classified as low have been removed.

1.4 A high level summary of each report is noted below:

- **Crematorium:** This audit has provided a high level of assurance as internal control, governance and the management of risk in relation to compliance with current legislation is high. It was evidenced that operational duties were carried out to a high standard, documentation was well maintained and available for review, ashes were handled according to the wishes of the applicant and fees were in line with current charges as published on the Council's website.
- **Additional Support Needs Analysis:** This audit has provided a substantial level of assurance as internal control, governance and the management of risk in relation to Additional Support Needs analysis and service provision is sound. Testing provided assurance that policies and procedures were in place and operating effectively with all previous audit recommendations fully implemented. All relevant stakeholders are involved in the process, budgets are managed effectively and hours are allocated according to needs. A weakness was identified in the absence of a formal agreement for hospital tuition.
- **Education Management Circulars:** This audit has provided a substantial level of assurance as internal control, governance and the management of risk in relation to the review, circulation and application of circulars is sound. There were minor instances of non-compliance identified within schools visited and the current review process is not formally documented in a procedure note.
- **CAA Compliance - Oban Airport:** This audit has provided a Substantial level of assurance. It was evidenced that logs and records were available and complied with the airports aerodrome manual in respect of Airfield Inspections, Incidents and Accidents, Aircraft Movements and Runway Inspections. Weakness were identified in respect of outstanding defects and the aircraft movement log.
- **Health and Social Care Partnership Charging Orders:** This audit has provided a Substantial level of assurance. It was evidenced that Charging Orders are administered in line with Government legislation and that Council Policy and procedures are being followed. Weaknesses were identified in relation to verification of valid Power of Attorneys and also timeframes in relation to the process.
- **Fees and Charges:** This audit has provided a Reasonable level of assurance. A system for preparing and updating fees and charges is in place and is known to staff however this is not formally documented and there is some confusion as to roles and responsibilities. The application of agreed charges was found to be accurate. Limited evidence exists in respect of reviewing key factors when setting fees and charges.

2. RECOMMENDATIONS

2.1 Audit Committee review and endorse this summary report and detail within each individual report.

3. CONCLUSION

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

4. IMPLICATIONS

- 4.1 Policy - None
- 4.2 Financial - None
- 4.3 Legal - None
- 4.4 HR - None
- 4.5 Equalities - None
- 4.6 Risk - None
- 4.7 Customer Service – None

Kevin Anderson, Chief Internal Auditor

27 June 2017

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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	INTERNAL AUDIT REVIEW OF CREMATORIUM
AUDIT DATE	MAY 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

Argyll and Bute Council operates a single crematorium near the village of Cardross in the Helensburgh and Lomond Area. The crematorium is managed by a superintendent who is assisted by a charge hand and 2 crematorium attendants.

During the financial year 2016 – 17, Cardross Crematorium carried out 737 cremations, 728 of these being adults.

The current and previous year's budgets are as follows for the Crematorium:

2016 – 17 Expenditure budget = £354k Income budget = £370k

2017 – 18 Expenditure budget = £348k Income budget = £381k

The Bill for the Burial and Cremation (Scotland) Act 2016 was passed by the Scottish Parliament on 22 March 2016 and received Royal Assent on 28 April 2016. It is an Act of the Scottish Parliament to restate and amend the law relating to burial and cremation; to make provision about exhumation of human remains; to make provision in relation to the inspection and regulation of burial authorities, cremation authorities and funeral directors; to enable provision to be made for the licensing of funeral directors; and for connected purposes.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess the adequacy of controls in place in respect of the Cremation process and compliance with the Burial and Cremation (Scotland) Act 2016, associated codes of practice and internal procedures.

Internal audit reviewed Legislation, Codes of Practice and procedures in place, a site visit was undertaken to discuss and observe working practices and review documentation to check that controls were in place and operating effectively to maintain compliance with legislation.

3. RISKS CONSIDERED

Audit Risk: Failure to adhere to the Burial and Cremation (Scotland) Act 2016.

4. AUDIT OPINION

The level of assurance given for this report is High.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

Internal Audit carried out a review of Cardross Crematorium in August 2014 as a result of issues highlighted at a national level. All findings generated from the 2014 review were actioned and signed off as part of our follow-up process; a review of current practices confirms ongoing compliance.

The following findings were generated by the audit in terms of compliance with the appropriate sections taken from the Burial and Cremation (Scotland Act 2016):

CREMATION

Cremation Authority: Duties

It was evidenced upon visit to the Crematorium that the grounds, building and equipment were clean and tidy and in a good state of repair. The crematorium operates 2 cremators both of which were professionally installed, one is 18 years old and the other was installed within the last year. Both cremators are serviced under a comprehensive maintenance contract. This contract is in accordance with manufacturer's recommendations and the requirements of the guidance notes issued under the Environmental Protection Act 1990. All 4 members of staff are fully trained by the Federation of Burial and Cremation Authorities and hold Certificate of Proficiency in the Practical and Ethical Operation of Cremation Equipment, 2 of these staff members have also completed a course in relation to retrieval of baby ashes with the remaining 2 to undertake this training in the near future.

Application for cremation

Form A – Application for Cremation is a statutory form issued by the Scottish Office, it was evidenced that this form is in use at Cardross Crematorium with the Argyll and Bute Council logo and the name and address of the crematorium added to the text as permitted. A supplementary form is also submitted by applicants to provide further essential information. It was evidenced that all fields on these forms are reviewed for completeness and appropriateness upon receipt from the applicant. Any queries or anomalies are followed up immediately and action taken accordingly.

It was evidenced that bookings are only taken upon provision of all relevant documentation including a copy of death certificate. The documentation is reviewed by 2 members of staff, details entered onto the form F equivalent – Authority to Cremate record card and signed by both to evidence review. This record card stays with the remains throughout the entire cremation process.

Requirements for carrying out cremation

It was evidenced that cremations are performed only when an application has been granted following review of documentation by 2 members of staff. The process is undertaken within the premises by suitably qualified staff using professionally installed equipment.

HANDLING OF ASHES

Duty of cremation authority before carrying out cremation

It was evidenced that the applicant must declare on the supplementary application form, the manner in which the ashes should be dealt with. i.e. Retained by the Cremation Authority for collection by the applicant/funeral director or disposed of in a specified manner.

Duty of cremation authority following cremation

Where specified by the applicant, ashes are held for 14 working days following cremation pending collection, it was evidence that there were ashes stored in the locked cabinet awaiting collection. Where the applicant has expressed their wish to have the ashes dispersed in the garden of remembrance, the cremation authority allows a period of one week in case the applicant changes their mind.

Failure to collect ashes from the crematorium

In most instances, funeral directors collect the ashes from the crematorium on behalf of the client in a timely manner, however, around 10% of applicants wish to collect the ashes themselves or nominate a third party. Where the ashes are not collected within the 14 working days period, the Cremation Authority will contact the funeral director to ascertain further instructions. Where the cremation authority is not provided with further instructions, the applicant will be contacted by letter after a 2 month period.

Duties of cremation authority where ashes are returned by the funeral Director

This has not happened to date, however, should the applicant change their mind a letter must be provided and signed by the applicant stating their revised wishes.

REGISTER

Cremation Register

It was evidenced that the Cremation Register is maintained both in manual format and on the computerised Burial and Cremation Administration System (BACAS) in the prescribed manner. A cremation certificate can be produced from this system should it be required. The register is retained indefinitely; the handwritten register is available for inspection by members of the public and extracts of information provided from the electronic system following request and payment of the relevant fee.

Fees

It was evidenced that the fees and charges for 2017-18 have been updated and published on the Council's website. The fees and charges are updated on an annual basis as part of a Council wide exercise. A printed copy of the fees and charges is available in the office of the crematorium and a copy issued to applicants with the book of remembrance form.

Code of Practice

It was evidenced that Cardross Crematorium complies with the Federation of Burial and Cremation Authorities (FBCA) Code of cremation practice 2014 and Infant Cremations Scotland – Code of practice 2015 as issued by the Scottish Government. The crematorium staff were consulted through the Technical Committee (Scotland) prior to the issue of the current codes.

ARRANGEMENTS

Death of an adult or child (under 16 but other than still-born)

It was evidenced that, in line with the Act, the nearest living relative (including a close friend) or an executor of the deceased will form the role of the applicant. Where the applicant is someone else (e.g. care home, Local Authority etc.), a written explanation would be required stating suitability to be applicant.

INSPECTION

An inspection was carried out on 14 September 2016 by the Inspector of Crematoria Scotland. This was a favourable report with no shortcomings highlighted in any aspects of the procedures in place and several areas of good practice were noted.

6. CONCLUSION

This audit has provided a high level of assurance as *“internal control, governance and the management of risk are at a high standard with only marginal elements of residual risk.”* There was one finding identified as part of the audit and this, together with agreed management actions, are set out in the attached action plan. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the crematorium staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.



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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF ADDITIONAL SUPPORT NEEDS
AUDIT DATE	MARCH 2017

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Additional Support Needs (ASN) as part of the 2016-17 Internal Audit programme.

The Education (Additional Support for Learning) (Scotland) Act 2004 and as amended 2009, provides the legal framework for the provision of additional support for learning. The Act is structured around the concept of support being needed for any reason, and for short or long term periods determined by the individual learning needs of the child or young person. The key duties on education authorities are to identify, make provision for, and review provision for the additional support needs of children and young people for whose education they are responsible.

The Act also places duties on education authorities, (and in certain circumstances health, social work and skills development Scotland) to work to plan and make joint provision for children and young people with complex or multiple additional support needs. Where their needs are significant, require support from education and another partner agency, and will last more than one year, children and young people may have a statutory co-ordinated support plan to bring together all of the support to be provided to meet their learning needs.

Argyll and Bute Council has approximately 11,700 pupils and early learners across the age range of 3 – 18, of this 2,060 or 17.7% are currently identified as requiring additional support, this is lower than the national average of 26.8%. As at March 2017, the Council has deployed: 362 (178 FTE) Additional Support Needs Assistants, 81 (72 FTE) Pupil Support Teachers and 43 (13.8 FTE) Pupil Support Assistants.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess the adequacy of controls in place in respect of ASN provision and compliance/adherence to relevant legislation and guidance.

Internal audit reviewed policies and procedures in place to establish compliance with relevant legislation, site visits were undertaken and a sample of assessments were selected for review to check that controls were in place and operating effectively.

3. RISKS CONSIDERED

- ORR: ED04 Failure to meet additional support needs of children
- ORR: ED04c: Limited budget restricts the provision of additional support
- ORR: ED04e: Maintain effective use of learning centres
- ORR: ED04f: Ineffective exchange of information between partners
- ORR: ED04g: Inadequate monitoring of multi-agency assessment process
- Audit Risk: Failure to comply with current legislation

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
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5. FINDINGS

The following findings were generated by the audit:

Review of Additional Support Needs 2014

An Internal Audit Review was undertaken during the financial year 2013-14 and the report published in April 2014. This review covered the following areas:

- Requests for Additional support from schools
- School budget monitoring reports
- Review documentation prepared by schools showing how resources have been allocated and periodic assessments
- Interviewing personnel at 4 schools
- Comparison of the ratio of additional hours allocated to school roll and compared to other schools in Argyll and Bute.

Actions arising from the findings of this audit included:

- Review of reporting documentation to adopt best practice
- Review of system whereby schools bid for ASN resource
- Timetable for carrying out assessment of ASN resource requirement brought in line with budget preparation process
- Audit trail established to record reasons for allocation of ASN resource where not in line with the bid placed by Head Teachers
- Quarterly review of Oracle budget to reflect changes in area activity/hours for each school with HQ cost centre acting as holding account
- Monitoring system for ASN to be maintained and kept up-to-date with changes to provide underlying data for budget monitoring/preparation.

As a result of the Internal Audit process of following-up agreed actions, evidenced has been provided to allow the above actions to be marked as complete.

Review of policies and procedures

A review of policy and procedural documentation evidenced that it is current, reflected or referenced relevant guidance and legislation, specifically the Staged Intervention Framework was updated in November 2015 to bring in line with new legislation; it contains clear guidelines around the 3 stages of intervention and provides links to further information on the internet in terms of legislation and educational support. Roles and responsibilities were clearly defined and procedural information had been cascaded and communicated to all relevant parties. All head teachers and staff contacted during the course of the audit were aware of and confirmed that they are familiar with the framework. The revised framework document was put forward for public consultation between 13 November and 9 December 2015, and is scheduled for further formal review during session 2018-19. The revised framework was submitted to the Community Services Departmental Management Team (DMT) on 25 January 2016, the minutes record requests for addition of further detail and feedback from the consultation followed by re-submission to DMT. There appears to have been no further submission of this document to DMT for formal approval – however, we have been advised that approval is not required for a framework. The joint head teachers' meeting on 3 February 2016 included a presentation of the revised document. It was noted that the document remains in draft format on the Council's webpage.

Documentation Review / Walkthrough Testing

Twelve schools were contacted to establish what process they follow with regards to identification of a possible need through to implementation of strategies and plans, and where relevant, allocation of ASN assistant hours to children and young people. All discussions confirmed that the staged intervention framework has been communicated and is readily available to employees and partner organisations, and appropriate training has been provided.

It was further noted that training at school and cluster level is in place. The training includes all aspects of Getting it Right For Every Child (GIRFEC) and the tools of application employed in order to arrive at a meaningful and useful Universal Childs Plan (UCP). Support is also available from the central team where required to ensure all relevant professionals with expertise work together when developing UCP's.

A sample of 53 files was reviewed. All files were found to contain appropriate records including strategy notes and evidence of communication with parents/carers. Where relevant a UCP was present and contained long and short-term outcomes with target and review dates, details of meeting attendees and any external agencies involved. Documentation was found to be up-to-date with

evidence of participation and review by the parents/carers, staff and where required multi- agency partners. Manual files containing pupil records were kept securely in locked cabinets with restricted physical access. Pastoral notes are maintained within the SEEMIS education management system by users who are restricted to access only records of children from within their area of responsibility. The system is accessed via unique user identification and password controls from a computer attached to the Council's recently reaccredited PSN (Public Sector Network) compliant infrastructure.

Engagement and Review

A review of documentation evidenced engagement with all relevant stakeholders. Where a party has concerns in respect of aspects of additional support needs provision, mechanisms are in place to raise these with the Headteacher or more formally via the corporate complaints process. A review of ASN type complaints was undertaken:

An Extract from corporate complaints database shows that there were 10 complaints made in respect of ASN within the last year; 3 of these have been resolved at stage 1 with 2 partially upheld and one not upheld, the remaining 7 have been resolved at stage 2 following investigation by an independent education officer; one complaint was fully upheld, one was not upheld and the remaining 5 were partially upheld. All details were appropriately input to the system with supporting documentation and communications saved in the associated document management system and available for review.

ASN hours Budget Monitoring

ASN is subject to the Councils budget monitoring process which amongst other things allows assessment of current levels of spend and expected outturns. Financial management controls are adequate and fit for purpose with monthly Budget monitoring reports provided to the budget holder with engagement meetings taking place at regular intervals according to risk/engagement category (monthly, 2 monthly, quarterly and 6 monthly). There is evidence held within the Strategic Finance shared drive that budget monitoring is regularly undertaken with engagement meetings recorded on the standard spreadsheet template. Hyperlinks are incorporated within the engagement spreadsheet to allow access to further documentation showing analysis, notes and decisions taking place at the meetings of the budget holder, operational contact and finance team contact as necessary. There is evidence that recommendations have been made and corrective action taken where budget areas are found to be at risk of overspend.

ASN Hours Allocation

A process is in place whereby allocation of support provision is subject to panel review. Appropriate authorisation and monitoring arrangements are in place and supporting documentation exists. From sample testing, it was evidenced that staff are aware of the process to be followed. Final decision making is communicated to Headteacher, partner agencies and client (parents).

Where additional support is no longer required, adequate arrangements are in place to ensure resources are aligned to need although it is acknowledged that subject to the specific individual circumstances it can in some instances prove problematic redeploying staff where required.

Home and Hospital Tuition

Where pupils from Argyll and Bute attend hospital in another authority area, tuition may be provided within the hospital by the host authority and recharged to Argyll and Bute Council.

Due to the nature of this service provision and the ad-hoc demand levels, budgeting is problematic.

At the time of the audit there was no formal agreement or contract available for review or inspection that outlines expectations, service provision and charging regime.

6. CONCLUSION

This audit has provided a Substantial level of assurance as Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk. There are two findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plans. There is one action to be reported to the Audit Committee. Progress with implementation of the actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to Education and Strategic Finance staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Home and Hospital Tuition Agreement		High/ Medium or Low		
No evidence of a formal agreement in place in respect of home and hospital tuition.	Failure to have a formal agreement in place may lead to inconsistencies in provision leading to disputed charges.	Medium	Management will liaise with Glasgow City Council to formalise agreement on service provision.	Education Manager – Inclusion & Equality 30 September 2017



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF EDUCATION MANAGEMENT CIRCULARS - 2017/18
AUDIT DATE	MAY 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

The Council’s Education Management Circulars (circulars) detail current policies and procedures to be adhered to and adopted by schools and are issued to the Heads of all Educational Establishments on behalf of the Executive Director of Community Services. Copies of the circulars are also available to view or download from the Council’s Internet site. There are currently approximately 80 circulars and associated appendices available covering a wide range of areas such as; school leaving dates, internet use, fire precautions and child protection.

Circulars are updated periodically in line with the introduction of new legislation and, as stated on Circular 1.01, “If at any time the terms of an Education Management Circular are amended, a revised circular will be issued to replace the obsolete one, and this will be highlighted to the Schools”. Education Management have advised that a review of all circulars is currently in progress.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess the adequacy of controls in respect of the review, circulation and application of the Education Management Circulars.

Internal Audit reviewed a sample of circulars to establish compliance with relevant legislation and site visits were undertaken to 4 schools to test compliance with the selected circulars and to check that controls are in place and operating effectively in practice. The following control areas were reviewed as part of the audit process:

Control Objective	Control Objective Assessment
Authority - Roles and delegated responsibilities are documented in circulars and are operating well in practice	Schools visited were aware of circulars and were generally compliant with the stipulated requirements, although there were some minor areas of weaknesses identified.
Occurrence - Sufficient documentation exists to evidence compliance with circulars	Relevant documentation was available from schools visited on request.

Completeness - The circulars are aligned to relevant legislation and all required documentation is accurately and fully maintained	Circulars are updated on an adhoc basis in line with current legislation.
Measurement - Circulars are in line with requirements of relevant legislation	Circulars are updated on an adhoc basis in line with current legislation.
Timeliness - Circulars are regularly reviewed and updated as necessary	There is currently no agreed timescale for the review of Circulars.
Regularity - Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff.	Circulars are maintained on the council website for access to all relevant staff. Documentation within schools was held securely and access was limited to appropriate personnel.

3. RISKS CONSIDERED

ORR - ED01h: Failure to adhere to policies and procedures laid out in Management Circulars

ORR – ED03d: Ineffective exchange of information between schools and the centre

Audit Risk: Failure to regularly review and update policies and procedures where necessary

Audit Risk: Failure to ensure guidance is communicated and readily available to staff

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are

	being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Review Process

The current review process is as follows:

- Review initiated by Education Management
- School Support team tasked with co-ordination and overview of review process
- Circulars reviewed in consultation with relevant departments (e.g. Health & Safety, I.T.) and circulars updated as necessary
- Updated circular passed to Legal department for review and any comments
- Legal pass back to support services, final update if necessary
- Following legal approval, circular submitted to next meeting of Joint Services Committee for Teaching Staff (JSC) for approval
- Final version approved by Executive Director of Community Services
- Circulated to Schools via email notification & website updated

There is currently no prescribed frequency or timetable for the review of circulars and the above process is not formally documented.

Current Review

A review of all circulars was ongoing at the time of audit; previous to this the last review was undertaken in June 2010.

As at April 2017, 22 circulars have been reviewed and are due to be presented for approval by the JSC at their meeting in May 2017. These circulars have been through the relevant review stages and have been reviewed and approved by legal. There are also a further 10 circulars that have been identified as surplus to requirement and Education propose to remove these from the library pending approval from the JSC. The remaining circulars are currently in the process of being reviewed and will be brought to a future meeting of the JSC.

Distribution of Circulars

Circulars are available publicly on the Council's internet page, when existing circulars are updated or new circulars are created, these are uploaded to the webpage and Educational Establishments are notified by email.

Application and compliance with Circulars

Four schools were visited as part of the audit, and tests were undertaken in relation to the application and compliance with the following circulars;

- Circular 1.01 – Introductory Circulars;
- Circular 1.12 – Security of School Equipment –Theft;
- Circular 1.18 – Internet Use in Argyll & Bute Educational Establishments;
- Circular 1.24 – Fire Precautions, and;
- Circular 1.25 – General Instructions on fire precautions.

It was found that all 4 schools were familiar with the circulars and staff made reference to these via the Council's internet site on a regular basis. Overall, all 4 schools were generally compliant with the circulars tested although there were some minor instances of non-compliance identified which have been submitted to the School Services Support Manager for follow up and/or remedial action.

Observations

We have also highlighted to management the following observation(s) which have been identified during the review. Although not included in the scope the matter(s) were brought to auditor attention during the audit and either indicates a potential risk exposure and /or could be considered as a matter of good practice and therefore noted for information and completeness:

- Teachers are not currently notified when reviews of circulars are ongoing and are not asked to contribute or participate in reviews. Failure to obtain feedback from operational staff may lead to missed opportunities and /or result in the requirement for further amendment.
- The current review of individual circulars has not been undertaken on a prioritisation basis. Lack of prioritisation may result in failure to target potential areas of higher risk in a timely manner.

6. CONCLUSION

This audit has provided a Substantial level of assurance as Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There is one action which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to Education staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Availability of procedure note		High/ Medium or Low		
The review process is not documented in a formal procedure note.	Failure to ensure appropriate guidance is readily available to staff may lead to inefficient and ineffective operations.	Medium	A procedure document detailing the review process, roles and responsibilities and time frames will be created.	School Services Support Manager 31 August 2017



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	OBAN AIRPORT
AUDIT DATE	MAY 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

Oban Airport Aerodrome manual has been produced to satisfy the requirements of the UK Civil Aviation Authority (CAA), Health and Safety legislation and the Air Navigation Order. The Aerodrome Manual sets out operational procedures, accountability by personnel and importantly acts as an information manual to assist personnel in performing their role.

Records are kept on an Access database called the 'Navigator System' which has been created in house by the Station Manager. In addition, the service also operates the 'RedKite' system tracker which is a recognised equipment management and personal development system.

Scheduled services operate from Oban airport to Coll, Colonsay, Islay and Tiree. They also operate scholar flights for island school children. Additionally, the Airport deals with chartered traffic and military flights as well as general aviation traffic such as medevacs, training flights and scenic tours by private operators.

The 2017/18 net operating budget for the airport is £564K.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to;

- Review previous external audits to ensure that corrective actions have been completed.
- Evidence availability and completeness of inspections and reporting logs in respect of the undernoted:
 - Airfield Inspections
 - Runway Inspections
 - Lighting Inspections
 - Aircraft Movements
 - Incidents and Accidents

Controls included:

- Authority – Roles and delegated responsibilities are documented in Aerodrome Manual and are operating well in practice
- Occurrence – Sufficient documentation exists to evidence compliance with Aerodrome manual.
- Completeness – Required documentation is accurately and fully maintained
- Measurement – Aerodrome manual in line with relevant legislation and guidance and all required documentation is accurately and fully maintained
- Timeliness – Actions and decisions are carried out in a timely manner
- Regularity – Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Failure to follow the procedure manual could contribute to an increased risk of Accidents.
- Failure to follow the procedure manual could result in the airport losing its CAA operating licence.

4. AUDIT OPINION

The level of assurance given for this report is Substantial

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p>
<p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p>
<p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>

5. FINDINGS

The following findings were generated by the audit:

- The Oban Airport aerodrome manual is available on the HUB and was last updated in October 2016.

Review previous external audits to ensure that corrective actions have been completed:

- In reviewing previous audits and following discussions with management it was noted that there are no outstanding corrective actions.

Evidence availability and completeness of inspections and reporting logs:

A review of the reports recorded within the airport “Navigator” database highlighted the following:

- The record of Airfield inspections is as prescribed in the aerodrome operating manual and inspections are carried out daily as required per section 2.1, part 4 of the manual.
- It was evidenced that runway inspections are available and complete as prescribed in the aerodrome operating manual section 2.3, part 4 and that corrective actions had been carried out where required.
- It was evidenced that lighting inspections records are available and complete as outlined in the aerodrome operating manual and that inspections have been carried out daily as required per section 4.5, part 4. Lighting faults are noted against specific lights with comments, where appropriate, recorded in the comments box.
- The aerodrome manual part 4 stipulates that aircraft movements should be recorded by the Area Flight Information Service Officer (AFISO) in the aircraft movements log and should show the following details:
 - Aircraft registration
 - Aircraft type

- Flight Number
- Type of Flight
- Destination or departure aerodrome
- Actual time of Departure/arrival
- Aircraft Operator
- Number of Persons on-board

It was evidenced that records regarding aircraft movements are generally available and complete as per requirement outlined in the aerodrome manual however it was noted that no record of call sign or flight number was recorded in respect of a regular commercial services.

- It was evidenced that defects are recorded and split between due and overdue defects. An analysis of the data showed that in total there were 5 overdue defects. Details of overdue defects and reasons given are outlined below:

Description of outstanding job on database	Risk Category	Date of job notification	Reason for job being outstanding
Western Outermost illuminated Buoy lamp on Top completely missing	Medium	17/6/2016	Awaiting decision from Civil Aviation Authority as to whether Buoy system can be removed
Eastern Buoy string appears entangled, 2nd marker is almost entirely submerged	Medium	24/6/2016	Awaiting decision from Civil Aviation Authority as to whether Buoy system can be removed
Sunken Apron light on north side of apron not illuminating	Medium	30/4/2017	This defect has been fixed- Record to be updated
Rubber Expansion strip lifting from the appliance Hangar Door	Low	3/7/2012	Station Manager to investigate repair

Description of outstanding job on database	Risk Category	Date of job notification	Reason for job being outstanding
Slight depression in tar appearing in centre of southern access track opposite opening to Fire training ground	Low	4/3/2016	Will be monitored until sufficient funding available for non-essential repairs

6. CONCLUSION

This audit has provided a Substantial level of assurance as Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 2 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Oban Airport staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Overdue Defects		High/ Medium or Low		
There were a number of overdue defects	Failure to correct overdue defects may lead to an adverse effect on operations.	Medium	Station Manager awaiting response to an enquiry sent to the Civil Aviation Authority on 3/5/17 in a bid to remove the Buoy system from use. Other defects will be looked into however none of the others are operationally critical.	Station Manager 30 June 2017
2. Recording of Aircraft Movements				
Not all the detail in respect of aircraft movements are recorded in the flight log.	Failure to complete records results in non-compliance with aerodrome manual requirements.	Medium	Following review the aerodrome manual Part 4 AOI 18-1 has been updated to reflect more accurately the current process and addresses finding.	Station Manager Complete: 17 May 2017 Implemented into updated aerodrome manual.



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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	ARGYLL & BUTE HEALTH & SOCIAL CARE PARTNERSHIP
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	CHARGING ORDERS
AUDIT DATE	APRIL 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

A charging order is a legal instrument whereby the charge is placed against assets such as property and ensures that persons who have incurred a debt with the council such as residential care costs are legally obligated to settle the debt out of the proceeds of the sale of the said property.

Argyll and Bute Council have in place an Interim Funding arrangement for clients who are required to enter residential care who:

- Own property which, on its own or when added to the value of other capital or assets owned, would take the value of their total assets over the upper funding threshold, and;
- Have access to less than the upper funding threshold when the value of the property is disregarded.

Interim Funding bridges the gap until the client can realise the capital tied up in their property, ensuring that the client receives the care they require when they require it. The funding provided to the client during this time is effectively an interest free loan secured against the clients property which is paid back later via a Charging Order; typically when the property is sold or the client passes away. The sum recovered takes account of a number of factors including the value of the asset at disposal/death, the value of the recoverable fees paid by the Authority and the requirements of the National Assistance (Assessment of Resources) Regulations which govern charging for residential care in Scotland.

Revised guidance was introduced by the Scottish Government on how Local Authorities should charge for residential accommodation and this came into force on 11th April 2016. The guidance sets out in detail all aspects of the charging mechanism.

As of 31st March 2017 there were 67 active charging orders in place with an approximate value of £1.3m. During 2016/17 the Council recovered £0.384m from charging orders with a corresponding total cost of care of £0.482m

The audit focused on whether the use of Charging Orders by the Council is in compliance with legislation/guidance issued by the Scottish Government and also any relevant Council Policies.

2. AUDIT SCOPE AND OBJECTIVES

The audit assessed compliance with legislation and guidance issued by the Scottish Government and also any relevant Council Policies. The scope included the following areas;

- Review policies and procedures
- Review a sample of Charging Orders in place and carry out a walk through test in order to assess that policies and procedures and Scottish Office guidance has been followed
- Review procedures in relation to property valuations
- Review Reporting arrangements

Controls included:

Authority –	Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
Occurrence –	Sufficient documentation exists to evidence compliance with policies, procedures and relevant legislation and guidance
Completeness –	Policies and procedures are aligned to relevant legislation and guidance and all required documentation is accurately and fully maintained
Measurement –	Policies and procedures are in line with relevant legislation and guidance and all required documentation is accurately and fully maintained
Timeliness –	Actions and decisions are carried out in a timely manner
Regularity –	Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Charging Order is not legally binding
- Processes and Procedures are not in place
- Financial assessment is not in place
- Insufficient controls in place to ensure Charging Orders are properly administered
- Insufficient documentation on file to support cost of care

4. AUDIT OPINION

The level of assurance given for this report is Substantial

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Review Policy and Procedures

Policy

- Current practice is that Argyll and Bute Council offer Interim Funding arrangements via the use of Charging Orders under Section 23 of the Health and Social Services and Social Security Adjudication Act 1983 on clients:
 - Who own property which, on its own or when added to the value of other capital or assets owned, would take the value of their total assets over the agreed government upper limit of approx. £26k and:
 - Who have access to less than the upper funding threshold when the value of the property is disregarded
- A review of Charging Order files noted that although current practice is underpinned by section there is no evidence of a formal policy document being in place and approved/agreed.

Procedures

- A number of separate procedural documents covering the process of dealing with Interim Funding Arrangements via Charging Orders were available for review, these include:
 - Procedure outlining actions to be carried out on receipt of application for Interim Funding, this includes the following steps;
 - Assessment of clients resources
 - Application for Interim funding authorised by appropriate manager
 - Actions required by Legal e.g. checks in relation to property owner
 - Issue of contract
 - Procedural document for the valuation of Property
 - Procedural document outlining monthly checks to be carried out to ensure details recorded on their active Charging Order Database includes the following information for each client:
 - Personnel details of client
 - Property details including estimated valuation
 - Category of Care
 - Costs incurred to date by Argyll and Bute Council
 - Amount of potentially recoverable costs
- In addition to procedures noted above there are a number of checklists in place detailing the documentation within individual files.

- On review, the procedures were generally found to be adequate and authority limits have been clearly specified for each level of management, however the following point was noted;
 - There is no guidance within procedures that stipulates indicative timeframes or inbuilt controls to ensure that each stage of the Interim Funding process is carried out in a timely manner.
- Adult Care have created a site within the SharePoint document management system. It was noted that the site includes a section on Policies and Procedures but had yet to be populated with the relevant documents.

Roles and Responsibilities

- Roles and responsibilities have been identified within the procedural documents reviewed.

Filing and Record Keeping/ Documentation

- Documentation relating to Charging Orders is currently maintained in hard copies files which, depending on the circumstances of each client, can be extensive. Verification that documentation was complete was both time consuming and difficult as there was no standard layout of documentation within files. Income Maximisation Management have advised that they are currently introducing an electronic document management system that will incorporate the various processes and checklists within the system and which should also enhance document tracking and verification.

Review a sample of charging orders in place and carry out a walk through test in order to assess that policies and procedures and Scottish office guidance has been followed.

- A sample of 8 Charging Orders were chosen at random and walkthrough testing was carried out to assess the adequacy of the controls in place.

- The following controls were tested:
 - Financial Assessment of client completed and appropriately authorised
 - Application for Interim Funding has been fully completed and signed by client or representative with appropriate documentation on file
 - Application for Interim Funding has been appropriately authorised
 - Search has been carried out by legal on property and recorded appropriately
 - Property valuation included on database
 - Power of Attorney has been signed and checked as being valid
 - Charging order database has been completed and where appropriate agrees back to documentation
 - Proof of Charging Order in place
 - Council debt has been cleared on completion of Charging Order (if applicable)

- The following findings were noted;

<u>Check carried out</u>	<u>No. of Charging orders checked</u>	<u>Error rate volume</u>	<u>Comment</u>
Financial assessment of client completed and appropriately authorised	8	1	
Application has been fully completed and signed by client or representative with appropriate documentation on file	8	1	Not signed by representative

Application for Interim Funding has been appropriately authorised	8	0	Complete
Search has been carried out by Legal on property	8	0	Complete
Property valuation included on database	8	0	Complete
Power of Attorney signed and checked as being valid	8	3	Inconsistent approach by Social workers for checking validity of POA's
Charging order database has been completed and where appropriate agrees back to source documentation	8	0	Complete
Proof of Charging order in place	8	0	Complete
Council Debt has been cleared on completion of charging order (if applicable)	2	0	

- In general there are adequate controls in place to administer the Interim Funding policy as prescribed within Government guidelines and legislation. In addition the various tasks within the Charging Order process had been completed within a reasonable timeframe and where delay had occurred e.g.; in the placing of the charging order by legal there was sufficient documentation within the client file to explain the reason for the delay.
- It was noted that Social Work have in place a Memorandum of Understanding with the Department of Works and Pensions (DWP) whereby financial information supplied by potential clients requesting Interim Funding is checked by personnel from the DWP.

Review procedures in relation to property valuations

- The Council currently do not undertake a formal valuation of the client's property to be carried out prior to Interim Funding being agreed. Previous arrangements had been that the Estates department would carry out this function however due to resource constraints within Estates this function ceased in 2012. Procedures reviewed noted that the valuations are based on local knowledge or obtained via relevant websites. Results from the walkthrough testing found that for one of the properties an initial valuation of £50,000 was used for the property but was subsequently sold for £250,000.

Review reporting arrangements

- Charging order income is included in budget monitoring reporting arrangements though information is confined to financial data only.

Observations

We have also highlighted to management the following observation(s) which have been identified during the review. Although not included in the scope the matter(s) were brought to auditor attention during the audit and either indicate a potential risk exposure and /or could be considered as a matter of good practice and therefore noted for information and completeness:

- There is currently no requirement for ascertaining whether properties are insured during the period of the loan therefore the Council is exposed to potential financial risk.

6. CONCLUSION

This audit has provided a Substantial level of assurance as Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There

were 3 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Income Maximisation and Social Work staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Policy		High/ Medium or Low		
There is no evidence of a formal policy document being in place and approved/agreed r.e. Interim Funding.	Failure to have agreed policy or procedures may lead to inconsistent service delivery resulting in loss or error.	Medium	Policy Document will be produced.	Head of Adult Care – East 30 September 2017
2. Timeframes				
Procedures do not include an indicative timeframe for each part of the charging order process	Failure to ensure or monitor timely completion of application or process leads adversely impact efficiency and effectiveness	Medium	Update guidance note to include an indicative timescale for the completion of interim funding tasks.	Accountant – Income Maximisation 30 June 2017
3. Power of Attorney				
Validity of Power of Attorney agreements are not checked.	Failure to ensure that Powers of Attorney are valid may lead to legal challenge	Medium	HOS to issue a practice note to Social Work Practitioners to ensure that POA documents are requested for file or that confirmation has	Head of Service Adult Care – East 30 June 2017

			been received that a POA exists as stated.	
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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CROSS CUTTING
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	FEES AND CHARGES
AUDIT DATE	MAY 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

Argyll and Bute Council uses fees and charges to supplement the income the Council raises locally through Council Tax. Legislation and guidance sets out how Councils can apply charges, but the Council has the discretion to set charges in many areas. Legislation prohibits charging in other areas such as Children’s Education.

The Council provides a large number of products and services, many of which are chargeable. Although not an exhaustive list these include planning applications, car parking, leisure facilities, airport charges, piers and harbours, crematorium charges and many more.

Fees and charges are reviewed and agreed as part of the Council’s annual budget setting exercise. The fee income for 2017/18 is budgeted at approx £20m.

2. AUDIT SCOPE AND OBJECTIVES

The main objectives of the audit:

- Review Policy and Procedures
- Carry out walkthrough testing on a sample of fees and charges from agreed Council schedule through to charging
- Review key factors considered when setting fees and charges

Control Objective	Control Objective Assessment
Authority - Fees and charges are approved and authorised and appropriate governance arrangements in place	The Council approves its fees and charges annually at a meeting of the full Council. Governance arrangements include review by the Policy and Resources committee and full council

Occurrence - Sufficient documentation exists to evidence compliance with policies and procedures	With the exception of the formal budgeting pack, there was no evidence of any internal process or policy document to support the fees and charges process
Completeness - Documentation is accurately and fully maintained	Documentation reviewed was found to be generally sound, however, minor errors were identified that have been subsequently rectified
Measurement - Fees and Charges are applied in line with agreed schedules	Fees and charges were found to apply in line with agreed schedules, however, isolated instances of non-compliance were evident.
Timeliness - Fees and Charges are updated and communicated in a timely manner	Fees and charges are updated and published on a timely manner, however, internal communication of this information is weak.
Regularity - Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff.	Fees and charges are on the Council's website accessible by the public. The format of the fees and charges schedule is not set out in an easily readable format.

3. RISKS CONSIDERED

- Procedures not documented
- Fees and Charges not charged as agreed
- Reputational damage to Council

4. AUDIT OPINION

The level of assurance given for this report is Reasonable.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Review Policy and Procedures

Policy

- The Council sets out its charging policy for Fees and Charges on the Council's website, the schedule informs the Public what services they need to pay for and how much they will cost. The charges are agreed at a full meeting of the Council in February of the relevant year.
- It was noted from the Audit Scotland report on "Charging for Services" 2013 that it was recommended that Councils should have clear policies in place for charges and concessions. Whilst Argyll and Bute Council have in place a separate concessionary charge for leisure facilities there was no evidence of an overarching Council policy for fees and charges in regard to Service objectives.
- It was noted that current fees and charges were agreed at the February meeting of the full Council, however an amendment was required to be made at the April meeting in respect of VAT categorisation errors.

Procedures

- Fees and charges are prepared on an annual basis however there was no evidence of a formal procedural document setting out the processes involved. Discussions with Strategic Finance and Service personnel indicated that they are aware of the various generic tasks involved in the overall process.
- Strategic finance are responsible for collating the fees and charges schedule and submitting it to full Council for their agreement.
- Roles and responsibilities surrounding the preparation of the fees and charges have not been assigned and discussions with services indicate that there is uncertainty as what input is expected from service personnel.
- Once Council have agreed the schedule of fees and charges this is uploaded onto the Council's website. It was noted that there was no formal process that informed services that Council have agreed fees and charges although a communication is provided to inform staff as to Council decisions.

Carry out walkthrough testing on a sample of fees and charges from agreed Council schedule through to charging

Nine services were selected and testing was carried out on a range of individual charges. The methodology employed included checking via desktop and where required on site visits. In general, charges applied were aligned to authorised and agreed rates, however, some minor errors were found which have been subsequently rectified.

Review Key factors considered when setting fees and charges

- It was noted from the budget pack presented to full Council in February 2017 that the general increase to fees and charges was proposed at 3% for 2017-18. This was the increase applied each year between 2013-14 and 2015-16, with a 6% increase applied in 2016-17. With the exception of some specific charges, this has tended to be the standard approach.

- The Audit Scotland report on “Charging for Services” 2013 included a number of key recommendations in regard to key factors that should be considered prior to the setting of fees and charges namely;
 - Councillors take a lead role in setting aims and priorities for charges and concessions
 - Council’s should compare their charges with other providers and make use of benchmarking reports where practical e.g. Leisure services, Crematoria, Waste management, Social Care
 - Council’s should explain significant variances as a result of benchmarking process.
 - Councils should review their overall approach to charging and concessions to ensure that service charges comply with corporate guidelines
 - Councils should review the impact of charging decisions on income to ensure that unintended consequences do not occur.
 - Councils should understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.
 - Councils should consult service users, community planning partners, residents and other stakeholders over proposed charges.

Councillors take a lead role in setting aims and priorities for charges and concessions

- A document was available from Strategic Finance which was prepared for members in December 16 as part of the 17/18 budget setting exercise. The document considered:
 - Expected increase in total income for scenarios based on 3, 4, 5 and 6 % increase in charges across all services.
 - Expected increase in total income for the 6 main services based on 3, 4, 5 and 6 % increase in charges.
 - Impact review of all fees and charges income generated as at the end of October last year versus this year to assess whether the increase has meant a reduction in demand.
 - A review of charges that were increased significantly last year due to service choices

A review of the paper noted that whilst it considered the impact on income on key services for the various scenarios there was no evidence that consideration had been given to the service aims and priorities.

Council's should compare their charges with other providers and make use of benchmarking reports where practical e.g. Leisure services, Crematoria, Waste management, Social Care

- It was not evidenced that the council compares charges with other providers and that the fees and charges process is generally limited to incremental percentage increases.
- It was noted that Strategic Finance prepared a benchmarking analysis of Crematorium charges between Argyll and Bute and West Dunbartonshire Council for the period 2015/16. There was no evidence that a benchmarking exercise had been carried out for other relevant services, however, a review of the minutes of the Transformation Board of February 2017 noted that Argyll and Bute Council intend to collaborate with other Councils via the use of consultants to “analyse the various charging rates and concessionary regimes in place across UK local authorities, to identify innovative income generation projects in order to highlight additional income opportunities and best practices for individual local authorities to consider.”

Council's should explain significant variances as a result of benchmarking process

- It was not evidenced that council explains significant variances via benchmarking .The paper noted above regarding Crematorium charges highlighted the differences in charges between the two Councils however there was no reference within the paper that explained why these differences occurred.

Councils should review their overall approach to charging and concessions to ensure that service charges comply with corporate guidelines

- There was no evidence of a review that ensured that all fees and charges complied with corporate guidelines

Councils should review the impact of charging decisions on income to ensure that unintended consequences do not occur

- Part of the revenue budget monitoring process includes budget holders and finance contacts discussing reasons for any deviation or variation from planned budget. Unintended consequences i.e. reduction in volume or reduced income should be captured at this stage with a process in place to record these variances via the engagement log and consequently as a cost or demand pressure. This process is acknowledged as being in place however the sample did not provide any supporting evidence.

Councils should understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges

There was limited evidence of comparing different models of delivery against a baseline e.g.

- Cost Pricing the service for income generation,
- Understanding cost behaviour at different levels of demand,
- Different cost drivers and cost units.
- Forecast income levels at different levels of output or activity,
- Linking income to performance targets.
- Peak or off peak charging and contribution to fixed costs.

Councils should consult service users, community planning partners, residents and other stakeholders over proposed charges

- It was noted in the revenue budget pack 2016/17 presented to members, that consultation was carried out with various groups within the community in arriving at Service choices which included Fees and Charges, however, there was no evidence of consultation with other bodies having been carried out prior to the setting of the 2017/18 Fees and Charges.

Observations

We have also highlighted to management the following observations which have been identified during the review. Although not included in the scope the matter was brought to auditor's attention during the audit and either indicates a potential risk exposure and /or could be considered as a matter of good practice and therefore noted for information and completeness:

- Discussions with Development and Infrastructure staff indicated that the timeframe between Council agreeing charges and the department being able to update systems and carry out necessary associated admin functions by April 1st was extremely challenging and has led to error.
- It was noted from discussions and via sample testing that the provision of cost centre and account code information would assist in arrangements for processing fees and charges.

6. CONCLUSION

This audit has provided a reasonable level of assurance, Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 3 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Strategic Finance and service user staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Setting Fees and Charges		High/ Medium or Low		
<p>Limited evidence exists in respect of reviewing key factors when setting fees and charges.</p>	<p>Failure to consider key factors prior to the setting of Fees and Charges may lead to the Councils objectives not being achieved and potential income opportunities not being maximised.</p>	High	<p>Work has already commenced in respect of some of the key factors outlined in the report however requires to be further developed. Each element will be considered and actioned, as appropriate, as part of the 18/19 Budget preparation exercise.</p>	<p>Head of Strategic Finance February 2018</p>
2. Procedures and Processes				
<p>No evidence of any internal process or policy document to support the fees and charges process.</p>	<p>Failure to document formal procedures and processes may lead to the loss of skill and/or knowledge when staff members leave resulting in inefficient service delivery.</p>	Medium	<p>Policy and Guidance Document will be prepared.</p>	<p>Finance Manager – Departmental Support November 2018</p>

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
3. Roles and Responsibilities				
It was not evidenced that authorities, roles and responsibilities are clearly identified and assigned.	Failure to clearly define roles and responsibilities may lead to ineffective performance	Medium	Roles and Responsibilities will be clearly defined within Policy and Guidance document.	Finance Manager – Departmental Support November 2018



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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT & SCRUTINY COMMITTEE
27 JUNE 2017**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2017 – 2018.

1. EXECUTIVE SUMMARY

- 1.1 Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. This report and attached appendices are the results from a review performed by Internal Audit for recommendations due to be implemented by 30 April 2017.
- 1.2 The process requires departmental Executive Directors assigning a 3rd tier officer to act as the sole contact for the follow up of both external and internal recommendations. The contact role involves updating both the Executive Directors and Internal Audit on progress with agreed audit recommendation implementation.
- 1.3 Appendix 1 is a statistical summary of all agreed recommendations arising from National, External and Internal Audit reports by department. Detailed is the number of recommendations due as at 30 April 2017, the number implemented, the number of agreed future recommendations and their status, e.g. on course etc.
- 1.4 Appendix 2 provides a summary as at 30 April 2017, of all outstanding recommendations from National, External and Internal Audit reports by department and service. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous implementation dates reported to the Audit Committee management comment and Pyramid status

2. RECOMMENDATIONS

- 2.1 The audit committee review and endorse this report.

3. CONCLUSION

- 3.1 Of the recommendations due for completion by 30 April 2017, 11 have been completed. Internal Audit is satisfied with the status of the remaining 3 recommendations being delayed but rescheduled. Good progress is being made on the recommendations due after 30 April 2017 with 7 completed early and 12 showing on course. A number of actions have been superseded as a consequence of strategic decision however there will be further follow up work undertaken. Further programmed testing of post follow-up actions is also undertaken via the continuous monitoring programme.

4. IMPLICATIONS

4.1	Policy:	None
4.2	Financial:	None
4.3	Legal:	None
4.4	HR:	None
4.5	Equalities:	None
4.6	Risk:	Failure to implement agreed actions leads to financial, physical and reputational loss and adversely impacts organisational objectives.
4.7	Customer Service:	None

Kevin Anderson
Chief Internal Auditor
27 June 2017

For further information please contact:
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APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 FEBRUARY 2017 – 30 APRIL 2017

SERVICE	Complete	Delayed but rescheduled	Superseded	Total
CHILDREN & FAMILIES	2	0	0	2
CUSTOMER & SUPPORT SERVICES	3	0	0	3
IMPROVEMENT & HR	1	0	0	1
ROADS & AMENITY SERVICES	6	0	5	11
STRATEGIC FINANCE	1	3	0	4
TOTAL	13	3	5	21

RECOMMENDATIONS DUE AFTER 30 APRIL 2017

SERVICE	Complete	On Course	Total
CHILDREN & FAMILIES	1	0	1
COMMUNITY & CULTURE	0	4	4
EDUCATION	0	1	1
FACILITY SERVICES	5	3	8
PLANNING AND PERFORMANCE	1	0	1
ROADS & AMENITY SERVICES	0	2	2
STRATEGIC FINANCE	0	2	2
TOTAL	7	12	19

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Recommendations Overdue 30 April 2017

ACTION PLAN NO: WEAKNESSES/GOOD PRACTICE: GRADE: AGREED ACTION: DATES: COMMENT/EXPLANATION: PYRAMID: RESPONSIBLE OFFICER:

DEPARTMENT CHIEF EXECUTIVE'S UNIT
SERVICE STRATEGIC FINANCE
REPORT NAME STRATEGIC FINANCE - DEPARTMENTAL SUPPORT 2016/17

5	Elements of the budget preparation process are not formally documented. MEDIUM	A budget preparation guidance documentation will be prepared which incorporates existing individual guidance	31 March 2017 31 August 2017	Progress has been made and work is on-going however requirement to reschedule due to resourcing issues.	Delayed but rescheduled Finance Manager - Departmental Support
7	Trend analysis and unit costing are not commonly used in the budget monitoring and budget preparation process. MEDIUM	Where appropriate Unit Costing and Trend analysis will be incorporated into routine processes	31 March 2017 31 August 2017	Progress has been made and work is on-going however requirement to reschedule due to resourcing issues.	Delayed but rescheduled Finance Manager - Departmental Support
8	Guidance issued to budget holders has not been reviewed since 2013/14. LOW	Guidance will be reviewed and updated where appropriate.	31 March 2017 30 June 2017	Progress has been made and work is on-going however requirement to reschedule due to resourcing issues.	Delayed but rescheduled Finance Manager - Departmental Support

DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES
SERVICE ROADS & AMENITY SERVICES
REPORT NAME REVIEW OF ALL-WEATHER FACILITIES - 2016/17

1	Consideration should be given to future delivery model(s). HIGH	A formal options appraisal is carried out with regard to the operational and management model for each site severally and together. The appraisal should have regard to the list of principles identified in the Internal Audit report and be reported for decision to the EDI Committee.	30 April 2017	At the Council meeting on 20 April 2017 it was agreed that the group of 3G pitches not covered by existing management and maintenance arrangements be included in the Leisure Charitable Trust. Internal Audit will undertake additional follow-up work to assess whether the issues arising from findings are addressed in any new arrangements	Superseded Head of Roads and Amenity Services
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ACTION PLAN NO:	WEAKNESSES/GOOD PRACTICE: GRADE:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
2	The Council did not actively manage Lease/ Minute of agreements in respect of stipulated terms and conditions. HIGH	Subject to the outcome of the options appraisal above, as required site leases be prepared and management agreements for each site be established setting out the roles and responsibilities of each party. As required arrangements for an annual review of the agreements and accounts be agreed.	30 April 2017	This action has been superseded following Council's decision to transfer the maintenance and management of 3G pitches to the Leisure Charitable Trust. Internal Audit will undertake additional follow-up work to assess whether the issues arising from findings are addressed in any new arrangements.	Superseded Operations Manager, Roads and Amenity
3	Arrangements were not put in place to recover monies due to the Council, namely rental income and Spend to Save repayments. HIGH	Subject to the outcome of the options appraisal and lease/ management agreements, the annual review of the agreements will include confirmation of receipt of all due payments from 3 rd Parties	30 April 2017	This action has been superseded following Council's decision to transfer the maintenance and management of 3G pitches to the Leisure Charitable Trust. Internal Audit will undertake additional follow-up work to assess whether the issues arising from findings are addressed in any new arrangements.	Superseded Operations Manager, Roads and Amenity
3	There is an inconsistent approach to the application of Hire charges. HIGH	Subject to the outcome of the options appraisal above, any lease/ management agreement must clearly specify consistent terms for when charging applies (n.b. actual charges may vary dependent on the decisions of the managing organisation).	30 April 2017	To be included as part of the governance arrangements for the Leisure Charitable Trust. Internal Audit will undertake additional follow-up work to assess whether the issues arising from findings are addressed in any new arrangements.	Superseded Operations Manager, Roads and Amenity
7	Engagement with key stakeholders post construction phase is deemed poor. HIGH	Subject to delivery model, any lease / service level agreement will define contact and engagement protocols which will be monitored and reported on accordingly	30 April 2017	Lease and management arrangements to be picked up under the Leisure Charitable Trust. Internal Audit will undertake additional follow-up work to assess whether the issues arising from findings are addressed in any new arrangements.	Superseded Operations Manager, Roads and Amenity



INTERNAL AUDIT
ANNUAL AUDIT PLAN
2017-18

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1. INTRODUCTION

BACKGROUND

The Public Sector Internal Audit Standards (PSIAS) require the Council's internal audit to be risk based, and focused on governance, risk and controls to allow the Chief Internal Auditor 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 within the Council's annual financial statements.

This report presents the internal audit risk assessment and annual audit plan for Argyll & Bute Council for the 2017-18 financial year.

APPROACH

Our approach to developing the annual plan is based on five stages. The approach is summarised below:

Stage	Our Approach
<p>1. Understand the Council's Risks and Objectives</p>	<p>We have reviewed the Council's key plans, including the Single Outcome Agreement (LOIP), Corporate Plan and strategic Risk Register to identify objectives and risks.</p> <p>We have updated the audit universe to identify all of the auditable units within the Council, which are closely aligned with the structure of the Council (Appendix 2). Our Audit Universe includes the former Social Work service units which now form part of the Health and Social Care Partnership. We have also identified a number of cross-cutting, corporate auditable units, as follows:</p> <ul style="list-style-type: none"> - Risk management framework - Performance management arrangements - Arrangements for the prevention and detection of fraud and irregularity <p>Auditable units are key functions of the Council, but may stretch beyond organisational or structural boundaries.</p>
<p>2. Assess risk maturity</p>	<p>Part of the preparation process includes an assessment of the Council's risk management arrangements to inform whether we can place reliance on the corporate risk assessment.</p> <p>The Council's risk maturity is assessed as being well developed. We found that arrangements for identifying and managing strategic risks were well-developed, and continue to improve. Processes continue to evolve and mature and are currently under review as part of a review of the Council PPMF.</p>

This assessment means that we can place reliance on management's assessment of risk, and we have therefore where applicable we have drawn upon the strategic risk register to inform the audit plan.

3. Perform risk based assurance planning

We conduct an on-going risk assessment on each of the Council's services to determine the required frequency of audit review. The frequency is linked to our requirement to provide an annual assurance opinion to the Audit Committee, and includes factors such as the value and volume of transactions, and the potential impact on the Council's framework for internal control.

4. Develop audit and risk assessment

The methodology in place gives consideration to how key risk factors impact the Council, to determine the inherent risk attached to each auditable unit. Risk factors include the potential impact on the Council's corporate outcomes, the financial materiality, links to strategic risks, and key changes within the operating environment such as legislative change.

We have assessed the strength of the Council's internal control framework for managing risk, including the rating of audit recommendations, and implementation of previous audit recommendations to determine the probability of the risk materialising.

The results of annual Assurance Mapping updates which provide detail on assurance received from other sources, including external audit, other scrutiny bodies and management arrangements also informs the plan where applicable.

5. Internal audit plan

Section 3 of this report sets out the Internal audit plan, which takes into account the requirement to produce an annual internal audit opinion and the assurance framework.

The plan is based on 970 days which is aligned to the available Internal Audit resource and skillset.

The plan provides for Internal Audit management which includes planning and reporting, service support and advice, project support and advice. Risk Management, special investigations and dealing with any ad-hoc requests.

The audit plan includes a Continuous Monitoring Programme (CMP) section which primarily relates to transactional activity and testing is primarily focused on the financial internal control framework. The CMP covers a range of areas which were previously subject to cyclical audits.

2. DEFINING OUR AUDIT UNIVERSE

As part of our risk assessment methodology, we have considered each of the high level auditable units against our requirements to deliver our annual audit opinion. There are three key elements relating to our annual audit opinion:

Opinion requirement	Risk Factors
Financial Controls	Value of transactions Volume of transactions Impact on other services
Corporate Governance arrangements	Corporate policies and procedures Internal control environment Reliance on ICT controls
Strategic, Operational and Emerging or Topical Risks	Identified by management as an area of material risk Significant changes to the operating environment

We have used this assessment, summarised in Table 2.1, to determine the audit frequency across each area of the Council.

Table 2.1: High level audit needs assessment

Auditable Units	Financial	Governance	Risk	Risk Indicator	Review Frequency
Strategic Finance					
SF Corporate Support	●	●	●	Significant	Annual - CM
SF Departmental Support	●	●	●	Significant	Annual - CM
Treasury Management	●	●	●	Significant	Annual - CM
HSCP					
Learning Disability Services	●			Moderate	2 years
Older Peoples' Services	●		●	Significant	Annual
Mental Health Services	●			Minor	3 years
Children and Families	●	●	●	Significant	Annual
Criminal Justice	●		●	Moderate	2 years
Community Services					
Early years	●			Moderate	2 years
Primary School Education	●		●	Moderate	2 years
Secondary School Education	●		●	Moderate	2 years
Quality Improvement Team	●			Moderate	2 years
School Support Team	●	●		Minor	3 years

Auditable Units	Financial	Governance	Risk	Risk Indicator	Review Frequency
Adult Learning and Community Development				Minor	3 years
*Leisure and Youth Services	●			Moderate	2 years
*Culture and Libraries				Minor	3 years
Housing Services			●	Moderate	2 years
Community Planning		●	●	Moderate	2 years
Customer Services					
Area Governance		●		Moderate	2 years
Central Governance		●		Moderate	2 years
Legal – commercial and contract		●	●	Moderate	2 Years
Legal - corporate			●	Minor	3 years
Customer Service Centre		●	●	Moderate	2 years
Procurement, commissioning and creditors	●	●		Significant	Annual
Revenues and benefits	●		●	Significant	Annual
ICT	●	●	●	Significant	Annual
Property Services	●	●		Moderate	2 years
Catering and cleaning		●		Minor	3 years
Integrated transport	●		●	Moderate	2 years
Improvement and OD		●	●	Significant	Annual
Human Resources and Payroll	●	●	●	Significant	Annual –CM
Communications			●	Moderate	3 years
Health and Safety		●	●	Moderate	2 years
Development and Infrastructure					
Fleet, waste and infrastructure	●	●	●	Minor	3 years
Amenity Services	●			Minor	3 years
Roads management and maintenance	●		●	Moderate	2 years
Infrastructure design			●	Minor	3 years
Strategic transportation			●	Moderate	2 years
Marine and airports				Minor	3 years
Economic development		●	●	Significant	Annual
Projects, renewables and regeneration		●	●	Moderate	2 years
CHORD	●	●	●	Moderate	2 years
Planning			●	Minor	3 years
Development management/policy			●	Minor	3 years
Building Standards		●	●	Minor	3 years
Regulatory Services			●	Minor	3 years

3. INTERNAL AUDIT PLAN 2017-18

Table 3.1 below sets out the internal audit work planned for 1 April 2017 to 31 March 2018.

Table 3.1 – Internal Audit Annual Plan 2017/18

INTERNAL AUDIT ANNUAL PLAN 2017/18			Planned days	High Level Scope
Department / Service Area	Sub Service	Topic		
CROSS CUTTING				
Council	Organisational Culture		30	Providing Assurance over organisational Culture and Behaviours
	Fees and Charges		30	Review / application of Fees and Charges
	Risk Management		20	Review of Risk Management arrangements including Assurance Mapping
	Performance Management		20	Arrangements for Performance reporting
Chief Executives /Departmental	Strategic Finance	VAT	10	Arrangements for compliance with HMRC VAT rules
		Earmarked Reserves	10	Review of Earmarked Reserves – Policy, Controls and monitoring
Total Cross Cutting			120	

CUSTOMER SERVICES				
Customer and Support Services	Procurement	Catering Services	20	Arrangements for procurement of supplies and services
Customer and Support Services	ICT	Service Levels Agreements	20	Review of External and Internal Service Level agreements
Customer and Support Services	ICT	Systems Development	20	User Testing Risk Identification protocols
Governance and Law	Governance	Records Management Plan	20	Compliance with legislative requirements and key control review
Improvement and HR	Human Resources	Recruitment and Selection	20	Compliance with legislative /policy requirements and control review
Total Customer Services			100	
HEALTH AND SOCIAL CARE PARTNERSHIP – Former Council Service Areas				
Adult Services	Income Maximisation	Charging Orders	20	Compliance with legislation and policies
Adult Services	Older People Services	Compliance with National Minimum wage requirements	20	Monitoring , compliance & reporting arrangements
Adult Services	Mental Health	Client Accounts, Cash and Banking	20	Control Environment
Total Health and Social Care Partnership			60	

COMMUNITY SERVICES				
Community and Culture	Housing	Strategic Housing Fund	20	Lending /Award Control environment
Community and Culture	Leisure	Leisure Management booking system	20	System control and functionality, Interface protocols
Education	Management Information Systems	SEEMIS	20	Access, Functionality and Support
	Psychological Services	Statute and Council Policy	20	Policies and Procedures
	School Support	Communication and Information	20	Review of Education Management Circulars
Total Community Services			100	
DEVELOPMENT AND INFRASTRUCTURE SERVICES				
Fleet, Waste and Infrastructure	Piers and Harbours	Management Arrangements	20	Compliance with relevant legislation /safety code. Review governance arrangements
Fleet, Waste and Infrastructure	Waste Management	Sustainability of Waste Delivery Model	20	Review Reporting protocols including financial management and modelling arrangements
Planning and Regulatory Services	Trading Standards	Statute and Council Policy	20	Administration and controls surrounding the application of statute and

				Council policy
Roads Management and Maintenance	Street Lighting	Street Lighting	20	Policies and Procedures and systems of work
Marine and Airports	Airports	Operating Manual	10	Compliance with Aerodrome Operating Manual
Amenity Services	Crematoriums	Compliance with National Guidance	20	Compliance and Internal Control Environment
Economic Development	Economic Growth	Rural Resettlement Fund	10	Financial Management controls
Total Development and Infrastructure			120	
Continuous Monitoring Programme	Arrangements of prevention /detection of Fraud. Anti-Fraud Strategy. Serious Organised Crime.		20	Policy review Participation in NFI
	Budgeting	Cipfa Matrix Testing	20	Internal Control Environment
	General Ledger	Cipfa Matrix Testing	20	Internal Control Environment
	Creditors	Cipfa Matrix Testing	20	Internal Control Environment
	Debtors	Cipfa Matrix Testing	20	Internal Control Environment
	Payroll	Cipfa Matrix Testing	30	Internal Control Environment
	Treasury Management	Cipfa Matrix Testing	20	Internal Control Environment
	Council Tax and NDR	Cipfa Matrix Testing	20	Internal Control Environment
	Establishment Visits	School Funds Imprest	30	Internal Control Environment

		Accounts		
	Follow –up	Sample Testing	30	Compliance
Total Continuous Monitoring			230	
Verification Activity /Short Audits	Leader & Flag	File and Claim review	10	Evidence Compliance with award Criteria
	LGBF	Accuracy of Submission	10	Accuracy of submission
	Gifts and Hospitality	Recording and Reporting Arrangements	15	Compliance with Policy & Internal Control Environment
	Travel and Subsistence	System and Manual Claims	15	Authorisation and Controls
	Stores and Stock Control	Stores and Stock Control	15	Access, security and record keeping
	Project verification	Grant claims	15	Verification & sign off
Total Verification			80	
Internal Audit Management			100	Planning & reporting Risk Management Service Support and Advice Project Support and Advice
Support to Leisure Trust			20	Governance, Control and Support
Contingency			40	Investigations & Ad hoc requests
Total Available Audit Days			970	

4. MONITORING PERFORMANCE

Under the Public Sector Internal Audit Standards (PSIAS), the Internal Audit team continues to develop a Quality Assurance and Improvement Programme. Furthermore Internal Audit will participate in a peer to peer review exercise in order to ascertain independent assurance in respect of PSIAS compliance. This review will be undertaken by internal auditors from Mid-Lothian Council and is planned for autumn 17/18. As part of the peer to peer programme Argyll and Bute Internal Audit service will undertake a review of Clackmannanshire Council Internal Audit service.

Performance measures are aligned to the Scottish Local Authorities Chief Internal Audit Group (SLACIAG) Balanced Scorecard measures and are detailed in table 4.1 below.

Table 4.1 – Performance Indicators

Objective	Proposed measure	Proposed target
Risks are planned, managed and reported effectively.	Annual report on risk management	Annual report on risk management to be complete by September
	Bi-annual reports on strategic and operational risk registers	Bi-annual reports on strategic and operational risk registers prepared August and February
	Risk management policy and manual reviewed annually	Risk management policy, strategy and guidance manual reviewed by 31 March each year
	Risks are incorporated in approved service plans	Risks are incorporated in approved service plans by 1 April each year
Audit activity is targeted towards key audit risks.	Audit Plan to be approved by audit committee annually	Final audit plan approved by 31 March annually
	Draft audit risk assessment completed annually	Draft Audit risk assessment complete by December each year
The audit plan is completed effectively.	Continuous Monitoring Programme report to Audit Committee	Reported quarterly to audit committee.
	Participation in National Fraud Initiative - data completion	Effective participation in National Fraud Initiative - data completion as per agreed timetable

Objective	Proposed measure	Proposed target
	Percentage of audit recommendations accepted by management	100%
	% of audits in the audit plan completed	100%
Continue to adopt an effective follow up process	Percentage of audit recommendations followed up within reporting period	100% follow up on outstanding points on a quarterly basis
Maintain strong relationships with Departments, and continue to improve the impact of our work	Percentage high satisfaction rates from post-audit surveys (score 4 or 5 in a 5 point ranking system)	80%
Maintain the highest quality and content in our internal audit reports which effectively communicate key messages and report on the right things	Percentage customer satisfaction with audit reports	80%
To have high quality staff complement	Percentage qualified staff	60% staff to have minimum professional qualifications with recognised bodies
	Training hours per year per auditor	Review training needs based on personal development plan and/or continuing professional development (CPD) requirements

APPENDIX 1: THE COUNCIL'S STRATEGIC PRIORITIES AND RISKS

As part of our development of the risk assessment, we reviewed the Council's vision and key strategic priorities, and the risks that have been identified in achieving these aims. The following key documents are reflected below:

- Argyll & Bute Community Planning Partnership's Single Outcome Agreement
- The Council's Corporate Plan 2013-17
- The Council's Improvement Plan
- The Draft Strategic Risk Register

Single Outcome Agreement

"Argyll & Bute's economic success is built on a growing population"

Long term outcomes	
LO1	▪ The economy is diverse and thriving.
LO2	▪ We have infrastructure that supports sustainable growth.
LO3	▪ Education, skills and training maximises opportunities for all.
LO4	▪ Children and young people have the best possible start.
LO5	▪ People live active, healthier and independent lives.
LO6	▪ People live in safer and stronger communities.

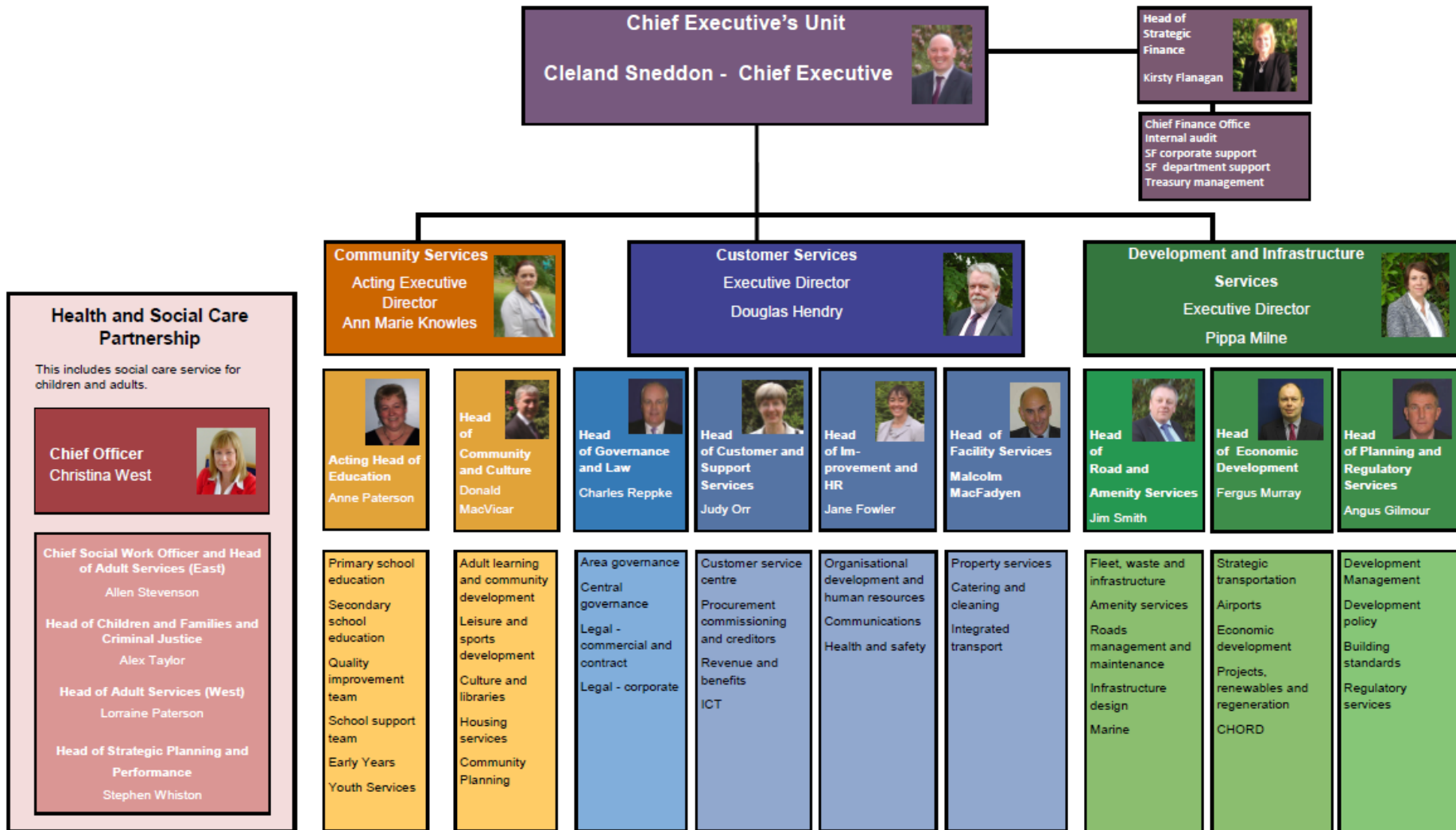
Corporate Priorities

Corporate Plan Priorities	
1	▪ Making Argyll and Bute a place people choose to live
2	▪ Making Argyll and Bute a place people choose to learn
3	▪ Making Argyll and Bute a place people choose to work and do business

Strategic Risk Considered

Strategic Risks	
Treat	▪ Financial Sustainability
Treat	▪ Population and Economic Decline
Treat	▪ Leadership and Governance
Treat	▪ Health and Social Care Integration
Treat	▪ Asset and Infrastructure Base
Tolerate	▪ Service Delivery & Community Engagement

APPENDIX 2: THE COUNCIL'S ORGANISATIONAL STRUCTURE



Argyll and Bute Council Organisational Chart

www.argyll-bute.gov.uk

Produced by Argyll and Bute Council Communications Team
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ARGYLL AND BUTE COUNCIL**AUDIT & SCRUTINY COMMITTEE****STRATEGIC FINANCE****27 JUNE 2017**

INTERNAL AUDIT CHARTER

1.0 EXECUTIVE SUMMARY

1.1 This report outlines the proposed changes to the Internal Audit Charter. The Internal Audit Charter has been updated following the recent revision of the Public Sector Internal Audit Standards.

2.0 RECOMMENDATIONS

2.1 The Audit and Scrutiny Committee to approve the updated Internal Audit Charter.

3.0 DETAIL

3.1 Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to prepare an Internal Audit Charter.

3.2 The Chief Internal Auditor will review the Internal Audit Charter and present it to senior officers within the Council and the Audit and Scrutiny Committee for approval on a biennial basis.

3.3 The Internal Audit Charter is expected to:

- define the scope of internal audit activities
- establish the responsibilities and objectives of internal audit
- establish the organisational independence of internal audit
- establish the accountability, reporting lines and relationships between the Chief Internal Auditor (CIA) and:
 - the 'board' (the audit and Scrutiny committee)
 - those to whom the CIA may report functionally
- recognise that internal audit's remit extends to the entire control environment of the organisation
- establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities
- the general arrangements for appointing staff and the skills required
- the role of internal audit (the scope and also limitations) in any fraud-related work
- the arrangements for avoiding conflicts of interest when carrying out

- non-audit activities, and
- a definition of the term 'board' (for the purposes of internal audit activity).

4.0 CONCLUSION

4.1 The Internal Audit Team has updated the Internal Audit Charter following the revised Public Sector Internal Audit Standards that came into play 01 April 2017.

5.0 IMPLICATIONS

5.1 Policy – None

5.2 Financial - None

5.3 Legal - None

5.4 HR - None

5.5 Equalities - None

5.6 Risk - None

5.7 Customer Service - None

Kevin Anderson - Chief Internal Auditor
27 June 2017

For further information please contact: Internal Audit (01369 708505)



Internal Audit Charter

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1 INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The Chief Internal Auditor will review the Internal Audit Charter and present it to senior officers within the Council and the Audit and Scrutiny Committee for approval on a biennial basis.

The authority for Internal Audit to operate in Argyll and Bute Council ("the Council") is contained in the Council's Standing Orders, in section 4.6 to 4.9 of the Financial and Security Regulations and the Local Code of Corporate Governance. This Internal Audit Charter expands upon that framework, defines the detailed arrangements and sets out Internal Audit's strategy for discharging their role and providing the necessary annual assurance opinion.

Argyll and Bute Council's Internal Audit will comply with the PSIAS and will apply these standards to all Internal Audit service providers, whether in house, shared services or outsourced.

2 DEFINITION

Internal auditing is an independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Argyll and Bute Council.

It assists Argyll and Bute Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the council's risk management, control, and governance processes.

3 ROLE

The Public Sector Internal Audit 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 at Argyll and Bute Council:

- the 'board' refers to the Council's Audit and Scrutiny 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 Senior Management Team; and
- 'Chief Audit Executive' refers to the Chief Internal Auditor.

4 PROFESSIONALISM

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). These include the 4 principles set out in the PSIAS of integrity, objectivity, confidentiality and competency.

Disciplinary procedures of professional bodies and of the Council may apply to breaches of the above mandatory guidance. Additionally, internal auditors are bound by the rules of confidentiality set out in their local conditions of service. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles and will adhere to relevant policies and procedures.

5 AUTHORITY

The Council has given Internal Audit, for the purpose of its audit work, full, free and unrestricted access at any reasonable time to all the Council's records and other documentation (electronic and manual), personnel, Elected Members, premises, assets, and operations of the Council and partner organisations. It also has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. All employees, including senior management, are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Internal Audit has permission to be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council. Internal Audit can require any employee of the Council to produce cash, stores, or any other Council property under the employee's control.

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit, investigation, or consultancy work. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

6 ORGANISATION

Internal Audit reports to the Head of Strategic Finance (s95 officer) who is a member of the Strategic Management Team. The Head of Strategic Finance (s95 officer) reports to the Chief Executive.

There is also an unbroken line from the Chief Internal Auditor to the Chief Executive and the Council (through the Audit and Scrutiny Committee) which can be used if, in

the opinion of the Chief Internal Auditor, there are matters of concern that could place the Council in a position where the risks it faces are unacceptable or the independence of Internal Audit is under threat. The Chief Internal Auditor meets the Chief Executive, and the Head of Strategic Finance (s95 officer) at least four times a year to discuss the internal control environment, levels of residual risk and governance matters.

The Chief Internal Auditor has unrestricted access to the Chair of the Audit and Scrutiny Committee, and the Committee Members, and discusses the agenda with the Chair before each Audit and Scrutiny Committee. Additionally, Internal Audit has unrestricted access to all Chief Officers and employees of the Council.

Internal Audit reports regularly to the Audit & Scrutiny Committee, whose membership consists of 6 Elected Members and an independent Chair.

The Audit and Scrutiny Committee will:

- approve the Internal Audit Charter;
- approve the Risk Based Internal Audit Plan;
- approve the Internal Audit budget and resource plan;
- receive communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters; and
- make appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.

The Audit and Scrutiny Committee reviews all Internal Audit reports including the Annual Assurance Statement.

7 INDEPENDENCE AND OBJECTIVITY

The Internal Audit activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. The Chief Internal Auditor will disclose such interference to the Audit and Scrutiny Committee and discuss the implications.

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 internal auditor's independence or objectivity.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

At all times, management's responsibilities include:

- maintaining proper internal controls in all processes for which they have responsibility;
- the prevention, detection and resolution of fraud and irregularities;
- providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- agreeing Terms of Reference no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- sponsoring each audit at Head of Service level;
- considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so;
- implementing agreed management actions in accordance with the agreed timescales; and
- updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

Given the safeguards in place outlined above and the access Internal Audit has to senior management, Internal Audit is free to act independently and objectively. The Chief Internal Auditor will confirm to the Audit and Scrutiny Committee, at least annually, the organisational independence of the internal audit activity.

8 RESPONSIBILITY AND PURPOSE

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.

Internal Audit's purpose is to support the Council in achieving its objectives by:

- supporting the Council in continuing to improve its governance arrangements;
- contributing to the Council's management of risk;
- supporting the Council in raising the standard of internal control;
- supporting the Head of Strategic Finance (s95 officer) and the Audit and Scrutiny Committee in the discharge of their duties;
- contributing to the development and implementation of the Council's policies and procedures;
- supporting the Council with internal control, risk and governance advice in the development of new systems and improvement of existing systems;
- supporting the Council with internal control, risk and governance advice on projects;
- acting as an aid to ensure that the Council and its Members, managers and officers are operating within the law and relevant regulations;
- contributing towards the accuracy and reliability of financial statements and other published information;

- supporting of the Council in its management of human, financial and other resources in an efficient and effective manner;
- supporting the Council in meeting its social, environmental and community priorities;
- promoting and raising the standards of an anti-fraud and corruption culture; and
- contributing towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

Internal Audit adds value to the Council by providing objective and relevant assurance, and contributing to the effectiveness and efficiency of governance, risk management and control processes.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit and Scrutiny Committee and to the Strategic Management Team, including fraud risks, governance issues, and any other matters arising. Management retains responsibility for Risk Management. Internal Audit is therefore not responsible for developing, monitoring or updating the Council's Risk Registers.

9 SCOPE

The scope of the work carried out by Internal Audit is designed to evaluate and recommend improvements to the Council's governance, risk management, and control processes using a systematic and disciplined approach.

Internal Audit shall review, appraise, make appropriate recommendations for improvement, and report upon:

- the Council's governance arrangements and processes;
- the information technology governance of the Council in support of the Council's strategies and objectives;
- the systems and processes in place to ensure effective organisational performance management and accountability;
- the coordination of activities and communication among the Audit and Scrutiny Committee, external and internal auditors and management;
- the identification and assessment of risk by management;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the risk appetite of the part of the Council under review and the residual risk;
- the communication of risk and control information in a timely manner across the Council, enabling staff, management and the Audit and Scrutiny Committee to carry out their responsibilities;
- the potential for the occurrence of fraud and how the organisation manages fraud risk;
- the completeness, reliability, integrity and timeliness of information, both financial and operational;

- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established by the Council or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;
- the economic acquisition of resources;
- the effectiveness of arrangements for safeguarding the Council's assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:

- all Council activities, systems, processes, controls, policies, and protocols;
- all Council departments, cost centres, other business units and establishments; and
- all services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

Where other assurance providers have undertaken relevant assurance work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards and the nature and quality of the work they have undertaken would make it appropriate to do so.

10 DUE PROFESSIONAL CARE

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. This means internal auditors will be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified. Due professional care does not imply infallibility.

Internal auditors will exercise due professional care by considering:

- 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; and
- cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors consider the use of technology-based audit and other data analysis techniques and significant risks that might affect objectives.

Specifically for consulting engagements, internal auditors should consider 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; and
- cost of the consulting engagement in relation to the potential benefits.

11 INTERNAL AUDIT PLAN AND RESPONSIBILITIES

At least annually, the Chief Internal Auditor will submit to the Audit and Scrutiny Committee an internal audit plan for review and approval, including risk assessment criteria.

The Chief Internal Auditor will establish the risk-based plan to determine the priorities of the Internal Audit activity, consistent with the Council's goals. 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:

- Argyll and Bute Council's risk registers and risk management framework, including risk appetite levels set by management for the different activities and parts of the Council;
- the balance of coverage required so External Audit can place reliance on Internal Audit's work;
- the experience gained from previous Internal Audit Reports;
- establishing whether previous audit recommendations have been implemented satisfactorily;
- 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 and issues raised by external assurance bodies);
- input from senior management and Members of the Audit and Scrutiny Committee;
- the periodic review of core financial and operational systems;
- the available audit resource and skills;
- the need for specialist skills, where they are not available already;
- staff development and training;
- time needed for the management of the Internal Audit service e.g. audit planning, development of the annual opinion, attendance at meetings, the appraisal and follow-up process, the updating of relevant audit policies and procedures, compliance with PSIAS;
- contingency set aside for consultancy, reviews or investigations; and
- liaison with other assurance providers, to share information and audit plans, such as the External Auditor and other scrutiny bodies.

12 REPORTING, DOCUMENTING AND MONITORING

The risk-based plan and resource requirements, including significant interim changes, are reported to the Head of Strategic Finance (s95 officer) and the Audit and Scrutiny Committee. The Audit and Scrutiny Committee will approve, but does not direct the risk-based audit plan.

Internal auditors will develop and document a Terms of Reference for each engagement, including the engagement's objectives, scope, timing, resource allocations, management expectations and reporting format required. The Terms of Reference will consider relevant Council strategy, objectives and risks and will be discussed and agreed with relevant managers and approved by Head of Service and Chief Internal Auditor or a Lead Auditor.

Audits are carried out using a risk based approach, and will consider the objectives of the activity being reviewed, the significant risks to the activity, the adequacy of the governance, risk management and internal control processes and the opportunities to make significant improvements to the activity's processes.

Internal auditors will conduct a preliminary assessment of the risks relevant to the activity under review and document these in the Terms of Reference and engagement objectives will reflect the results of this risk assessment. Adequate criteria are needed to evaluate an activity's governance, risk management and controls. Criteria should include value for money (e.g. the effective use of money, people or assets) and the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

The scope will be sufficient to satisfy the objectives of the engagement. The scope of the engagement will include consideration of relevant systems of internal control, records, personnel and physical properties, including those under the control of third parties. The Chief Internal auditor will determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

Internal auditors will develop and document work programmes that achieve the engagement objectives. Work programmes will include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme will be approved by the Chief Internal Auditor or a Lead Auditor prior to its implementation and any adjustments approved promptly.

Internal auditors will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives. Also, internal auditors will document sufficient, reliable, relevant and useful information to support the engagement results and conclusions, and base their conclusion on appropriate analyses and evaluation. Records for audit and consultancy engagements are compliant with the Council's retention policies. The Chief Internal Auditor will control access to engagement

records. The Chief Internal Auditor will obtain the approval of senior management and Governance and Law prior to releasing such records to external parties.

All audit reports will be communicated to the Audit and Scrutiny Committee. Draft reports will be agreed with relevant management for factual accuracy prior to submission to the Audit and Scrutiny Committee. Engagement results will specify the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. The Internal Audit service will strive to ensure that communications are accurate, objective, clear, concise, constructive, complete and timely. Additionally, internal auditors are encouraged to acknowledge satisfactory performance in engagement communications. If a final communication contains a significant error or omission, the Chief Internal Auditor will communicate corrected information to all parties who received the original communication.

The following table describes the different assurance opinions that are provided by Internal Audit:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

Most Internal Audit reports result in actions to be carried out as detailed in the Action Plan(s). The Head of Service with responsibility for the service/operation which has been audited will be responsible for the Action Plan. If the audit assignment examined is a corporate matter (impacting on more than one service, or all services), then a Head of Service will be designated by the Strategic Management Team to implement the Action Plan, across services.

At the conclusion of an audit assignment, the Chief Internal Auditor or Lead Auditor and Head of Service will agree actions and timescales for these, along with priority ratings (High, Medium or Low). These actions will then be added to the Council's Audit Follow-up Database and will be subject to quarterly performance reporting and Committee scrutiny. In the unlikely event that appropriate actions to mitigate an identified risk cannot be agreed with management, this is recorded in the Action Plan section of the audit report and the residual risk will be explained and highlighted. If this risk is deemed to be high, then the risk will be reported to the Head of Strategic Finance (s95 officer), Strategic Management Team and the Audit and Scrutiny Committee. The Council's risk registers can be updated where appropriate.

The Chief Internal Auditor is responsible for reviewing and approving the final engagement communication before issue and deciding to whom and how it will be disseminated. When the Chief Internal Auditor delegates these duties, he or she retains overall responsibility.

The following table describes the three priority levels given to audit recommendations:

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

The Chief Internal Auditor accepts that the responsibility of Internal Audit does not end when the Audit Report is issued, and that there will be a follow-up process to monitor and ensure that actions have been implemented. This will be achieved by issuing follow up reports via Strategic Management Team meetings, to confirm that the recommendations have been adequately addressed.

13 AUDIT RESOURCES AND WORK PRIORITISATION

Work is directed according to the assessed level of risk, the judgement of the Chief Internal Auditor, with guidance from the Audit and Scrutiny Committee. The annual risk based audit plan agreed by the Audit and Scrutiny Committee will be the main

determinant of the relative priority to be placed on each Internal Audit assignment. The risk-based plan will explain how Internal Audit's resource requirements have been assessed.

The plan will have within it the provision of resources to address unplanned work. This contingency will be directed towards unplanned work including consultancy engagements and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies and sickness.

The Chief Internal Auditor will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan with due professional care. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Chief Internal Auditor will hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. Each job post within the Internal Audit structure details the skills and competencies within the approved job description and person specification. Any development and training plans will be regularly reviewed, monitored and agreed with the Chief Internal Auditor. Auditors are also required to maintain a record of their continual professional development in line with their professional body.

14 PERIODIC ASSESSMENT

The Chief Internal Auditor shall be accountable to the Audit and Scrutiny Committee and the Head of Strategic Finance (s95 officer) for:

- providing an opinion on the overall adequacy and effectiveness of Argyll and Bute Council's framework for, risk management, control and governance.
- periodically providing information on the results of the annual audit plan and Internal Audit's resources;
- reporting to the Audit and Scrutiny Committee on the Internal Audit Activity's performance relative to its plan;
- reporting on significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit and Scrutiny Committee;
- periodically reporting on the status of audit actions; and
- co-ordinating with other significant assurance functions.

The opinion will incorporate a summary of work that supports the opinion, a statement of conformance with the PSIAS and the results of the quality assurance and improvement programme.

Additionally, the opinion will include details on the reliance on other assurance providers, risk management framework used when forming the opinion and the overall opinion reached.

The Chief Internal Auditor is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Chief Internal Auditor will communicate to Strategic Management Team and Audit and Scrutiny Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal assessments consist of all Internal Audit engagements being subjected to a thorough internal peer review of quality, to ensure that its work meets the standards expected from its staff.

These reviews include checks on:

- all work undertaken is in accordance with PSIAS;
- supervision is provided to all levels of staff ;
- work is allocated to staff with appropriate skills, competence and experience;
- work is monitored for progress, assessed for quality and to allow for coaching and training;
- the work is planned and undertaken in accordance with risks associated with areas under review; and
- the conclusions are fully supported by the detailed work undertaken and with sufficient and appropriate evidence held on file.

An external assessment will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Chief Internal Auditor will discuss options for the assessment with the Head of Strategic Finance (s95 officer), the Chair of the Audit and Scrutiny Committee and the board (SMT).

15 CONFLICTS OF INTEREST

Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. A conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the Internal Audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal auditors will:

- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the Council's own policies);
- not use information obtained during the course of duties for personal gain;

- disclose all material facts known to them which, if not disclosed, could distort their reports; and
- comply with the Bribery Act 2010.

Internal auditors will refrain from assessing specific operations for which they were previously responsible. Objectivity, for the purpose of audit work, is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

If any member of Internal Audit, considers that there is or is perceived to be a conflict of interest, this will be declared to the Chief Internal Auditor who will then consider the validity of the claim. If the Chief Internal Auditor's own independence is impaired, he or she will declare this in writing to the Chief Executive.

16 FRAUD

The responsibility for the prevention and detection of fraud and corruption rests with management.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

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 immediately notify the Council's Monitoring Officer and the Chief Internal Auditor for consideration of appropriate action. Managers will only establish the basic facts of the suspicion and should not attempt to carry out any detailed investigation until agreed by the Council's Monitoring Officer, the responsibility can then be discharged to the Service with support from Internal Audit if required. Further guidance can be found in the Council's Anti-fraud strategy and Public interest disclosure policy.

Further information on Internal Audit's role and responsibilities in relation to fraud, are detailed within the Council's Constitution– Anti-Fraud Strategy.

17 APPROVAL

This Charter was reported to and approved by the Audit and Scrutiny Committee at its meeting on 27 June 2017 and shall be subject to regular review by the Head of Strategic Finance (s95 officer), the Chief Internal Auditor and the Audit and Scrutiny Committee.

Version 3.0 June 2017

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AUDIT COMMITTEE ANNUAL REPORT 2016/17**Introduction by the Chair of Audit Committee**

This report provides an overview of the Audit Committee's activity during the financial year 2016/17.

I am pleased to report that the Audit Committee continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note".

The Audit Committee met quarterly throughout the financial year i.e. March, June, September, and December; the meetings were attended by representatives of the Head of Governance and Law, the Head of Strategic Finance, the Chief Internal Auditor, Audit Scotland along with other Council Officers as and when requested to attend.

In 2016/17, the following Councillors served on the Audit Committee at various points during the year; Michael Breslin, Iain S MacLean, Roderick McCuish, Elaine Robertson, Richard Trail. In respect of the Chair and Vice Chair posts, I, Martin Caldwell continued in the role of Chair with Sheila Hill as Vice Chair.

In looking forward to 2017/18 and beyond, given the significant financial pressures challenges facing the Council and the on-going implementation of major initiatives such as of Health and Social Care integration and the Council's Leisure Trust, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting the challenges ahead, building on a strong audit platform and developing the Scrutiny element of the new committee whilst continuing to add value to the Council's governance framework.

Martin Caldwell
Chairperson

Sheila Hill
Vice Chairperson

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1. Terms of Reference

- 1.1 The Committee's Terms of Reference are to promote good internal control, financial and risk management, governance and performance management. This provides substantial assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.

2. Audit Committee's Effectiveness and Impact

- 2.1 The Audit Committee's role is to ensure that the Council's internal control framework and governance arrangements are operating effectively and in order to fulfil this role a range of reports are provided to the Committee during the year. The Audit Committee is not a complaints committee. I am satisfied that the frequency, content and detail of reports provided to the Committee allow myself and fellow members to adequately undertake the requirements of our terms of reference.
- 2.2 The Audit Committee has the right to request updates after reviewing submitted reports. This approach afforded the Audit Committee the opportunity to ask key questions directly and receive assurances. In addition, the Audit Committee can routinely challenge management when agreed audit recommendations implementation dates were missed. Informal protocols are also in place whereby Management are requested to attend committee where assurance level provided is limited or below. This has proved very useful in developing positive relationships with management whilst ensuring independence is maintained. Management's co-operation and engagement is very much appreciated.
- 2.3 Audit Scotland in March 2016 presented their Annual Audit Plan setting out their approach to the audit of the Council, reflecting their statutory duties and risk based approach. The Audit Plan was considered by the Audit Committee and accepted. Internal audit also presented their annual audit plan for 2016/17 which was approved.
- 2.4 It is disappointing to note that there were a number of vacancies on the Committee during the year, although these were latterly filled. It is essential that all vacancies are filled at the earliest opportunity and that members of the committee engage in the process in order to ensure the Audit Committee builds on its effectiveness and maintains a positive impact and appropriate profile within the Council.
- 2.5 In its ongoing development the Audit Committee introduced a number of changes resulting in additional assurance and improved effectiveness and these continue to mature. These are:
- Improved Agenda Management
 - Maintaining effective communication protocols between Internal and External Audit
 - Improving links between Audit and Performance Review & Scrutiny Committees
 - Securing an Annual Audit and Risk report from the Chief Executive
 - Raising the profile of Audit within the Organisation

3. Assurances

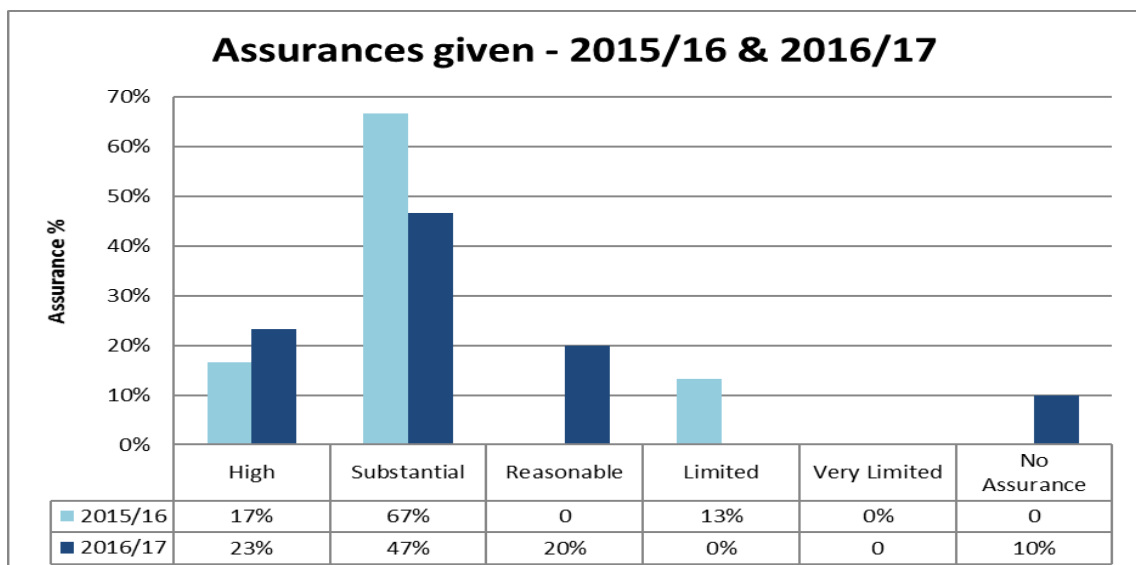
3.1 Internal Audit Assurance

3.1.1 Internal Audit is a key source of assurance for both members and management on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance. The Committee is pleased to note the Internal Audit team has completed the agreed audit plan within the agreed timescale. Reports are deemed to be accurate, objective, concise, constructive, complete and timely. In my opinion clear assurance judgements are provided, underpinned by an appropriate evidence base and where appropriate include sound management advice and guidance. We will continue to monitor Internal Audit performance, progress and resources to ensure they are able to meet these requirements.

3.1.2 The Committee has received regular reports and information from the Chief Internal Auditor including:

- Internal Audit’s risk based planning methodology and annual audit plan;
- Regular progress reports;
- An Annual report from the Chief Internal Auditor in line with best practice in the CIPFA code for Internal Audit in Local Government which provided an opinion on the control environment and the effectiveness Internal Audit activity.

3.1.3 The chart below shows an analysis of assurance opinions received over financial years 15/16 and 16/17.



It should be noted that both the Reasonable and No assurance opinion grading were introduced for financial year 16/17. Very limited opinion grading was removed effective 16/17.

3.1.4 The Audit Committee has a clear role in relation to oversight of the Authority’s internal audit function. The role of the committee is specifically in relation to overseeing its independence, objectivity, performance and professionalism. I am pleased to advise as Chair of the Committee that I am satisfied the Internal Audit function is effective and activity is undertaken in accordance with relevant standards. This view is supported by commentary in Audit Scotland’s 15/16 annual audit report whereby they state the Council has “an effective internal audit function”.

3.2 External Audit Assurance

3.2.1 External Audit is an essential part of the process of accountability and assurance for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management. Working closely with Internal Audit, the External Audit programme ensures that statutory responsibilities are delivered, without the duplication of audit work. Both programmes are submitted to the Audit Committee for scrutiny.

3.2.2 Assurance was received from external auditors, Audit Scotland, for 2015/16 financial statements as follows:

- They presented a true and fair view in accordance with applicable law;
- The accounts prepared properly in accordance with IFRS; and
- The accounts prepared properly in accordance with Local Government Act (Scotland) 1973.

3.2.3 External Audit is required to report by exception on a number of areas in relation to their audit, namely accounting records, statement of governance and control, availability of information and explanation and failure to achieve a prescribed financial objective. External Audit reported no exceptions in respect of these matters for 2015/16.

3.2.4 The external auditor's 2015/16 Annual Audit Report on the council (September 2016) highlights that operational governance arrangements are generally sound, with key financial controls operating effectively.

3.2.5 Argyll and Bute Council was previously incurring an External Audit fee at a higher level as a result of increased correspondence from members of the public. In previous reports I noted it was the desire of the Audit Committee in carrying out its activities to secure additional assurance in respect of governance, risk and control processes which would potentially contribute to a reduction in external audit fees. I am again pleased to note that the External Audit Fee has further reduced.

3.3 Systems of Risk Management

3.3.1 It is the role of the Audit Committee to gain assurance on the adequacy of the system of internal controls and on the adequacy of the system of risk management. The role of the Audit Committee is to test the adequacy of the arrangements in place to manage risk. The Audit Committee in 2016/17 received risk management reports and these showed continued progress by the Council in the development and regular review of risk management systems. The Audit Committee has agreed to maintain its focus on seeking assurance on the development of adequate systems of risk management. The Audit Committee continue to receive an Assurance Mapping report prepared by Grant Thornton, Internal Audit Strategic partners. The Chief Executive also submitted a report to the committee on Audit and Risk arrangements.

3.4 Governance & Internal Control

3.4.1 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2015/16, together with an Action plan was presented and reviewed at the June 2016 Audit Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and noted for inclusion in the Annual Accounts, subject to External Audit feedback.

3.4.2 The draft Statement of Governance & Internal Control is informed by the:

- Work of officers within the Council;
- Work of External and Internal Audit;
- Statements of governance or internal control provided by external bodies;
- External review and inspection reports and
- Recommendations from the Audit Committee.

The content of the Governance Statement and the process for preparing the Governance Statement has been reviewed for 2016-17 financial year-end.

4. Independence

4.1 To assist in preserving the Committee's independence measures are in place including:

- The appointment of an independent chair and vice chair,
- Observation of the Audit Charter which specifies the independence of the Chief Internal Auditor and of auditors in identifying and scoping audit briefs
- The non-political approach of the committee
- The active involvement of the External Auditors
- Clear terms of reference aligned to CIPFA's Role of the Audit Committee Guidance

5. Training and Development

5.1 Audit Committee Effectiveness sessions have taken place throughout the term of the previous Council and were aimed at addressing themes arising from analysis of a CIPFA self-assessment exercise. As well as induction courses for the new Committee I anticipate that these will continue throughout 17/18, albeit perhaps in a different format and frequency. Specific training requirements in respect of the Scrutiny role will be addressed as soon as possible.

6. Looking Forward

6.1 At its May 2017 meeting the Council agreed political management arrangements which include the creation of an Audit and Scrutiny Committee. Although there are areas where Audit and Scrutiny naturally combine, there is a requirement to ensure that Audit matters in respect of governance, risk and control remain clearly defined and matters for scrutiny are treated as such. I look forward to the development of this new committee over the interim period. I am also pleased to note that officer support arrangements include the Chief Internal Auditor, who although having no direct operational responsibility, will also have an overview of Scrutiny arrangements.

- 6.2 The Audit Committee is committed to self-evaluation and continuous improvement and I would like to thank members for their attendance and contributions during the year. Subject to the membership, our focus will continue to be on the role of the Audit Committee, developing skillset and expertise to allow effective challenge based on strong principles of risk, control and assurance in respect of the operations, finances and governance of the council. It is envisaged that the committee will continue with its' substantive effectiveness programme which will assist in providing a sound grounding on the focus and operating principles respectively of audit and scrutiny.
- 6.3 The Audit element of the Committee, although subject to continuous improvement, is reasonably well developed. In respect of the new scrutiny remit of the committee I hope to adopt a similar pro-active approach by developing and building on the work of the former Performance Review and Scrutiny committee to ensure scrutiny is seen and operates as an in-depth reviewing function which looks outwards to inform its analysis and adopts a discursive positive form of inquiry.

7. Conclusion

- 7.1 Based on the reports received and reviewed by the Committee and the follow up work requested, it is the opinion of the Audit Committee that an overall substantial assurance opinion can be placed upon the adequacy and effectiveness of the Council's internal control system in 2016/17. I am satisfied that active monitoring and follow up of recommendations is in place in respect of agreed management action. This follow up process will be further enhanced by the inclusion of supplementary further testing within the continuous monitoring programme.
- 7.2 Throughout 2016/17 the Audit Committee evolved and indeed continues to evolve with an agreed framework of reporting and agenda management which allows it to undertake appropriate assessment of the Council's progress in addressing identified issues covering risk, governance and internal control. With a solid base established in this regard, the Committee continues to adopt a pro-active posture on the Council's operations.

Audit Committee performance has been aided through the expertise and contribution from its Members during 2016/17.

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ARGYLL AND BUTE COUNCIL**COUNCIL****STRATEGIC FINANCE****29 JUNE 2017**

2016-17 UNAUDITED ANNUAL ACCOUNTS

1. EXECUTIVE SUMMARY

- 1.1 This covering report gives an overview of the Unaudited Annual Accounts for 2016-17 and a summary of the significant movements from 2015-16. It also gives information on the revenue outturn for 2016-17 and asks Members to approve the unaudited financial statements in respect of 2016-17 for issue. There is a more comprehensive report on the revenue outturn elsewhere on this agenda.
- 1.2 The Comprehensive Income and Expenditure statement shows a deficit on the provision of services of £4.998m, a surplus on the revaluation of Long Term Assets of £1.290m and an actuarial loss on the pension fund assets/liability of £48.407m giving an accounting deficit of £52.115m.
- 1.3 The Balance Sheet shows that the net worth of the Council has decreased to £151.204m compared to a net worth at 31 March 2016 of £203.319m. The main reason for this decrease relates to the increase in the pension liability as a result of a decrease in the net discount rate over the period. A decrease in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future.
- 1.4 The balance of unusable reserves has decreased by £53.449m from £146.204m as at 31 March 2016 to £92.755m as at 31 March 2017. The main reasons for this decrease relates to the increase in the pension fund reserve which matches the pensions liability.
- 1.5 The balance of usable reserves has increased by £1.334m from £57.115m as at 31 March 2016 to £58.449m as at 31 March 2017. This is mainly as a result of the increase to the General Fund Balance of £1.072m in addition to small increases in the Capital Fund and the Repairs and Renewals Fund.
- 1.6 The balance on the General Fund has increased by £1.072m from £52.417m as at 31 March 2016 to £53.489m as at 31 March 2017. There are substantial sums earmarked within the General Fund amounting to £41.509m in addition to £4m that has been set aside for budget smoothing in 2019-20. The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2017-18 and this amounts to £4.671m. The unallocated General Fund balance **after** the 2% contingency amounts to £3.309m.
- 1.7 The performance against budget for financial year 2016-17 was an overall underspend of £2.883m (1.16%) after adjusting to reflect the new amounts

earmarked by departments at the year end. There was a net underspend of £1.083m in relation to departmental expenditure and a net underspend of £1.066m in relation to other central/non-departmental costs. The remainder of the underspend of £0.779m is in relation to funding and the over-recovery of Council Tax income. The year-end underspend was largely expected and planned for during the year.

- 1.8 Members are asked to approve the Unaudited Annual Accounts for the year ended 31 March 2017 for issue.

2016-17 UNAUDITED ANNUAL ACCOUNTS

2. INTRODUCTION

- 2.1 This covering report gives an overview of the Unaudited Annual Accounts for 2016-17 and a summary of the significant movements from 2015-16. It also gives information on the revenue outturn for 2016-17 and asks Members to approve the unaudited financial statements in respect of 2016-17 for issue. There is a more comprehensive report on the revenue outturn elsewhere on this agenda.

3. RECOMMENDATIONS

- 3.1 Members approve the Unaudited Annual Accounts for the year ended 31 March 2017 for issue.

4. DETAIL**4.1 Introduction**

- 4.1.1 The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2017. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The requirements governing the format and content of local authorities' annual accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2016-17 Accounts have been prepared in accordance with this Code.
- 4.1.2 There is a statutory requirement to prepare a set of Accounts and submit them to the Council and the Controller of Audit. The date set by the Scottish Government for the submission of the Unaudited Annual Accounts is 30 June each year.
- 4.1.3 It should be noted that the Accounts have still to be audited. The Audit Committee at its meeting in September will be advised by the external auditor of any material issues coming to light during the audit and any changes to the Accounts. The Audited Accounts, Audit Certificate and Auditors final report will be submitted to the November meeting of the Council. Figures are therefore subject to change.
- 4.1.4 Since 2010-11, Local Authorities have been required to prepare financial statements following International Financial Reporting Standards (IFRS). Under the Local Authority Accounts (Scotland) Regulations 2014 there is a requirement to include a Management Commentary in the Accounts. The contents of the Annual Accounts are noted below:

- Management Commentary
- Statement of Responsibilities for Annual Accounts
- Annual Governance Statement
- Remuneration Report
- Expenditure and Funding Analysis
- Statement of Comprehensive Income and Expenditure
- Balance Sheet
- Statement of Movement in Reserves
- Cash Flow Statement
- Notes to the Financial Statements
- Council Tax and Non-Domestic Rate Income Accounts
- Group Accounts

4.1.5 There are no significant changes in accounting policies in 2016-17.

4.1.6 The Council also produces a set of summary accounts for 2016-17 and these are included as a separate item on the agenda.

4.2 Management Commentary

4.2.1 The Management Commentary outlines the key messages regarding the objectives and strategy of the Council and its financial performance for the year. It also looks forward, outlining the future financial plans for the organisation and the challenges and risks which are faced in making Argyll and Bute a place where people want to live, learn, work and do business.

4.2.2 The management commentary has been updated to reflect 2016-17 performance and also includes detail on the plans for the future which includes the development of the medium to longer term financial strategy and the work being taken forward by the Transformation Board. The commentary includes the following:

- Objectives and Strategy of the Council
- Performance against our Priorities
- Finance Performance 2016-17
- Key Financial Indicators
- Plans for the Future.

4.3 Statement of Responsibilities for Annual Accounts

4.3.1 The Statement of Responsibilities for the Annual Accounts outlines the Council's responsibilities and also the responsibilities of the Head of Strategic Finance.

4.4 Annual Governance Statement

4.4.1 The Governance Statement states its view on the adequacy of its governance and internal control system. It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council during 2016-17 and that there are no significant weaknesses.

4.5 Remuneration Report

- 4.5.1 The Remuneration Report gives details of the remuneration policy, remuneration and pension benefits of senior councillors and senior officers in addition to detail on employee exit packages.

4.6 Expenditure and Funding Analysis

- 4.6.1 The expenditure and funding analysis is a new statement this year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in statement of comprehensive income and expenditure and details the differences between the two. The differences are as a result of accounting statutory adjustments that are required within the statement of comprehensive income and expenditure, for example, depreciation, pension adjustments etc.

4.7 Statement of Comprehensive Income and Expenditure

- 4.7.1 The statement of comprehensive income and expenditure shows the accounting cost of providing services rather than the amount to be funded from taxation. The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2016-17 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2017.
- 4.7.2 The Council ended the year with a deficit of £52.115m for 2016-17, this is the accounting deficit based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure comprises of a deficit on the provision of services of £4.998m, reduced by a surplus on the revaluation of Long Term Assets of £1.290m and increased by an actuarial loss on the pension fund assets/liability of £48.407m.
- 4.7.3 The deficit on the provision of services of £4.998m compares to a deficit of £19.425m for 2015-16. The main factors contributing to this change is a decrease in the Net Cost of Services of £23.484m (8.9%), a decrease in financing and investment income and expenditure of £3.337m, offset by a decrease in the overall funding of £12.485m.
- 4.7.4 The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £4.998m as noted in the Statement of Comprehensive Income and Expenditure to the revenue budgetary outturn of £2.883m (underspend).

	£000	£000
Deficit on Provision of Services		4,998
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(23,261)	
Impairments of Asset charged to services	(1,993)	
Capital Funding	11,375	
Pension Adjustment	(6,929)	
Statutory Repayment of Debt	13,958	
Transfers to/from Other Statutory Reserves	271	
Other Adjustments	509	
		(6,070)
Movement In General Fund Balance		(1,072)
Adjust for earmarkings:		
Released sums earmarked to service budgets 2016-17	(8,614)	
Supplementary estimates agreed during 2016-17	(110)	
2016-17 budget rounding surplus paid back to General Fund	6	
Contributions to earmarked reserves 2016-17	6,907	
		(1,811)
Revenue Budget Outturn - Surplus		(2,883)

4.8 Balance Sheet

- 4.8.1 The Balance Sheet shows that the net worth of the Council has decreased to £151.204m compared to a net worth at 31 March 2016 of £203.319m. The main reason for this decrease relates to the increase in the pension liability as a result of a decrease in the net discount rate over the period. A decrease in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future.
- 4.8.2 The value of long term assets has increased from £506.105m at 31 March 2016 to £509.190m at 31 March 2017, an increase of £3.085m (0.6%). The main reason for the increase is due to the revaluation of investment properties.
- 4.8.3 Total Current Assets has increased from £64.001m as at 31 March 2016 to £77.590m at 31 March 2017. The main reason for this increase relates to the increase in short term investments at the end of the year.

4.8.4 Total current liabilities have decreased from £54.828m as at 31 March 2016 to £48.806m as at 31 March 2017. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year.

4.8.5 Overall, long term liabilities have increased from £311.959m at 31 March 2016 to £386.770m at 31 March 2017. The increase of £74.811 is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £94.441m to £149.777m (£55.336m) and an increase in long term borrowing of £16.418m.

4.9 Statement of Movement in Reserves

4.9.1 This Statement shows the movement on the different reserves held by the Council, analysed into usable reserves (resource backed reserves which can be used to fund expenditure) and unusable reserves (required purely for accounting purposes and are not backed by resources).

4.9.2 The total Council reserves have decreased from £203.319m at 31 March 2016 to £151.204m at 31 March 2017, a decrease of £52.115m. This reflects the Total Comprehensive Income and Expenditure of the Council shown in the Statement of Comprehensive Income and Expenditure.

4.9.3 The balance of unusable reserves has decreased by £53.449m from £146.204m as at 31 March 2016 to £92.755m as at 31 March 2017. The main reasons for this decrease relates to the increase in the pension fund reserve which matches the pensions liability.

4.9.4 The balance of usable reserves has increased by £1.334m from £57.115m as at 31 March 2016 to £58.449m as at 31 March 2017. This is mainly as a result of the increase to the General Fund Balance of £1.072m in addition to small increases in the Capital Fund and the Repairs and Renewals Fund.

4.9.5 In respect of the General Fund Balance movement, there were £8.614m of earmarked reserves released to services and spent during 2016-17 and a supplementary estimate of £0.110m drawn down to meet the increased cost of funding the Scottish Living Wage across Adult Social Care. The contributions to earmarked reserves amount to £6.907m and there was a small rounding surplus from the 2016-17 budget of £0.006m. The overall underspend on the revenue budget amounted to £2.883m which is transferred to the General Fund balance. All these factors contribute to the increase in the General Fund balance as noted below:

	£000
Balance on General Fund 31 March 2016	52,417
Released sums earmarked to service budgets 2016-17	(8,614)
Supplementary Estimates agreed during 2016-17	(110)
Contributions to earmarked reserves 2016-17	6,907
2016-17 budget rounding surplus paid back to General Fund	6
Overall budget underspend	2,883

Balance on General Fund 31 March 2017	53,489
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- 4.9.6 The General Fund balance at 31 March 2016 was £52.417m of this a total of £43.272m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2017 amounts to £41.509m and Note 5 to the Accounts provides further detail of the movement. There is also a separate report on Earmarked Reserves. The Council also agreed, at its meeting in February 2017 that £4m would be set aside to be used towards budget smoothing within the year 2019-20.
- 4.9.7 The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2017-18. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The unallocated General Fund balance after the 2% contingency amounts to £3.309m as noted below:

	£000
Balance on General Fund 31 March 2017	53,489
Earmarked Balances at 31 March 2017 (as per Earmarked Reserves report)	(41,509)
Contingency Balance increased 2.0% of net expenditure	(4,671)
Budget Smoothing 2019-20	(4,000)
Unallocated balance as at 31 March 2017	3,309

4.10 Cash Flow Statement

- 4.10.1 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. This is analysed into Operating, Investing and Financing Activities. The Cash and Cash Equivalents balance reduced by £0.051m to £7.889m. The operating activities generated cash of £10.654m this increase was partly offset by the purchase of assets under the investment activities which saw an out flow of £18.915m. The financing activities were an inflow of £8.210m which reflect the increased borrowing taken by the Council.

4.11 Notes to the Financial Statements

- 4.11.1 The notes section provides further information and explanation on some of key figures included within the Accounts. The notes conform to the guidance issued by CIPFA/LASAAC within the Code of Practice on Local Authority Accounting.

4.12 Council Tax Income Account

- 4.12.1 The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement.
- 4.12.2 Council tax rates have been frozen at 2007-08 levels with the Band D rate being £1,178 for 2016-17.

4.12.3 The income transferred to the General Fund for Council tax in 2016-17 was £44.051m. This compared to £43.373m in 2015-16.

4.13 Non Domestic Rate Income Account

4.13.1 The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-Domestic Rate Account.

4.13.2 Non Domestic Rate Income amounted to a share of £30.446m for 2016-17 allocated from the national pool. This compares to £27.840 in 2015-16. Our own net income amounted to £30.869m and we made a contribution to the national pool of £0.423m for 2016-17. These figures compared to income of £31.191m and a contribution to the national pool of £3.351m for 2015-16.

4.14 Group Accounts

4.14.1 Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll and Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee.

In addition, the council's Common Good Funds have been fully consolidated into the Group Accounts.

4.14.2 The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £6.554m. This gives an overall net asset position for the Group of £157.758m, a decrease of £53.449m from the previous year. As with the single entity Balance Sheet, the decrease is mainly related to the increase in the pension liability due to the change in discount rate used.

4.15 Performance Against Budget

4.15.1 The performance against budget for financial year 2016-17 was an overall underspend of £2.883m (1.16%) after adjusting to reflect the new amounts earmarked by departments at the year end. There was a net underspend of £1.083m in relation to departmental expenditure and a net underspend of £1.066m in relation to other central/non-departmental costs. The remainder of the underspend of £0.779m is in relation to funding and the over-recovery of Council Tax income. The year-end underspend was largely expected and planned for during the year, for example:

- Additional savings were generated during the year as a consequence of deliberate decisions not to fill posts which became vacant during the year and had been identified for removal as Service Choices savings during 2017/18.
- NPDO costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs, part

of the contract management arrangements which are in place, and lower than expected energy prices.

- Loans charges were underspent as borrowing decisions were intentionally deferred resulting in savings on interest payments.
- Council tax income was better than expected partly due to better than expected collection of sums outstanding for previous years by sheriff officers due to enhanced contract management activity.

4.15.2 A summary of the final outturn position is noted within the table below:

Final Outturn Variance (Un-audited)				
2016-17				
Department	Actuals	Budget	Variance	% age
		Adjusted for Earmarkings	(Overspend) Underspend	
Chief Executive's Unit	2,041,862	2,042,081	219	0.01%
Community Services	84,088,898	84,104,991	16,093	0.02%
Customer Services	38,280,640	39,167,488	886,848	2.26%
Development and Infrastructure Services	29,010,729	29,145,987	135,258	0.46%
Total Departmental Expenditure	153,422,129	154,460,547	1,038,418	0.67%
Integration Services	56,206,876	56,206,876	0	0.00%
Joint Boards	1,388,546	1,374,371	(14,175)	(1.03%)
Loans Charges	19,578,599	20,623,139	1,044,540	5.07%
Pension Costs	2,977,369	2,977,369	0	0.00%
Other	6,102,437	6,137,621	35,184	0.57%
Total Non-Departmental Expenditure	86,253,827	87,319,376	1,065,549	1.22%
Total Expenditure	239,675,956	241,779,923	2,103,967	0.87%
Total Funding	249,465,684	248,687,036	778,648	0.31%
UNDERSPEND			2,882,615	

5. CONCLUSION

5.1 The Unaudited Annual Accounts have been prepared in accordance with professional and statutory requirements. The General Fund Balance has increased by £1.072m, which includes the revenue year-end outturn being £2.883m better than budgeted. The net worth per the balance sheet decreased by £52.115m to £151.204m. Overall the financial position of the Council remains stable.

6. IMPLICATIONS

- | | | |
|-----|--------------|--|
| 6.1 | Policy – | None. |
| 6.2 | Financial - | None, summarises the financial position for 2016-17. |
| 6.3 | Legal - | None. |
| 6.4 | HR - | None. |
| 6.5 | Equalities - | None. |

6.6	Risk -	None.
6.7	Customer Service -	None.

Kirsty Flanagan
Head of Strategic Finance
15 June 2017

Gary Mulvaney - Policy Lead for Strategic Finance and Capital Regeneration Projects

For further information please contact Peter Cupples, Finance Manager Corporate Support 01546-604183.

Appendix 1 – Unaudited Annual Accounts 2016-17.

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Argyll and Bute Council

Comhairle Earra Ghàidheal agus Bhòid



Unaudited Annual Accounts for the year ending 31 March 2017

LANGUAGE OPTIONS

If you would like this document in another language or format, or if you require the services of an interpreter, please contact us.

Ma tha sibh ag iarraidh an sgrìobhainn seo ann an cànan no riochd eile, no ma tha sibh a' feumachdainn seirbheis eadar, feuch gun leig sibh fios thugainn.

本文件可以翻譯為另一語文版本，或製作成另一格式，如有此需要，或需要傳譯員的協助，請與我們聯絡。

यह दस्तावेज़ यदि आपको किसी अन्य भाषा या अन्य रूप में चाहिये, या आपको आनुवाद-सेवाओं की आवश्यकता हो तो हमसे संपर्क करें

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ਜੇ ਇਹ ਦਸਤਾਵੇਜ਼ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਜਾਂ ਜੇ ਤੁਹਾਨੂੰ ਗੱਲਬਾਤ ਸਮਝਾਉਣ ਲਈ ਕਿਸੇ ਇੰਟਰਪ੍ਰੈਟਰ ਦੀ ਲੋੜ ਹੈ, ਤਾਂ ਤੁਸੀਂ ਸਾਨੂੰ ਦੱਸੋ।

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو برائے مہربانی ہم سے رابطہ کیجئے۔

Jeżeli chcieliby Państwo otrzymać ten dokument w innym języku lub w innym formacie albo jeżeli potrzebna jest pomoc tłumacza, to prosimy o kontakt z nami.

**Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
Argyll
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Management Commentary

1. INTRODUCTION

What is the Management Commentary?

This Management Commentary outlines the key messages regarding the objectives and strategy of the Council and its financial performance for the year. It also looks forward, outlining the future financial plans for the organisation and the challenges and risks which are faced in making Argyll and Bute a place where people want to live, learn, work and do business.

Argyll and Bute: The Geography

Argyll and Bute is bounded by the urban areas of Helensburgh and Dunoon along the Clyde, Loch Lomond to the East, Mull of Kintyre to the south, Atlantic Islands to the west, and the Sound of Mull and Appin to the north. It covers an area of 691,000 hectares making it the second largest local authority area in Scotland. Our area has the third sparsest population density of the 32 Scottish local authority areas, with an average population density of just 13 persons per square kilometre.



Argyll and Bute has 23 inhabited islands (Census 2011) more than any other local authority in Scotland with around 17% of the population living on Islands (Census 2011). The area is also home to several long sea lochs, which bisect the landscape and along with the islands give Argyll and Bute a very long coastline and a higher level of reliance on ferries for travel. Almost 80% of the population live within one kilometre of the coast (Scottish Coastal Forum, 2002).

Argyll and Bute: Population and Demographics

The total population of Argyll and Bute is 88,166 based on the 2011 census. This compares to a total population for the area of 91,306 in the 2001 census, a reduction of 3.4%. Argyll and Bute was one of only 4 local authority areas to show a decrease in population. Future population projections suggest a reduction in total population of 7.2% from 2010 to 2035 although mid-year estimates suggested a marginal increase between 2016 and 2017.

The population of Argyll and Bute has been declining, this decline is projected to continue and the population is also aging. These changes in population will have significant implications for the delivery of Council services now and into the future. The change in population has particular challenges in relation to the provision of care, the future sustainability of Argyll and Bute's workforce and the economic sustainability of the area.

Argyll and Bute: Key Challenges

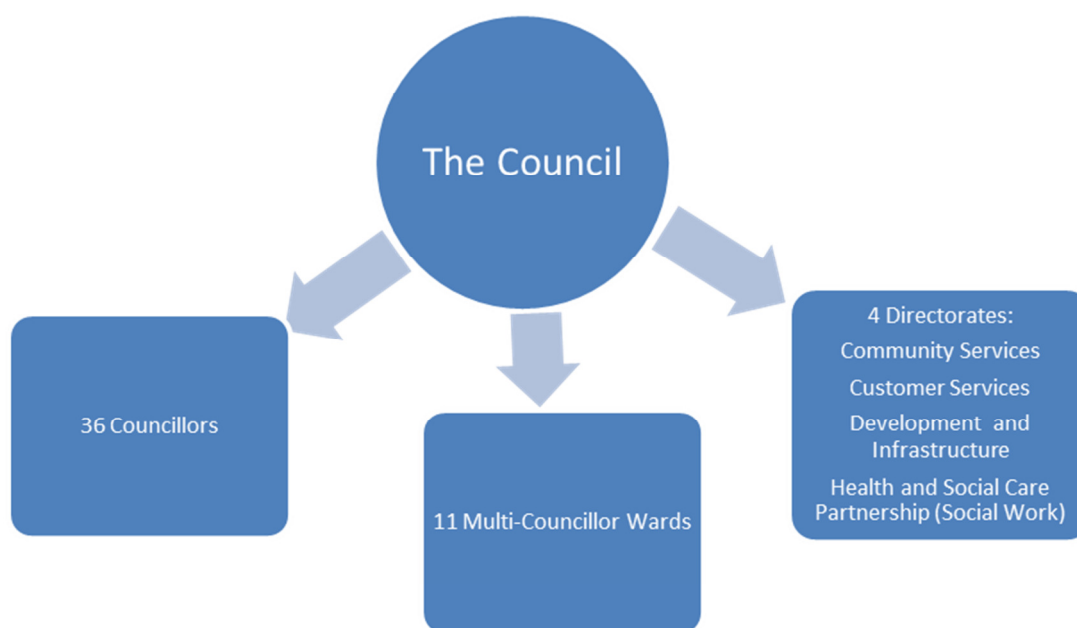
- Our geography – A highly rural area with many small communities, often separated by water. Access to the area and to key services is a perennial challenge.
- Reducing population – The projected decline in total population is a real threat to the viability of the area with a potential to adversely impact on the economy/wealth creation, workforce availability and efficient service delivery.
- Changing population – With more extremes than most of Scotland we face increasing costs and challenges to deliver services to older people and we need to encourage younger people to move to the area so that our economy can grow.
- Economy – Unlocking the opportunities offered by its significant, sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish, UK and EU economies.

Management Commentary

- Employment – Developing education, skills and training to maximise opportunities for all and create a workforce to support economic growth.
- Infrastructure – Improving and making better use of infrastructure in order to promote the conditions for economic growth including enhancing the built environment and our town centres.
- Sustainability – Ensuring a sustainable future by protecting the natural environment and mitigating climate change.
- Health – Improving health and wellbeing and reducing health inequalities.
- Deprivation – Inequalities exist in Argyll and Bute so we need to improve how we identify and implement action to address them.
- People on the fringe – Many of our communities are very isolated and risk collapsing as population change takes affect alongside urban communities where deprivation can create real hardships.

Argyll and Bute Council

Argyll and Bute Council was established in 1996 as part of local government reorganisation in Scotland under the Local Government (Scotland) Act 1994.



The Council has thirty six councillors elected every five years to represent the interests of the local community. Argyll and Bute is split into 11 multi-councillor areas or wards. This means that for every ward there are at least 3 councillors that represent the area you live in.

The management of the Council is led by the Chief Executive, Cleland Sneddon. The operational structure is divided into the Chief Executive's Unit, four directorates: Community Services, Customer Services, Development and Infrastructure and Integration Health and Social Care Partnership. From 1 April 2016, Adult Care and Children and Families Services transferred over to the Health and Social Care Partnership and strategic decisions will be the responsibility of the Integration Joint Board.

Management Commentary

Chief Executive's Unit	Community Services	Customer Services	Development and Infrastructure	Health and Social Care Partnership
<ul style="list-style-type: none"> Strategic Finance 	<ul style="list-style-type: none"> Education Community and Culture 	<ul style="list-style-type: none"> Governance and Law Customer and Support Services Improvement and Human Resources Facility Services 	<ul style="list-style-type: none"> Roads and Amenity Services Economic Development Planning and Regulatory Services 	<ul style="list-style-type: none"> Adult Care Children and Families Health Services (NHS)

Annual Accounts 2016-17

The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2017. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The 2016-17 Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Council also produces a set of summary accounts for 2016-17 and these can be accessed on the Council's website.

2. OBJECTIVES AND STRATEGY OF THE COUNCIL

Community Plan and Single Outcome Agreement 2013-2023

Our geography, coupled with a declining population presents us with unique challenges and together with our community planning partners we have developed a Single Outcome Agreement (SOA), now referred to as the Local Outcome Improvement Plan (LOIP). The LOIP sets out the shared vision, priorities and objectives for Argyll and Bute over the next ten years. Our shared vision is:

Argyll and Bute's Economic success is built on a growing population.

The vision has six key outcomes:

1. The economy is diverse and thriving
2. We have infrastructure that supports sustainable growth
3. Education, skills and training maximises opportunities for all
4. Children and young people have the best possible start
5. People live active, healthier and independent lives
6. People live in safer and stronger communities.

The Community Plan and Single Outcome Agreement can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/council-and-government/community-plan-and-single-outcome-agreement>

Management Commentary

Corporate Plan 2015-17

The corporate plan sets out what we as a council will contribute to achieving the outcomes within the Single Outcome Agreement. The period 2015-17 has brought, and will bring, challenges for us as we make choices around planning our future. We must accommodate a reducing budget, yet make the right choices to invest in our future. Our shared vision as set out in the SOA, corporate mission and strategic priorities provide us with clear direction and ensure that the Council is in a strong position to plan our future.

Our mission:

To make Argyll and Bute a place people choose to live, learn, work and do business.

Our Corporate Plan can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/performance-reporting-and-best-value>

Service Plans

Service Plans set out the key service delivery aims for the financial year and are aligned to the Corporate Plan and Single Outcome Agreement. The service plans also detail the agreed measures, targets and timescales to achieve the required results.

Our Service Plans can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/service-plans-overview>

Performance Reporting

The Council has a well-established Planning and Performance Management Framework (PPMF) which underpinned the delivery of services according to strategic priority outcomes within allocated budgets. The PPMF was developed in 2009 and it further increased in complexity over the years. In 2016 the Performance Review and Scrutiny Committee and the Chief Executive requested a review of the PPMF to simplify the process, reduce duplication and to move the focus away from reporting what we can count to report on what counts and which supports improved scrutiny.

A new Performance and Improvement Framework (PIF) was introduced and approved by Council in April 2017. The change in name to Performance and Improvement Framework retains the essential nature of ensuring we are accountable and report strategic performance, but also that our focus is on improvement and supports effective scrutiny.

Early implementation of the first stage of simplifying the planning process has already been put in place with the approval by SMT, Policy Leads and PRS Committee to simplify the service outcomes, reduce their number and create a smaller number of business outcomes. This approach was applied to the service planning process for 2017-20 and approved by Council at the budget meeting in February 2017. The duration of plans will extend beyond the previous single year horizon to 3 year plans to provide consistency and improve the opportunity to deliver on key council outcomes and priorities.

The PIF approach will lead to updated scorecards, which enable elected Members to focus on high level and strategic outcomes rather than low level activity measures. Officers will continue to monitor actions and measures and will continue to review operational performance and ensure that performance delivers on the priority outcomes.

Management Commentary

The most important part of the PIF will be to identify outcome indicators that clearly show that the actions we take are making a difference and actively contributing to our strategic aims.

Continuous improvement is core to the organisation ensuring that it continues to meet the needs of service users and to respond to and plan for external change. A core element of the revised PIF is the review of the Council's approach to self-evaluation, and the creation of an Argyll and Bute Improvement Framework. Detailed analysis of existing quality frameworks is underway and a recommendation will be brought to adopt an approach to quality and improvement based on self-evaluation that is relevant to Argyll and Bute, which is proportionate in its approach and will deliver on improvements.

A link to the Council's new Performance Improvement Framework is below:

https://www.argyll-bute.gov.uk/sites/default/files/performance_and_improvement_framework_with_appendices_-_final_030417.pdf

The Council also produces an Annual Report which provides residents with a summary of progress being made. The Annual Report for 2016-17 will be produced later this year; however, the 2015-16 Annual Report is available on the following web-link:

https://www.argyll-bute.gov.uk/sites/default/files/council_annual_report_2015-16_-_final_2.pdf

Budget Strategy

One of the elements of the budget strategy agreed in December 2014 was Service Choices. Service Choices is our approach to plan for the estimated funding reductions by aligning the available budget to Members priorities. During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17.

In common with other local authorities across Scotland, the level of reduction to the Council's revenue funding allocation for 2016-17 was higher than anticipated, however, our Council was well placed to deliver a balanced budget due to the options offered through Service Choices, in addition to the management and operational savings which had minimal impact on front line services.

The Council set a one year revenue budget for 2016-17 and a four year capital plan which focused on protecting core services and jobs, delivering what people want and building prosperity within the area. The budget has put us in a position to invest in creating economic growth. The package of measures agreed included an investment, from our financial reserves and capital funding, of some £75 million designed to attract more people to live and work here, securing employment and prosperity for our area.

In terms of looking beyond 2016-17, a three-year financial outlook covering the period 2017-18 to 2019-20 was kept up to date during the financial year and presented to Members at the Policy and Resources Committees in August, October and December 2016 as well as a further update at a Members Seminar held in January 2017. There was early identification of management efficiencies, agreed by Council in October, in advance of the 2017-18 budget setting process to assist in balancing the budget. A Transformation Board was also established focused on delivering change to improve service delivery and help balance the budget in future years.

Budget Monitoring

The Council has robust budget monitoring arrangements in place and a monitoring pack is prepared and presented to the Policy and Resources Committee every two months. The monitoring pack includes the following reports:

- Financial Monitoring Pack Summary - an executive summary.

Management Commentary

- Revenue Budget Monitoring - this report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.
- Monitoring of Service Choices savings - this report provides an update on the implementation and delivery of the Service Choices policy savings options agreed by Council in February 2016. The savings options are reported as being delivered, on track to be delivered, still to be implemented, being developed or delayed.
- Monitoring of Financial Risks - this report outlines the process and approach developed in carrying out a financial risks analysis and provides an update on the current assessment of financial risks.
- Capital Plan Monitoring - this report provides a summary of the current capital plan monitoring position. Information is provided in terms of monitoring year to date budget, current full year budget, future years total budget and funding and non-financial in terms of project performance.
- Treasury Monitoring - this report provides information on the current levels and recent transactions in relation to the capital financing limit, total borrowing, temporary borrowing and long term borrowing and investments.
- Reserves and Balances - this report summarises the overall level of reserves and balances and monitors the spending of the earmarked reserves, providing detailed information on the unspent budget earmarked balances.

Risk Strategy

The council has a risk management strategy in place that is subject to regular review and has been assessed as “embedded and integrated” as per CIPFA Benchmarking. Detailed guidance is in place which provides detail on the risk management framework including risk identification and risk treatment. Strategic and operational risks are reviewed on a regular basis and active mitigations are in place.

There are 15 principal risks facing the Council reflected within the Strategic Risk Register as follows:

- Population and economic decline
- Condition and suitability of overall Council infrastructure and asset base.
- External built environment.
- Welfare reform
- Political leadership
- Finance - Income and Funding
- Finance - expenditure
- Health and Social Care Integration
- Reputation
- Demographic Changes
- Partnership Governance
- Engagement and alignment of service delivery
- Leadership and Management

Management Commentary

- Civil contingency and business continuity
- Management of services and resources.

The Strategic Risk Register now includes Risk Appetite and Risk Tolerance thresholds. Two of the risks are currently showing a residual score in excess of agreed tolerance levels. These are Population and Economic Decline and Health and Social Care Integration. These risks are being actively managed and there is a focus and priority emphasis on these areas which includes prioritisation or redirection of resources, prioritisation of mitigations and defined action plans. The Strategic Risk Register is currently being reviewed.

Financial risks are also considered as part of the budget process and medium term outlook and regularly reviewed as part of routine budget monitoring throughout the year. There are some Council wide financial risks in relation to shortfall on savings, employer's on-costs, energy costs and increase to general inflation. There are also a number of risks relevant to departments/services and mitigations are in place.

Treasury Strategy

The Council publishes an annual Treasury Management Strategy to coincide with the approval of the financial plans in February. This strategy links the Council's capital investment plans to its treasury management activities including borrowing and investment strategies.

3. PERFORMANCE AGAINST OUR PRIORITIES

The Planning and Performance Management Framework sets out the process for presentation of the Council's quarterly performance reports. Performance is reviewed by the Strategic Committees and then the Council and departmental performance reports and scorecards are presented to the Policy, Review and Scrutiny Committee on a quarterly basis.

Below is a small selection of key successes linked to priorities that was presented quarterly during 2016-17. Further information will be contained in the Council's Annual Performance Report due to be published later in the year. The full performance reports for 2016-17 can be accessed at the following web link:

<https://www.argyll-bute.gov.uk/quarterly-performance-2016-2017>

Priority 1: The economy is diverse and thriving

- Q1 - The council's engagement and broad support provided to Scottish Sea Farms, along with Highlands and Islands Enterprise (HIE) to encourage £35million investment in Barcaldine will create up to 25 jobs and include spin off benefits such as the £0.900M order placed with Argyll based, Fusion Marine for fish farm pens.
- Q3 - Two new funds were launched to help local businesses and support population growth; Business Gateway Local Growth Accelerator Programme (BG LGAP) and the Rural Resettlement Fund make available more than £1 million to the Argyll and Bute economy. The BG LGAP, opened during Argyll Enterprise Week, is funded by the Council and the European Regional Development Fund and is worth almost £550k. The aim is to strengthen the local economy targeting small and medium sized businesses looking for growth. The Rural Resettlement Fund of £500k is aimed at families, individuals and businesses looking for new opportunities and settling in the area.
- Q3 - The launch of the new LEADER programme has already generated £0.600m of released funding to a diverse range of 14 projects with match funding providing a minimum of almost £1.2 million invested across Argyll and Bute. Projects to benefit include the Crinan Canal Active Travel

Management Commentary

and Tourist Towpath securing £0.123m; CHArts Place Partnership Plan securing £0.160m; and Argyll Food Producers: Developing and Growing Argyll Food Economy securing £0.045m.

Priority 2: We have infrastructure that supports sustainable growth

- Q1 - Three turf cutting events were held in June to celebrate the new schools that are being built in Argyll and Bute. The new £26 million high school in Campbeltown, the £36 million new high school in Oban and the new Kirn primary school.
- Q2 - The end of the £7 million Campbeltown Townscape Heritage Initiative which revitalised the town centre was celebrated with the official opening of fully refurbished Town Hall. The town's second £0.900m conservation regeneration scheme commenced in April 2016 and runs until March 2020. Steady progress is reported with the Small Grant Scheme interest under assessment.
- Q2 - 94% of this year's roads capital reconstruction budget worth £4.61 million has been delivered to date.
- Q4 - Dunoon and Rothesay are to benefit from over £1.5 million of Conservation Area Regeneration Scheme funding from Historic Environment Scotland. Rothesay's seafront will benefit from £500k of that funding for repairs and improvements and £1 million will fund regeneration work in Dunoon.

Priority 3: Education, skills and training maximises opportunities for all

- Q1 - 22 Classroom and Additional Support Needs Assistants received certificates for the SQA Professional Development Award (PDA) in Education Support Assistance.
- Q2 - Number of adults accessing community based adult learning exceeds the target of 250 with 685 users.
- Q2 - Successful delivery of Employee Excellence and Recognition Awards Event.
- Q3 - The Education Service organised and delivered 62 targeted staff development courses which took place across key subject or service areas including Early Years, Gaelic, ICT, languages 1+2, leadership, educational central team and probationer training.

Priority 4: Children and Young People have the best possible start

- Q2 – Percentage of positive post school leaver destinations is at 92.7%, which is slightly higher than the National average.
- Q3 - 8,423 children's swimming lessons were completed this quarter against a target of 4,500.
- Q3 - The Implementation of the Development Milestone Tool 0-3 yrs. was completed on schedule.
- Q4 - 63 young people gained sports and leadership coaching awards this quarter against a target of 60. The young people will also gain qualifications in first aid before they become volunteers in extracurricular and community clubs.

Priority 5: People live active, healthier and independent lives

- Q1 - The number of people accessing Council pools far exceeds the target of 75,000 with the actual figure 93,194 for this quarter.
- Q2 - The number of people accessing Council gyms exceeds the target of 6,667 with the actual figure 7,931 for this quarter.
- Q3 - At the Council meeting in November the business case for the Leisure and Libraries Trust was approved, a project team has now been set up and work started to progress the business case.

Management Commentary

Priority 6: People live in safer and stronger communities

- Q2 - iCycle the one-stop shop for cycle training developed by Economic Development's Road Safety Unit <http://www.icycle.org.uk> successfully trained almost 600 P6/7 children, with 38 schools participating over the academic period. 92% of council premises have age related controls in place, an improvement on the previous two years.
- Q4 - The Council has recently won a three year contract (£3.7m) to provide financial and social inclusion on behalf of the Big Lottery Fund (BLF). This will be delivered in partnership between the Council and a range of voluntary sector partners spread across Argyll and Bute. The service is expected to go live during June 2017.

4. FINANCIAL PERFORMANCE 2016-17

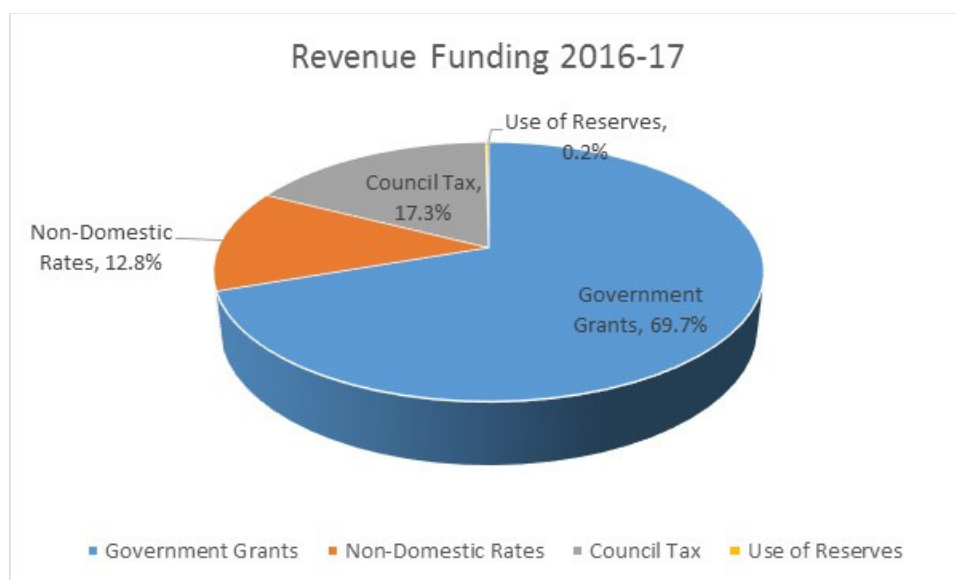
Revenue and Capital Expenditure

The financial resources of the Council are categorised into Revenue and Capital Expenditure. Expenditure on recurring day to day costs associated with providing the Council's services (e.g. salaries, supplies) is revenue, whereas spending on assets (e.g. buildings) that have a useful value to the Council over multiple years is referred to as capital. The financing of revenue and capital expenditure, in general, comes from different sources.

Annual Budget and Setting of Council Tax for 2016-17

The Council set a one year revenue budget in February 2016 which set the budget for 2016-17. The budget for 2016-17 was based on the Council Tax for Band D remaining at £1,178 for the ninth successive year. The budget was balanced with a small rounding surplus. Reserves were used to fund a one-off cost pressure in relation the Broadband Pathfinder Project.

The funding at the beginning of financial year 2016-17 for revenue expenditure was £237.950m. This was funded from government grants (£165.730m), Council Tax (£41.200m), Non-domestic rates (£30.446m) and one-off use of Reserves (£0.580m).



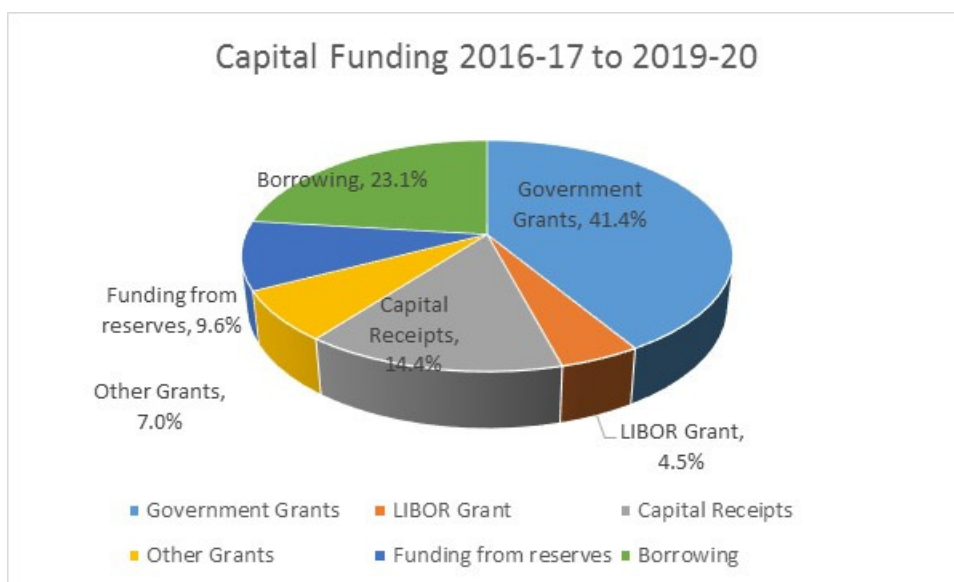
Management Commentary

Capital Budget 2016-17 to 2019-20

The Council approved a capital programme amounting to £109m covering the years 2016-17 to 2019-20 in February 2016. The capital programme was based on assumptions on the level of General Capital Grant from the Scottish Government and the likely capital receipts over the period. The major capital projects included in the programme were CHORD, the replacement of Campbeltown Grammar School, Oban High School and Kirn Primary School and the refurbishment of Dunoon Primary Schools, Helensburgh Waterfront, and asset sustainability projects in respect of Roads Reconstruction and Property Refurbishment.

The Council approved a revised capital programme in August 2016 to reflect an increase in the funding available of £5.615m. This increased funding was mainly due to additional grant of £5.000m funding by the Chancellor using LIBOR funds for the swimming pool element of the Helensburgh Waterfront Development in addition to an increase in the General Capital Grant advised for 2016-17 of £0.655m.

The capital budget between 2016-17 and 2019-20 is funded by government grants (£45.7m), borrowing (£25.5m), LIBOR grant (£5.0m), grants from other organisations (£7.7m) contributions from revenue (£10.7m), and receipts from sale of assets (£15.9m).



Revenue: Outturn against Budget

The performance against budget for financial year 2016-17 was an overall underspend of £2.883m (1.16%), after adjusting to reflect the new amounts earmarked by departments at the year end. There was a net underspend of £1.038m in relation to departmental expenditure and a net underspend of £1.066m in relation to other central/non-departmental costs. The remainder of the underspend of £0.779m is in relation to funding and the over-recovery of Council Tax income. The year-end underspend was largely expected and planned for during the year. For example:

- Additional savings were generated during the year as a consequence of deliberate decisions not to fill posts which became vacant during the year and had been identified for removal as Service Choices savings during 2017/18.
- NPDO costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs, part of the contract management arrangements which are in place, and lower than expected energy prices.
-

Management Commentary

- Loans charges were underspent as borrowing decisions were intentionally deferred resulting in savings on interest payments.
- Council tax income was better than expected partly due to better than expected collection of sums outstanding for previous years by sheriff officers due to enhanced contract management activity.

Final Outturn Variance (Un-audited)				
2016-17				
Department	Actuals	Budget	Variance	% age
		Adjusted for Earmarkings	(Overspend) Underspend	
Chief Executive's Unit	2,041,862	2,042,081	219	0.01%
Community Services	84,088,898	84,104,991	16,093	0.02%
Customer Services	38,280,640	39,167,488	886,848	2.26%
Development and Infrastructure Services	29,010,729	29,145,987	135,258	0.46%
Total Departmental Expenditure	153,422,129	154,460,547	1,038,418	0.67%
Integration Services	56,206,876	56,206,876	0	0.00%
Joint Boards	1,388,546	1,374,371	(14,175)	(1.03%)
Loans Charges	19,578,599	20,623,139	1,044,540	5.07%
Pension Costs	2,977,369	2,977,369	0	0.00%
Other	6,102,437	6,137,621	35,184	0.57%
Total Non-Departmental Expenditure	86,253,827	87,319,376	1,065,549	1.22%
Total Expenditure	239,675,956	241,779,923	2,103,967	0.87%
Total Funding	249,465,684	248,687,036	778,648	0.31%
UNDERSPEND			2,882,615	

Capital: Outturn against Budget

Net expenditure for the full financial year is £23.751m compared to a capital budget of £26.079m giving rise to an underspend for the year of £2.328m. The underspend is as a result of net slippage of projects between financial years, with a significant element being in respect of the CHORD projects, the NPDO Schools Solar PV Panel Installations and the Carbon Management Group Heating Conversion Project.

In terms of project performance 85% were completed on time and within budget tolerances.

Health and Social Care Integration

The Argyll and Bute Integration Joint Board (IJB) with responsibility for social work and a range of health services was established and came into effect of 1 April 2016. The Council approved the 2016-17 budget on 11 February 2016 and the amount approved for Social Work services transferring to the Integrated Joint Board for 2016-17 was £55.553m. This was based on the 2015-16 budget plus the estimated cost of the living wage, less the share of half of the £250m Integration Fund distributed by the Scottish Government, via Health. The actual cost of the living wage was £0.110m more than estimated and Council approved to transfer additional funding during the year.

Management Commentary

In terms of the outturn position, as can be seen in the table within the revenue outturn against budget section on page 13, that Integration services over/underspend is zero. The Social Work services transferred to the Argyll and Bute Integrated Joint Board were overspent by £0.224m, however, this was mitigated by additional funding transferred from the Integrated Joint Board via NHS Highland at the end of the year.

The difference between the funding of Social Care services as noted in the paragraphs above and the expenditure reporting in the External Funding Analysis is due to Social Work drawing down and spending previous approved earmarked reserves.

Expenditure and Funding Analysis Statement

The expenditure and funding analysis is a new statement this year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in statement of comprehensive income and expenditure and details the differences between the two. The differences are as a result of accounting statutory adjustments that are required within the statement of comprehensive income and expenditure, for example, depreciation, pension adjustments etc.

The service expenditure noted in the column headed "Net Expenditure Chargeable to the General Fund" can also be compared to the service expenditure noted in the Council's revenue budget monitoring. There is a small difference within Community and Culture and Facility Services as investment income in the Expenditure and Funding Analysis Statement is reported below the net cost of services line along with interest payable and payment to the Valuation Joint Board.

Comprehensive Income and Expenditure Statement

The comprehensive income and expenditure statement shows the accounting cost of providing services rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2016-17 (the Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2017.

The comprehensive Income and Expenditure Statement presentation has changed to reflect the management structure of the Council instead of CIPFA's SeRCOP (Service Reporting Code of Practice) structure, which enhances comparability with the presentation of management reports during the year.

Reconciliation of Comprehensive Income and Expenditure Statement to Budgetary Outturn

The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £4.998m as noted in the Comprehensive Income and Expenditure Statement to the revenue budgetary outturn of £2.883m (underspend).

	£000	£000
Deficit on Provision of Services		4,998
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(23,261)	
Impairments of Asset charged to services	(1,993)	
Capital Funding	11,375	
Pension Adjustment	(6,929)	
Statutory Repayment of Debt	13,958	
Transfers to/from Other Statutory Reserves	271	
Other Adjustments	509	
		(6,070)
Movement In General Fund Balance		(1,072)
Adjust for earmarkings:		
Released sums earmarked to service budgets 2016-17	(8,614)	
Supplementary estimates agreed during 2016-17	(110)	
2016-17 budget rounding surplus paid back to General Fund	6	
Contributions to earmarked reserves 2016-17	6,907	
		(1,811)
Revenue Budget Outturn - Surplus		(2,883)

Balance Sheet

The balance sheet summarises the Council's assets as at 31 March 2017 and it is accompanied by explanatory notes. The net worth of the Council has decreased to £151.204m compared to a net worth at 31 March 2016 of £203.319m. The main reason for this decrease relates to the increase in the pension liability. This has arisen as a result of a significant decrease in the net discount rate over the period, partially offset by much greater than expected pension asset returns. A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude.

Long Term Assets: total Long Term Assets includes property, plant and equipment as well as other intangible assets. They have increased by £3.085m from £506.105m as at 31 March 2016 to £509.190m as at 31 March 2017. The main reason for the increase is in relation to the annual revaluation of investment properties.

Current Assets: total Current Assets has increased from £64.001m as at 31 March 2016 to £77.590m as at 31 March 2017. The main reason for this increase relates to the increase in short term investments at the end of the year.

Management Commentary

Current Liabilities: total current liabilities have decreased from £54.828m as at 31 March 2016 to £48.806m as at 31 March 2017. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year.

Further details on the current provisions are noted later within the commentary.

Long Term Liabilities: total long term liabilities have increased by £74.811m from £311.959m as at 31 March 2016 to £386.770m as at 31 March 2017. The main reason for this increase relates to the pension liability which has increased by £55.336m as well as an increase to longer term borrowing as a result of securing borrowing when rates were at an all-time low. Further detail on the pension liability is noted later within the commentary.

Provisions

The Council has provisions totalling £3.073m on the balance sheet, noted as follows:

- £0.007m Equal Pay Claims. A provision was created at the end of 2005-06 in relation to employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. This provision has reduced to a small amount at the end of 2016-17 with this balance remaining as there may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- £0.135m cash not yet collected, due to be paid to the Strategic Housing Fund. The Council reduced the discount on council tax from second homes to 10% during 2005-06 and this provision relates to the cash not yet collected.
- £0.276 redundancy costs. Liabilities have arisen in respect of employees who will be made redundant as a result of restructuring and also as part of the Service Choices process. The cost for any employee, whose contract has been terminated on or before 31 March 2017, had been incurred in year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2017, a provision has been created.
- £1.120m landfill sites. A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. These have been provided for based on the net present value of estimated future costs.
- £0.469m Utilities. The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.041m has been reversed during 2016-17 reducing the provision to £0.469m.
- £0.253m VAT Liability. The provision was created to reflect the potential liability the Council faces from the over claiming of VAT on staff mileage for the period 2012 to 2016 which will require to be repaid to HMRC. In May 2017 we received confirmation of the amount payable and the provision relates to this plus an estimated amount to cover any penalty that HMRC may impose.
- £0.723m in respect of NPDO payments and utilities. This provision has been created for two purposes. Firstly, the Council withholds sums from the Unitary Charge paid to ABC Schools which relate to disputed performance deductions. These sums are then negotiated after the event and a commercial position reached. The second element relates to NPDO utilities and the provision is based on periods, beyond 2012 (assuming a 5 year non-enforceable cut-off) where the Council has not been billed for the utilities, £0.083m in respect of Kinship Care payments. In October 2016, the Government issued guidance which required that Local Authorities increased the rates that they paid to kinship carers to match the rates paid to foster carers. It applied to specific groups of children and the provision relates to a small group of children whose status has still to be verified and may be entitled to the increase funding from October 2016.

Management Commentary

- £0.005m in respect of Standby payments. Following discussions with staff there was an agreement on standby/callouts. This provision is in relation to backdated payments possibly due to several senior Social Work managers for covering Social Work standby and callouts. The position has yet to be resolved.

Contingent Liabilities

There is a new contingent liability noted this year. The Limitation (Childhood Abuse)(Scotland) Bill is before the Scottish Parliament and if enacted will remove the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of the Council's potential liability is unknown.

Pension Liability

The Council is required to account for its share of the Strathclyde Pension Fund assets and liabilities. The information included in the Accounts is provided by the Pension Fund actuaries following the annual valuation of the Fund. The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2017.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used.

The pension liability can fluctuate significantly year on year. The table below shows the pension liability over the last three years.

	2016-17	2015-16	2014-15
	£'000	£'000	£'000
Pension Liability	(149,777)	(94,441)	(144,738)

Most of the changes each year can be attributed to the change in financial and demographic assumptions. The following table shows the movement in financial assumptions over the last three years:

	2016-17	2015-16	2014-15
	%	%	%
Rate of Inflation	2.4	2.2	2.4
Rate of Increase in Salaries	4.4	4.2	4.3
Rate of Increase in Pensions	2.4	2.2	2.4
Rate for Discounting Scheme Liabilities	2.6	3.5	3.2

Management Commentary

Of the four financial assumptions above, the change in discount rate has the most significant financial impact on the pension liability. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future, the opposite is also true, a decrease in the discount rate will increase the liability.

At 31 March 2017 the change in financial assumptions (discount rate decreased to 2.6%) meant that the liability increased by £149.5m, "Other Experience" further increased the liability by £1m, this was offset by a return on assets of £102m. Therefore the above "re-measurements" total £48.5m which are the main reason for the increase in the Net Pension Liability position at 31 March 2017.

Further detail on the pension estimates are within Note 29 on pages 102 to 107.

Borrowing

During 2016-17 the Council's External Borrowing Increased by £12.413m from £158.090m at 31 March 2016 to £170.503m at 31 March 2017. The increase was due to new borrowing from the Public Works Loans Board (PWLB) of £25.0m at historically low rates and an interest free loan of £0.4m from Salix in respect of the Street Lighting LED Project. This was offset by repayments of £8.9m to the PWLB and a reduction in temporary borrowing of £4.0m.

Statement of Movement in Reserves

This Statement shows the movement on the different reserves held by the Council, analysed into usable reserves (resource backed reserves which can be used to fund expenditure) and unusable reserves (required purely for accounting purposes and are not backed by resources).

The balance of usable reserves has increased by £1.334m from £57.115m as at 31 March 2016 to £58.449m as at 31 March 2017. This is mainly as a result of the increase to the General Fund Balance of £1.072m in addition to a small increase to the Capital Fund outlined in Note 31.1 on page 109 and the Repair and Renewals Fund outlined in Note 31.2 on page 109.

In respect of the General Fund Balance movement, there were £8.614m of earmarked reserves released to services and spent during 2016-17 and a supplementary estimate of £0.110m drawn down to meet the increased cost of funding the Scottish Living Wage across Adult Social Care. The contributions to earmarked reserves amount to £6.907m and there was a small rounding surplus from the 2016-17 budget of £0.006m. The overall underspend on the revenue budget amounted to £2.883m which is transferred to the General Fund balance. All these factors contribute to the increase in the General Fund balance as summarised within the table below:

	£000
Balance on General Fund 31 March 2016	52,417
Released sums earmarked to service budgets 2016-17	(8,614)
Supplementary Estimates agreed during 2016-17	(110)
Contributions to earmarked reserves 2016-17	6,907
Budgeted contribution to General Fund 2016-17	6
Overall budget underspend as above	2,883
Balance on General Fund 31 March 2017	53,489

The balance of unusable reserves has decreased by £53.449m from £146.204m as at 31 March 2016 to £92.755m as at 31 March 2017. The main reasons for this decrease relates to the decrease in the pension fund reserve which matches the pensions liability which is explained later in the commentary.

Management Commentary

General Fund Balance

The General Fund Balance includes balances that the Council has agreed to earmark for specific purposes. Some of these earmarked balances were due to be spent during 2016-17 and some of them will be held over and spent in later years. The Council has agreed a policy where balances will automatically be carried forward in respect of Strategic Housing Fund, CHORD, balances unspent with the Devolved Management of Resources Scheme of Delegation for schools, unspent grants and unspent contributions from external bodies and any unspent budget that relates to existing policy commitments arising from a previous Council decision or where they are required to meet an existing legal commitment. Two new automatic carry forwards have been put forward for approval this year in relation to carrying forward funding provided by the Scottish Government to implement new legislation or government initiatives and to carry forward savings for re-investment in energy efficiency to further reduce the Council's energy costs and carbon emission levels.

Outwith the situations noted above there will be no automatic carry forward of unspent budget and any request for carry forward will be reported to Council for approval and supported by a business case. There are 13 new unspent budget earmarked proposals for consideration:

- Strategic Finance CIPFA student fees, VAT training and equipment - £0.033m
- Soft Play area, CHORD redevelopment of Queen's Hall - £0.075m
- Specialist consultancy required for implementation of Leisure and Libraries Trust - £0.040m
- NDR appeals - £0.150m
- Monitoring of Construction Projects - £0.250m
- Replacement of IR5 system for room/resource bookings - £0.030m
- Asbestos Management - £0.270m
- Introduction of local Windows Services Update Servers - £0.050
- Improvement to Council's training facilities - £0.017m
- Unexpected additional cost construction of new pavilion at Hermitage Park - £0.100m
- Essential Maintenance at Inveraray Arches - £0.100m
- Underwriting development of Rothesay Pavilion - £1.000m
- New schools additional costs - £0.750m.

The General Fund balance at 31 March 2016 was £52.417m; of this a total of £43.272m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2017 amounts to £41.519 and Note 5 on page 78 provides further detail of the movement.

The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2017-18. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The Council also agreed that £4m would be set aside and used towards budget smoothing within the year 2019-20. The unallocated General Fund balance amounts to £3.299m.

Capital Finance

The resources to fund the Council's capital plan has a number of sources, there are grants from the Scottish Government and other bodies, capital receipts from the disposal of assets, contributions from reserves and the revenue budget, borrowing funded by the loans charges budget and in respect of the replacement schools revenue funding from the Scottish Futures Trust.

Management Commentary

Group Accounts

Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

In addition, the Council's Common Good Funds have been fully consolidated into the Group Accounts, Note 35 on page 111 gives further details on the Council's Common Good Funds.

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £6.554m. This gives an overall net asset position for the Group of £157.758m, a decrease of £53.449m from the previous year. As with the single entity Balance Sheet, the decrease is mainly related to the increase in the pension liability due to the change in discount rate used.

The Argyll and Bute Integration Joint Board was established as a body corporate by order of Scottish Ministers on 27 June 2015. The partnership between Argyll and Bute Council and NHS Highland has been established in accordance with the provisions of the Public Bodies (Joint Working)(Scotland) Act 2014 and associated Regulations. The Integration Joint Board has responsibility for all health and social care functions relating to adults and children and will oversee the Strategic Planning and budgeting of these, together with corresponding service delivery for the residents of Argyll and Bute. Argyll and Bute Council contributed £55.439m towards the Argyll and Bute Integration Joint Board in the 2016-17 financial year. All transactions are accounted for and shown within the single entity statements and therefore there is no material impact on the group accounts.

5. KEY FINANCIAL INDICATORS

The following financial indicators have been developed to assist the reader in assessing the performance by the Council over the last financial year and the affordability of its ongoing commitments.

Financial Indicator	2016-17	2015-16	Comment
Unallocated General Fund Balance as a proportion of next year's Annual Budgeted Net Expenditure	3.39%	3.84%	Reflects the level of funding available to manage financial risk/unplanned expenditure. This includes the 2% contingency. There are sufficient reserves to meet any unplanned expenditure.
Movement in the Unallocated General Fund Balance	Decrease £1.1m	Decrease £7.8m	Reflects the extent to which the Council is using its Unallocated General Fund Balance.
In-year collection rate	95.79%	95.97%	Reflects the Council's effectiveness in collecting Council Tax debt. Collections are down mainly due to the level of increased double charges applied for long term empty properties and penalties which are hard to collect (up by £197k), and due to the reduced level of council tax reduction being afforded (down by £198k.) This is offset by improved current year sheriff officer collections (up by

Management Commentary

Financial Indicator	2016-17	2015-16	Comment
			£453k). Despite the collection percentage being down, income exceeded budget by £782k.
Ratio of Council Tax Income to Overall Level of Funding	17.47%	16.39%	Reflects the capacity of the Council to vary expenditure by raising Council Tax income. Argyll and Bute Council, in common with other local authorities has frozen Council Tax at 2007-2008 levels.
Actual Outturn compared to budgeted expenditure	£2.883m 1.16%	£1.612m 0.64%	A measure of how the final outturn compares to the budgeted position and is a reflection of the effectiveness of financial management.
Capital Financing Requirement (CFR) for the current year	£253.910m	£253.896m	Measurement of requirement to borrow for capital purposes.
External Debt Levels for the current year	£170.503m	£158.090m	Actual borrowing for capital investment levels.
Ratio of financing costs to net revenue stream	7.77%	7.56%	Measures the percentage of income that has been committed towards meeting the costs of borrowing. The more income needed to fund financing costs the less available to meet other revenue expenditure.

6. PLANS FOR THE FUTURE

2017-18 Budget

One of the elements of the budget strategy agreed in December 2014 was Service Choices. Service Choices was an approach to plan for the estimated funding reductions by aligning the available budget to Members priorities. During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17. Some of the savings were deliverable in 2016-17 and some were from 2017-18 or beyond. This budget created a solid foundation to work from and for the 2017-18 budget most of the savings required to balance the budget had already been agreed as part of the service choices decisions in February 2016. Efficiency savings for 2017-18 were also agreed in October 2016, in advance of the budget setting and this also reduced the budget gap.

Despite only receiving a one year settlement for Scottish Government, the Council agreed a revenue budget for 2017-18 and two year indicative budgets for 2018-19 and 2019-20. The Council also agreed updates to the capital plan covering the period to 2019-20.

Medium to Longer Term Financial Strategy

Creating a financial outlook is challenging as a number of assumptions need to be made anticipating changes to the base budget in relation to employee costs, non-pay inflation, cost and demand pressures and fees and charges as well as assumptions on the Council's funding position. When forecasting the funding there are a number of variables to consider including the overall level of public sector budgets, the amount the Scottish Government decides to allocate to fund Local Government, the impact of population reductions on Argyll and Bute and scope for any future Council Tax increases.

Management Commentary

The Council accepts the current financial climate we are in. The Council are in a period of one year settlements which doesn't give it any degree of certainty into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, continues to put financial pressure on Councils.

A three-year financial outlook covering the period 2017-18 to 2019-20 was kept up to date during the financial year and presented to Members at the Policy and Resources Committees in August, October and December 2016 as well as a further update at a Members Seminar held in January 2017. There continues to be a challenging economic position and the council expects to face further significant financial changes in the coming years with continuing growth in demand for services alongside a climate of funding reductions. The indicative budgets for 2018-19 and 2019-20 estimate a budget gap of £9.300m by 2019-20 and it is anticipated that a significant scale of saving is likely to continue over the medium to longer term.

The council has recognised the need to develop a medium to longer term financial strategy. The purpose of the medium to longer term financial strategy will be to set out a plan to demonstrate how the council will respond to the demands and pressures whilst ensuring that there is a sustainable council that meets the needs of its communities and one that can take advantage of opportunities that arise.

The medium to longer term financial strategy will be underpinned by a set of principles that support the longer term financial sustainability of the council. These principles are summarised as follows and were agreed by Council in February 2017. The financial strategy will be developed during 2017.

- Resources aligned with the Local Outcome Improvement Plan (LOIP)
- Direct provision versus commissioned services (make or buy)
- Digital transformation
- Shared Services
- Commercial activities (via trading accounts)
- Arm's Length External Organisations (ALEOs)
- Commercial sponsorship
- Investment opportunities
- Volunteering for core services
- Fully centralised procurement
- Engaging Trade Unions in full partnership
- Shared and improved asset utilisation
- Management structure
- Work patterns and shift arrangements.

Strategic workforce planning is a key element of the medium to longer term financial strategy and work has commenced on this theme with a view to ensuring that the Council has a workforce that can support the organisation in the future to meet its medium to longer term financial challenges. It is envisaged that this element of the strategy will be considered by Members in the autumn.

Management Commentary

Argyll, Lomond and the Islands Regeneration Initiative

The Council agreed, in February 2016, to establish the new flagship “Argyll, Lomond and the Islands Regeneration Initiative”. This initiative encompasses all existing and new strategies and plans in relation to population and economic growth into a single and cohesive programme. The focus is supporting the Local Outcome Improvement Plan’s overarching vision to build the economy through a growing population. Three new investments were agreed, totalling £4.5m: Inward Investment Fund, Rural Resettlement Fund and the Lochgilphead and Tarbert Regeneration Fund.

Inward Investment Fund - the Council agreed to allocate £1m towards this Fund to promote economic growth in Argyll and Bute through attracting significant inward investment to the area. It is proposed that the fund is focused on a smaller number of larger strategic investments that have real transformational opportunity. To date we have allocated a £0.040m grant that was matched by both HIE and Discover Space UK creating a fund of £0.120m towards developing the proposition and attraction of investors for a space port at Machrihanish. A bid for a potential grant for feasibility work in relation to the spaceport was submitted to the UK Government on the 28th of April.

Rural Resettlement Fund - the Council agreed to allocate £0.5m to this Fund which is intended to be focused on people. This fund will seek to either incentivise people to settle in Argyll and Bute or create/promote opportunities to do so. This may include businesses where individuals are prepared to move to Argyll and Bute to start up or relocate their business. The specific objective of this fund is growing our population with the benefits of creating economic activity and increasing the Council’s Grant Aided Expenditure. The fund was launched at Argyll Enterprise Week in October 2016. As of 11 May 2017 we have received 19 applications, approved 12, assessing 1 and 6 were either withdrawn or rejected due to not meeting the criteria. Total awarded is £0.056m. Officers are about to launch a further marketing campaign with a key focus on social media.

Lochgilphead and Tarbert Regeneration Fund - the Council agreed to award £3m to this Fund to build on the regeneration work in Campbeltown and it is deemed that the main objective of this fund is to promote the regeneration and/or economic development of Lochgilphead, Tarbert and surrounding areas. 11 short listed projects were approved by the Mid Argyll, Kintyre and Islay area committee on 7 December 2016. The next stage is the completion of outline business cases for the projects and scoring of the projects with the highest scoring projects to be moved onto delivery.

Leisure and Libraries Trust

Like all Local Authorities across Scotland, the Council is facing significant budgetary pressure that continues to increase on an annual basis. These pressures are exacerbated particularly within the Leisure and Library Services, where there is an expectation that these services need to improve to satisfy growing customer expectations. Delivering these services through a Charitable Trust creates the opportunity for a new delivery model that can help to reduce these pressures on the Council’s services. This route is well established in Scotland, with only a handful of the 32 Local Authorities not adopting this approach. The Council, at its meeting on 24 November 2016 approved the business case for the creation of a Charitable Trust to deliver leisure and library services in Argyll and Bute.

By reviewing the extent of the possible Non Domestic Rates and Value Added Tax savings and understanding the opportunities for improving the delivery of these services, there is an expectation that the provision of these services in a more efficient manner will reduce the financial burden on the Council. It is anticipated that the Leisure Trust will be operational from October 2017 with part year savings of £0.270m in 2017-18 rising to full year savings of £0.541m in 2018-19 and beyond.

Management Commentary

In addition to the direct financial savings to the Council, a number of other key benefits associated with the transfer of services to a Charitable Trust have been identified including:

- A single focused body with clarity of outcomes
- Independence and the ability to diversify
- Increased access to other funding streams
- Commercial revenue growth
- Improved financial performance.

External Funding levered in to Argyll and Bute

The Council is committed to leveraging in external funding to the area. Since 2014, the Economic Development and Strategic Transformation (EDST) team has secured over £15m in external funding, with £6m of this total secured in 2017 with a decision on a further £2m of Heritage Lottery Fund (HLF) funding expected in June. EDST has been successful with 3 out of 3 bids for Regional capital Grant Funding, 2 out of 2 bids for Conservation Area Regeneration Scheme (CARS) funding in Dunoon and Rothesay, £0.800m of Sustrans funding, £1m European Regional Development Fund (ERDF) funding for the Pavilion in Rothesay and £0.250m ERDF funding for business growth. A number of smaller bids have also been successful. Future bids from a range of external funders are being planned for this financial year.

Transformation Work

The Council is committed to driving forward change through transformation and innovation. The Council has previously demonstrated that it is able to work in innovative ways in order to improve service delivery, make savings or generate income.

A Transformation Board has now been established to take forward further transformational change. Their main focus is delivering change to improve service delivery and to help balance the budget in 2018-19 and beyond.

The main work streams as part of the transformation programme include the following.

Transformation Packages challenging services to achieve savings via four operating principles; business cost reduction, income maximisation, service re-design and self-funding. All frontline services have been split into service packages that are not subject to specific government protections. The Transformation Board have then identified a minimum savings target along with the operating principle(s) anticipated to deliver the savings. However this is not prescriptive, services are challenged to consider how the saving may be achieved and if additional methods of delivering savings can be identified. The percentage targets vary taking into account the opportunities provided in each service package by the four operating principles and also the need to achieve the anticipated budget reductions over the next 2 financial years and beyond.

Innovation Fund – this was created to fund innovative projects identified by staff and two projects have received funding to date as noted below. A further four pitches will be made to the Transformation Board in June 2017.

- Warp It - Warp It – is a piece of web based software which aids the redistribution of surplus new and used items such as furniture and stationery and is managed by the centralised purchasing team. The main benefits of using this system are:
 - Cost avoidance – reusing items instead of buying new
 - Maximise the usage of National and Council Contracts
 - Cash savings from effective negotiation with suppliers where contracts are not in place.

Management Commentary

- Time saving to staff
- Improved use of Council's Purchasing Cards
 - Print management solutions – is the roll out of the Uniflow print system where individual printers are being replaced with multi-functional devices using the Uniflow print system reducing the cost of purchasing hardware and toners.

Asset Management and Investment Fund – the purpose of this fund is to generate income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return. The fund is currently invested in an enhanced cash fund while opportunities for investments are explored.

Catering and Cleaning Innovation – A number of service transformation options have been identified by the Catering and Cleaning Services to deliver savings and additional income. There are eight main workstreams with savings of £0.777m being realised over 2018-19 and 2019-20.

Digital Transformation – Eleven projects have been identified which will be taken forward in 4 tranches. There are also a range of further digital initiatives identified at our Chief and Senior Officer event in March 2017. Work is already underway on some of these initiatives.

Shared Services and Partnership Working

The Council has increasingly explored and undertaken innovative approaches to partnership working and shared services in a manner that can support community development, create economic activity, secure the future of our built environment, reduce costs whilst maintaining or improving service levels, generate income and secure employment.

A range of examples include working with;

- Conservation groups to lever in funding to secure a sustainable future for historic buildings and environments important to the identity and sense of place for our communities e.g. St Peters Seminary, Dunoon Conservation Area Regeneration Initiative, and Rothesay Town Heritage bid.
- Shared service agreements with community groups for the provision of Customer Service Points on Colonsay, Jura and Tiree including for Passport Service Interviews at all Customer Service Points to reduce need for travel to secure a passport.
- Public sector partners and community development trusts for the development of community plans through 'charrettes' or 'planning for real' which influence the Local Development Plan and other strategic plans e.g. Dunoon, Scottish Canals, Tiree Development Trust.
- Partnership working with agencies and industry to support the growth of key economic sectors e.g. Argyll and Bute Renewables Alliance, Argyll and the Isles Tourism Cooperative Ltd, Oban as a University Town.
- Commercial provision of services including grounds maintenance (Scottish Canals), Building Standards verifications (Babcock), LGV and HGV vehicle maintenance and repair, Planning Services for Loch Lomond and the Trossachs National Park.
- Housing; pilot to create a 'Simplified Planning Zone' for self-build, close working with agencies and housing associations to deliver significant but challenging housing sites e.g. Dunbeg, Ganavan and Inveraray.
- Joint working with Transport Scotland on winter roads maintenance including sharing of depots, fleet and salt stores.

The council continues to explore new initiatives of sharing and or selling professional services and equipment in a manner that safeguards council employment and or supports our strategic priorities.

Management Commentary

Highways Network Assets

Last year we reported that the 2016-17 Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) had introduced changes, due to take effect from 1 April 2016, to measure the Highways Network Asset at current value, i.e. Depreciated Replacement Cost. The new Highways Network Asset will effectively replace large elements of the current Infrastructure Asset category within Property, Plant and Equipment which is currently valued at historic cost.

This change is to ensure that the Highways Network Asset is reflected at the true economic value and operational cost of the substantial resources held and maintained by local authorities.

At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

CIPFA/LASAAC Local Authority Accounting Code Board is responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom which specifies the financial reporting requirements for local authorities.

We will continue to keep a watching brief on this matter for future years.

7. CONCLUSION

The Council has continued to demonstrate sound financial management in 2016-17 by delivering services within the resources available. The operating environment going forward remains very challenging from the combined effect of reduced resources and increasing demand and expectation for our services. The council, despite these challenges, remains financially sound and is well placed to deliver services to the people of Argyll and Bute in the future.

8. ACKNOWLEDGEMENTS

We would take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record our thanks to both Elected Members and staff for their continued hard work and support.

Statement of Responsibilities for the Annual Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to approve the Annual Accounts for signature.

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing the Annual Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code of Practice 2016-17 (in so far as it is compatible with legislation).

The Head of Strategic Finance has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2017.

Kirsty Flanagan

Head of Strategic Finance

29 June 2017

Annual Governance Statement

BACKGROUND / SCOPE OF RESPONSIBILITY

The governance framework includes the systems, processes and culture by which the Council is controlled, and engages with its communities. It allows the Council to monitor the achievement of its strategic objectives. Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

The system of internal control is a key part of the framework, and is designed to manage risk to an acceptable level.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). This Statement explains how Argyll and Bute Council has complied with the standard and meets the requirements of current good practice.

A copy of the Code may be obtained from the Head of Governance and Law, Argyll and Bute Council, Kilmory, Lochgilphead, PA31 8RT.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies. The six key principles of our governance arrangements in 2016-17 are described in the Code, along with our supporting principles and key aspects of our arrangements to ensure compliance. Key features of our arrangements are summarised below.

1. Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area

Our Corporate Plan 2015-17 sets out our mission “To make Argyll and Bute a place people choose to live, learn, work and do business”. The Corporate Plan supports the Local Outcome Improvement Plan and Delivery Plan. The focus of the priorities is to ensure that more jobs and more people are attracted into Argyll & Bute and progress against outcomes and targets is monitored on a regular basis by the Community Planning Partnership.

We have a Planning and Performance Management Framework (PPMF) that ensures performance is integral to the work of the Council. The PPMF details the structure and process for performance management at all levels. Plans specify the outcomes to be achieved aligned to success measures, as well as risks to be reduced. During the year the PPMF was reviewed and following Council approval was updated to the Performance Improvement Framework (PIF) with an enhanced focus on strategic outcomes to support improved scrutiny by elected members.

Councillors and senior managers review and scrutinise the Council’s performance at all levels to ensure our services are having the desired impact on our communities and customers. At a strategic level performance is scrutinised through our Strategic Committees and more locally at our Area committees. The Performance Review and Scrutiny Committee, which meets four times a year has a key role in reviewing and scrutinising how we are meeting our strategic objectives. The new Council has agreed in May 2017 to develop an Audit and Scrutiny Committee as part of its review of political management arrangements.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

We updated our constitution in June 2016 to define the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The new Council has considered a report from the Short Life Working Group (SLWG) on Political Management arrangements and will require to make decisions as to how they will undertake their business as Councillors and adjustments will then be made to the Council constitution to give effect to any changes required.

The constitution includes collective and individual roles and responsibilities of the Leader, Provost, Policy Lead Councillors, other councillors and officers. It also includes a protocol for the role of the Monitoring Officer (the Executive Director for Customer Services).

New auditing arrangements are in place for best value, i.e., a new approach to auditing Best Value was agreed in June 2016 whereby Best Value will be now be assessed over the five year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once during this five year period. The BVAR report for Argyll and Bute is not planned in the period covered by this scrutiny plan.

3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

We have four values, which underpin what we do and how we do it:

- we involve and listen to our customers and communities
- we take pride in delivering best value services
- we are open, honest, fair and inclusive
- we respect and value everyone

We have developed and communicated an Ethical Framework within the Council's Constitution, which defines standards of behaviour for members and staff. Protocols for Member/Officer relations are also detailed within the Constitution.

The Councillor's Code of Conduct is set out at a national level, applying to all members in Scottish local authorities. A register of members' interests is being developed for inclusion on the Council's website.

The code of conduct and protocols are supported by training and development programmes for elected members by offering PRD plans and on the basis of these we construct training and development programs and seminars.

4. Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk; ensuring effective counter fraud and anti-corruption arrangements are developed and maintained

We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls in place to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful and fair.

Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer and we ensure that our independent Audit Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. Both the Audit Committee and the Performance Review and Scrutiny Committee receive regular reports on the risk management framework. The Performance Review and Scrutiny Committee

have drafted a handbook which will be considered in detail upon agreement of political management arrangements.

The anti-fraud strategy was reviewed and there are effective arrangements for whistle-blowing and for receiving and investigating complaints from the public and partners.

The Counter Fraud Investigation Team is the single point of contact for the DWP regarding Housing Benefit cases. It is responsible for fraud investigation relating to Council Tax discounts and exemptions and the overall Council Tax reduction scheme and assists internal audit in broader counter fraud activities.

5. Developing the capacity and capability of members and officers to be effective

Elected Member Development

We have signed up to the Improvement Service's Continuing Professional Development Framework for elected members. The majority of elected members now have personal development plans in place and dedicated days are set aside for member training and seminars on key issues. Following the election in May, all Members of the new Council were offered and provided with a full induction programme.

The Audit Committee and Performance Review and Scrutiny Committees each held development days in 2016-17, and have agreed work plans for improvement. The Audit Committee self-assessed its effectiveness, and identified key actions which were taken forward during 2016-17, including the development of protocols for co-ordination of work with the PRS Committee, and the development of a materiality matrix.

Officer Development

The council supports officer development through a structured approach, driven by the values set out in the Corporate Plan, supported by a behavioural competency framework and underpinned by a systematic approach to identifying core and mandatory training requirements in all council job descriptions.

The Council has Argyll and Bute Manager and Leadership Programmes, which ensures that all employees who have management responsibilities are knowledgeable and effective in delivering services within the priority management policies and procedures of the council, including finance, performance and people management. The Leadership Programme ensures that senior and aspiring leaders in the organisation have support to develop their leadership behaviours and to improve their overall impact and performance across the organisation.

The council is committed to delivering a programme of annual Performance Review and Development, which in turn informs the Corporate Training Programme that is delivered annually.

6. Engaging with local people and other stakeholders to ensure robust public accountability

We have established clear channels of communication with the community and other stakeholders through our Communication Strategy. Key mechanisms include;

Annual Budget Consultation

The Council undertakes a wide ranging budget consultation exercise each year, using a range of channels including written, face to face, online, Community Councils and through partner organisations and community groups in the Community Planning Partnership. The results of the consultation are then used to inform the members' budget decision making process and are reported to the Council as part of the budget reports pack.

Consultation Diary

The Council has developed a consultation section on its website which hosts all consultations run by the council, both current and historic. This includes a section which makes public the results and/or outcome of the consultation and the resultant decisions that have been taken, showing how they have been informed by the consultation process.

Public Performance Reporting

The council makes all performance information available to the public on the Performance pages of the website. This includes information on performance scorecards, budgets and other service related information. This ensures that the council is openly accountable to the public for its performance against agreed policies and standards.

Community Engagement

The Council supports good community engagement with the resourcing of Community Development Officers in Community Services and the work of the Youth Forum staff in Youth Services. Both teams have resources and expertise to support children and young people, hard to reach groups and remote communities to have a voice in local service planning, delivery and evaluation, as well as best community engagement practice for any other requirement.

Local Community Development Officers have also been supporting community groups, organisations and individuals, particularly those who do not traditionally engage in community issues, to participate in local area community planning groups.

The Area Governance section of the Council supports community engagement by providing the staff resource to support four Area Community Planning Groups which act as a forum to enable local groups and organisations to participate in community planning at a local area level throughout Argyll & Bute.

It also supports community engagement at grass roots level by providing support to local partnerships which feed into the activities of the Area Community Planning Groups and by resourcing Community Council Liaison activities, including a training programme, which helps to build the capacity of Community Councils.

The Council produced a Community-Led Action Planning Toolkit in partnership with Scottish Community Development Centre (SCDC). Communities are being supported to consider use of the online toolkit in developing action plans that the community can lead on to address issues and needs in their communities. There are a number of existing community-led action plans and these are recognised as important community contributions to Area Community Planning.

A strong Community Planning Partnership (CPP) is in place with each partner assuming a lead role for one of the outcomes. This enhances the shared sense of accountability and ownership of working towards realising the priorities of the CPP.

Council/Committee Meetings

Meetings are always held in public, unless one of the statutory exemptions in the Local Government (Scotland) Act 1973, schedule 7A applies to the content of the report. When this is the case papers are adjusted to ensure that the maximum amount of content is in the public domain.

GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The legislative framework of local government defines a number of posts which are primary to the governance arrangements in the Council. These include the Chief Executive, fulfilling the role of Head of Paid Service. As Monitoring Officer, the Executive Director of Customer Services has responsibility for:

- overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service.

Specific responsibilities are assigned to the Head of Strategic Finance, as Chief Finance Officer, to ensure that public funds are properly accounted for. In recognition of the significant role that the Chief Finance Officer has in relation to financial performance and the financial control environment, CIPFA has set out key principles that define the core activities and behaviours that belong to the role. These include, being a key member of the Leadership Team, being actively involved in and influencing decision making, and leading the delivery of good financial management across the whole organisation.

AUDIT SCOTLAND FOLLOW-UP AUDIT

In December 2015, the Accounts Commission published their findings on the Controller of Audit's Statutory Report on the Council with regards to Best Value and focused on the Council's;

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

In January 2016, the Council considered these findings and agreed to the development of an Improvement Plan. A further report was submitted to the Council on 20 April 2017 in relation to the following themes;

- Establish a more open and transparent culture and style of working
- Standards
- Taking a more innovative approach to dealing with financial challenges
- Community engagement
- Local empowerment
- Accessible training and development for elected members

The Council noted the progress made and agreed that the outstanding action in relation to local empowerment would be monitored via the Community Empowerment Action Group. In addition, the Council noted that further updates should come forward in due course including in relation to the budget process review (2016) as per the recommendations of the Accounts Commission.

FINANCIAL SUSTAINABILITY

Creating a financial outlook is challenging, as a number of assumptions need to be made anticipating changes. The Council accepts the current financial climate we are in. The Council is in a period of one year settlements which doesn't give us any degree of certainty into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, continues to put financial pressure on Councils.

During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17. Some of the savings were deliverable in 2016-17 and some were from 2017-18 or beyond. This budget created a solid foundation to work from and for the 2017-18 budget most of the savings required to balance the budget had already been agreed as part of the service choices decisions in February 2016 and a series of management efficiency savings agreed in October 2016

The Council agreed, in February 2016, to establish the new flagship "Argyll, Lomond and the Islands Regeneration Initiative" which encompasses all existing and new strategies and plans relating to population and economic growth into a single and cohesive programme to ensure focus in supporting the Local Outcome Improvement Plan's overarching vision to build the economy through a growing population. Three new investments were agreed, totalling £4.5m: Inward Investment Fund, Rural Resettlement Fund and the Lochgilphead and Tarbert Regeneration Fund. The Council also agreed to create an Asset Management and Investment fund of £2m with the purpose of generating income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return on investment.

The Council is committed to driving forward change through innovation. The Council has previously demonstrated that it is able to work in innovative ways in order to improve service delivery, make savings or generate income. A Transformation Board has now been established to take forward further transformation change. Their main focus is constructing a coherent approach to the medium/long term transformation of the Council which includes the development of a budget strategy delivering improved service efficiency and to help balance the budget in 2018-19 and beyond. The Board are looking at digital transformation, overseeing the catering and cleaning innovation project and exploring investment opportunities in addition to leading on an approach to balancing the budget over the medium term which challenges services to look for different ways to deliver their service, using four approaches – business cost reduction, service re-design, income generation and maximisation and self-financing.

The Council has recognised the need to develop a medium to longer term financial strategy. The purpose of the medium to longer term financial strategy will be to set out a plan to demonstrate how the council will respond to the demands and pressures whilst ensuring that there is a sustainable council that meets the needs of its communities and one that can take advantage of opportunities that arise. The medium to longer term financial strategy will be underpinned by a set of principles that support the longer term financial sustainability of the council. These principles are summarised as follows and were agreed by Council in February 2017. The financial strategy will be developed during 2017.

- Resources aligned with the Local Outcome Improvement Plan (LOIP)
- Direct provision versus commissioned services (make or buy)
- Digital transformation
- Shared Services
- Commercial activities (via trading accounts)
- Arm's Length External Organisations (ALEOs)
- Commercial sponsorship
- Investment opportunities

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- Volunteering for core services
- Fully centralised procurement
- Engaging Trade Unions in full partnership
- Shared and improved asset utilisation
- Management structure
- Work patterns and shift arrangements.

INTERNAL FINANCIAL CONTROL

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.

Development and maintenance of the system is undertaken by officers within the Council and the named bodies mentioned below.

In particular the system includes:

- comprehensive budgeting systems;
- regular reviews by the Council and the named bodies (mentioned below) of periodic and annual financial reports which indicate financial performance against forecast;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against forecast;
- clearly defined capital expenditure guidelines;
- project management disciplines;
- guidance relating to financial processes, procedures and regulations; and
- an effective Internal Audit Section

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

This annual review also covers the other bodies whose activities are incorporated into our Group Accounts and reliance is placed on the formal audit opinion contained in the financial statements of each individual body.

- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies are well developed. The Chief Executive submits an annual report on Audit and Risk Management to the Audit Committee. The Strategic risk register is currently subject to review in respect of content and format. A well-developed preparation methodology remains in place.

SMT will continue to review risks on a regular basis and ensure that active mitigations are in place.

Operational Risk Registers are reviewed on a regular basis and updated where required to inform performance scorecards. Results from the annual CIPFA benchmarking exercise demonstrated that we maintained an overall embedded and integrated rating.

During 2016-17, the Audit Committee considered an updated assurance map, which highlighted the Council's key risks, and the source and level of assurance that the Council receives on those risks,

Annual Governance Statement

based on the three lines of defence model. Internal audit plans for 2017-18, where appropriate take cognisance of the areas where additional assurance is required.

A Risk Management Strategy has been developed by Argyll and Bute Health and Social Care Partnership. Further work is required in respect of shared risk 2016-17 have been targeted to provide the Audit Committee on areas where additional assurance is required.

A Risk Management Strategy has been developed by Argyll and Bute Health and Social Care Partnership and will be presented to both partner organisations for approval in May/June 2016 prior to it being approved by the Integration Joint Board.

INTERNAL AUDIT

Argyll and Bute Council and its Group bodies have internal audit functions, which operate to Public Sector Internal Audit Standards (PSIAS). The work of internal audit is informed by an analysis of the risk to which the Council and its Group bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's Audit Committee endorses the preparation methodology and annual internal audit plans and monitor the performance of Internal Audit in completing the plan.

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council and this states substantial assurance can be taken that the systems of governance and internal control are operating effectively

Internal audit provides Members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. External Audit has and continues to place reliance on the work of internal audit. The Chairman and Vice Chairman are independent lay members of the Audit Committee.

HEALTH AND SOCIAL CARE INTEGRATION

The Argyll and Bute Integration Joint Board has been established as a separate legal entity from either Argyll and Bute Council and NHS Highland, with a separate board of governance. The Integration Joint Board comprises eight voting members with four Elected Members nominated by Argyll and Bute Council and four Board members of NHS Highland. In addition there are a number of non-voting appointees representing other sectors and stakeholder groups, such as the Third Sector, Independent Sector, Patients and Service Users, Carers and Staff. The arrangements for the operation, remit and governance of the Integration Joint Board are set out in the Integration Scheme. The Integration Scheme also outlines the scope and functions of services that are delegated, the clinical and care governance, financial and operational management arrangements.

From 1 April 2016 the Integration Joint Board, via a process of delegation from the Council and Health Board has responsibility and its Chief Officer has responsibility from 1 April 2016 for the planning, resourcing and operational delivery of all integrated health and social care services within Argyll and Bute. The overarching strategic vision, mission and values of the Integration Joint Board are set out in the Strategic Plan and Strategic Objectives are aligned to deliver on the National Outcomes for Adults, Older People and Children.

The Council places reliance on the internal controls in place for the operation of the Integration Joint Board and similarly the IJB places reliance on the procedures, processes, policies and operational systems of Argyll and Bute Council and NHS Highland. The Integration Joint Board operates within an established procedural framework. The roles and responsibilities of Board members and officers are defined within Standing Orders, the Integration Scheme, Financial Regulations and Standing Financial Instructions.

The Integration Joint Board has proportionate internal audit arrangements in place to provide independent assurance on risk management, corporate governance and the system of internal control. A risk based audit plan was carried out in 2016-17 and the internal audit report for the year concluded that the Integration Joint Board has a framework of controls in place that provides reasonable assurance over the effective and efficient achievement of the organisation's objectives and the management of key risks, governance, processes and the overall control environment.

Progress has been made in the first year of the operation of the Integration Joint Board to ensure appropriate governance and information sharing arrangements are in place, further improvement and development of governance arrangements is ongoing to safeguard the future success of the partnership.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2017-18, particularly in the context of continuous improvement within the Council:

- The review of governance and internal control has identified the following areas for consideration during 2017-18, particularly in the context of continuous improvement within the Council:
- During 2016-17 the Council received 1340 requests for information of which 1264 (94.33% increased from 93% for 15-16) were responded to within the required timescale. The Council received 39 requests for review (2.9% reduced from 3.5% for 15-16).
- The development of a medium to longer term financial strategy
- The Strategic Risk Register is subject to continuing review
- Internal Audit presented 4 out of 30 reports with a limited level of assurance during the year. Management have accepted 100% of recommendations and have a robust follow-up system to track actions arising ensuring timely implementation through the SMT meeting programme.
- Development of delivery plans for the Local Outcome Improvement Plan and ensuring these reflect Council priorities.
- Review and develop the current monitoring and reporting arrangements in respect of the Health and Social Care Partnership
- Ensuring effective engagement with scrutiny bodies who engage with the Council. The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity in Argyll and Bute Council during financial year 2017/18 and is based on a shared risk assessment undertaken by a Local Area Network (LAN).
- The LSP notes the recent Strategic inspection of the Council's education functions which identified areas of strength as well as areas which require improvement. We will work with Education Scotland who will provide support and monitor progress towards improvement on the agreed actions.
- Ensuring that we have a sustainable budget for the future and that reduced budget/resources are aligned to support council priorities and delivery of the Local Outcome Improvement Plan. Whilst we have delivered a number of transformation savings already, we hope this area of work will deliver savings from 2017-18 onwards.
- Ongoing development of performance management and improving performance scrutiny.
- Strategic workforce planning is a key element of the medium to longer term financial strategy and work has commenced on this theme with a view to ensuring that the Council has a workforce that can support the organisation in the future to meet its medium to longer term financial challenges. It is envisaged that this element of the strategy will be considered by Members in the autumn.
- Further development of risk management to ensure that it remains embedded within council business.
- Training community groups on the Community-Led Action Planning Toolkit and ensuring that the development of Community-Led Action Plans feed into Area Community Planning Groups.

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- Ensuring the internal audit function is fully resourced and work is planned to ensure the 2017-18 audit plan is delivered and that further improvements in the development of internal audit are achieved.
- Ensure good governance and scrutiny arrangements are further developed and maintained in respect of the Health and Social Care Partnership.
- The actions being taken by the Council continues to improve political management arrangements and governance within the Council. The new Council has considered a report from the SLWG on Political Management arrangements and will require to make decisions as to how they will undertake their business as Councillors and adjustments will then be made to the Council constitution to give effect to any changes required.
- Implement new legislation as it applies to and affects the provision of Council Services.
- Further enhance and improve the tone of our correspondence to further develop a climate of openness with our customers.

ASSURANCE

The annual review of the effectiveness of the system of governance and internal financial control is informed by:

- the work of officers within the Council;
- the work of Internal Audit as described above;
- the work of External Audit;
- the Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- external review and inspection reports; and
- recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2016-17 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement..

The Remuneration Report

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2014 (SSI No.2014/200) require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. All information disclosed in the tables in this Remuneration Report has been audited by Audit Scotland. All other sections within the Remuneration Report have been reviewed by Audit Scotland to ensure it is consistent with the Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183), further amended by Regulations 2013 (SSI No 2013/351). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016-17 the salary for the Leader of Argyll and Bute Council is £33,761. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £25,320 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £0.295m. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay a salary of £23,914 to each appointed spokesperson and the Chair of the Protective Services and Licensing Committee. Chairs of Area Committees without a spokesperson's remit are paid a salary of £19,939.

In 2016-17 Argyll and Bute Council had 10 senior councillors in the administration (excluding the Provost and the Leader). The total salary remuneration for senior councillors (including the Provost and the Leader) during 2016-17 was £0.286m. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

Senior Employees

The salary of senior employees is set by reference to national arrangements as well as local decisions on management structures and their associated remuneration levels. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services (Chief Officials) sets the salary levels for the Chief Executives of Scottish Local Authorities and also sets out the spinal column salary points for Chief Officers which local authorities can utilise in setting the salary levels for posts within their authority. Circular CO/148 sets the amount of salary for the Chief Executive of Argyll and Bute Council for 2016-17.

The Remuneration Report



The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of an Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and (SCP) 29 for Heads of Service.

COUNCILLORS' REMUNERATION

Councillors' payments are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

The total amount of councillors' remuneration paid by the Council during the year was:

Members Allowances	2016-17	2015-16
	Actual £'000	Actual £'000
Basic Councillor Salaries	402	392
Leader and Provost's Salary	59	58
Senior Councillor Salaries	227	231
Other Expenses and Allowances paid to Members	88	135
Total Allowances	776	816

The annual return of councillors' salaries and expenses for 2016-17 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

The Remuneration Report

SENIOR COUNCILLORS' REMUNERATION

Additional disclosures are required for senior councillors' remuneration. Senior councillors' remuneration is in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 which for the purpose of remuneration, grades Councillors as either the Leader of the Council, The Civic Head (Provost), senior councillors or councillors. Details of senior councillors' remuneration are as follows:

Senior Members	Responsibility	2016-17				2015-16
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Rory Colville	Lead Councillor for Education and Lifelong Learning (From 23/04/16), Chair of Mid Argyll, Kintyre and the Islands Area Committee	23,914	-	-	23,914	23,272
Councillor Maurice Corry	Lead Councillor for Health and Social Care Integration from 21/01/16 to 30/06/16	10,960	-	-	10,960	3,892
Councillor Robin Currie	Lead Councillor for Community & Culture and Strategic Housing (responsible for Gaelic from 23/04/15)	23,914	348	-	24,262	23,976
Councillor Mary Jean Devon	Lead Councillor for Health and Social Care Integration (from 23/04/15 to 05/01/16), Lead Councillor for Children and Families to 23/04/15	-	-	-	-	19,565
Councillor Kieron Green	Lead Councillor for Health and Social Care Integration from 30/06/16	12,954	-	-	12,954	-
Councillor David Kinniburgh	Depute Provost from 21/01/16, Chair of Planning, Protective Services and Licensing Committee, additional responsibility for Planning Services, Historic and Sustainable Environment from 23/04/15	23,914	-	-	23,914	23,687
Councillor Alistair MacDougall	Lead Councillor for Strategic Transportation from 23/04/15, Lead Councillor for Gaelic (from 28/09/14 to 23/04/15)	23,914	-	-	23,914	23,687

Senior Members	Responsibility	2016-17				2015-16
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
The Late Councillor Duncan MacIntyre	Lead Councillor for European Affairs, Sustainable Economic Growth and Strategic Transportation to 23/04/15	-	-	-	-	3,464
Councillor Robert E MacIntyre	Chair of Bute and Cowal Area Committee to 29/09/16	11,459	-	-	11,459	19,749
Councillor Roddy McCuish	Chair of Oban, Lorn and the Isles Area Committee (from 25/09/14)	19,939	-	-	19,939	19,749
Councillor Alex McNaughton	Chair of Bute and Cowal Area Committee from 29/09/16	8,438	-	-	8,438	-
Councillor Aileen Morton	Lead Councillor for Sustainable Economic Growth from 23/04/15, Lead Councillor for Education, Lifelong Learning and Strategic IT Services to 23/04/15	23,914	-	-	23,914	23,981
Councillor Ellen Morton	Depute Leader, Lead Councillor for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects	23,914	-	-	23,914	23,687
Councillor Gary Mulvaney	Chair of Helensburgh and Lomond Area Committee	19,939	-	-	19,939	19,749
Councillor Douglas Philand	Depute Provost to 21/01/16, Lead Councillor for Adult Care to 23/04/15	-	-	-	-	3,464

Senior Members	Responsibility	2016-17				2015-16
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Len Scoullar	Provost and Lead Councillor for Island Affairs	25,320	641	-	25,961	25,629
Councillor Dick Walsh	Leader, Lead Councillor for Strategic Finance, (IT Services, Improvement, HR and Customer Support, Facility Services, Governance and Law)	33,761	1,333	-	35,094	35,600

Senior Councillors' remuneration in the above tables does not include non-taxable expenses.

The Remuneration Report

EMPLOYEES' REMUNERATION

The Regulations require that local authorities provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made to the employee in respect of agreed employment terminations or retirements. However, employer pension contributions are excluded from the definition.

Readers should be aware when making comparisons between years that, due to contractual incremental pay increases, the number of employees covered by this disclosure will increase each year. In addition, payments made in respect of agreed employment terminations or retirements can also distort the number and/or banding of employees.

The number of employees whose remuneration, excluding employer pension contributions and including redundancy/retirement payments, was £50,000 or more in bands of £5,000 was:

Range £	2016-17 Number of Officers	2015-16 Number of Officers
£50,000 - £54,999	80	68
£55,000 - £59,999	13	12
£60,000 - £64,999	6	8
£65,000 - £69,999	2	2
£70,000 - £74,999	13	13
£75,000 - £79,999	1	-
£80,000 - £84,999	2	2
£85,000 - £89,999	-	-
£90,000 - £94,999	1	-
£95,000 - £99,999	2	2
£100,000 - £104,999	-	1
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	1	1
Total	121	109

The Remuneration Report

SENIOR EMPLOYEES' REMUNERATION

The table below provides details of the remuneration paid to the Council's Senior Employees (defined by the regulations) as those forming part of the Council's senior management team, or holding certain statutory posts and any additional employee whose salary is over £150,000.

In 2016-17 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2016-17 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Taxable Expenses £	Total Remuneration 2016-17 £	Total Remuneration 2015-16 £
Chief Executive (from 9-5-16), Executive Director of Community Services (to 8-5-16) - Cleland Sneddon	115,244	4,903	120,147	100,259
Chief Executive - Sally Loudon (to 8-5-16)	21,340	-	21,340	123,530
Executive Director of Customer Services - Douglas Hendry	98,362	297	98,659	97,704
Acting Executive Director of Community Services - Ann Marie Knowles (from 13-5-16) <i>(Full year equivalent)</i>	77,451 97,799	- -	77,451 97,799	- -
Executive Director of Development and Infrastructure Services - Pippa Milne	97,799	68	97,867	96,925
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan (from 1-10-15)) <i>(Full year equivalent)</i>	72,978 -	612 -	73,590 -	33,146 71,012
Head of Children and Families (Section 3 Social Work Officer) - Louise Long (from 15-7-15) <i>(Full year equivalent)</i>	72,418 -	929 -	73,347 -	48,892 71,012
Head of Adult Care (Section 3 Social Work Officer) - James Robb (to 14-7-15) <i>(Full year equivalent)</i>	- -	- -	- -	63,596 71,012

During 2016-17 the Chief Executive, Sally Loudon, left the organisation and Cleland Sneddon (Executive Director of Customer Services) was appointed Chief Executive. Ann Marie Knowles was appointed Acting Executive Director of Customer Services.

The Chief Executive's salary (Sally Loudon) in 2016-17 included £2,906 (2015-16 - £4,189) of remuneration for acting as Returning Officer in these years.

During 2015-16 James Robb, Head of Adult Care and the Council's Section 3 Social Work Officer, left the organisation and the responsibility of Section 3 Social Work Officer was transferred to Louise Long, Head of Children and Families.

During 2015-16, Kirsty Flanagan was appointed to the role of Head of Strategic Finance (effective 1 October 2015).

The Remuneration Report

PENSION BENEFITS

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

Local government employees had a final salary pension scheme prior to 1 April 2015. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. As of 1 April 2015, local government employees are now part of a defined benefit pension scheme worked out on a career average basis. Benefits accumulated are calculated using pensionable pay each scheme year, rather than final salary. All benefits accumulated prior to 1 April 2015 are protected.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2016-17 are as follows:

Whole time pay	Contribution Rate 2015-16
On earnings up to and including £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	12.00%

From April 2015, if a person works part-time their contribution is worked out on their part-time pay rate for the job. Prior to this, if a person worked part-time, their contribution rate was worked out on the whole-time pay rate for the job with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum up to the limit set by the Finance Act 2004.

From 1 April 2015, benefits are calculated on the basis of a revalued annual pension built up of 1/49th of pensionable pay each year, plus inflation to keep up with the cost of living. Prior to this date, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The Remuneration Report

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2017 £	For year to 31 March 2016 £		As at 31 March 2017 £	Difference from 31 March 2016 £
Councillor Rory Colville	4,617	4,489	Pension	3,615	608
			Lump Sum	1,529	64
Councillor Maurice Corry	3,889	3,440	Pension	1,577	319
			Lump Sum	-	-
Councillor Robin Currie	4,617	4,572	Pension	3,476	597
			Lump Sum	801	32
Councillor Mary Jean Devon	3,259	4,314	Pension	3,317	384
			Lump Sum	1,452	18
Councillor Kieron Green	3,292	-	Pension	1,599	-
			Lump Sum	-	-
Councillor David Kinniburgh	4,617	4,572	Pension	3,538	620
			Lump Sum	1,480	71
Councillor Roddy McCuish	3,850	3,811	Pension	3,439	479
			Lump Sum	1,517	37
Councillor Aileen Morton	4,617	4,572	Pension	2,051	554
			Lump Sum	-	-
Councillor Ellen Morton	4,617	4,572	Pension	3,784	601
			Lump Sum	1,622	59
Councillor Gary Mulvaney	3,849	3,811	Pension	3,204	497
			Lump Sum		(1,334)

Councillors Len Scoullar, Dick Walsh, Douglas Philand, The Late Duncan MacIntyre, Robert E McIntyre, Alex McNaughton and Alistair MacDougall are not members of Strathclyde Pension Fund.

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2017 £	For year to 31 March 2016 £		As at 31 March 2017 £	Difference from 31 March 2016 £
Chief Executive - Cleland Sneddon	22,214	18,498	Pension	44,430	10,020
			<i>Lump Sum</i>	84,582	15,989
Acting Executive Director of Community Services - Ann Marie Knowles	17,719	-	Pension	40,611	11,799
			<i>Lump Sum</i>	82,918	22,130
Executive Director of Customer Services - Douglas Hendry	18,717	18,498	Pension	46,033	2,433
			<i>Lump Sum</i>	97,129	962
Executive Director of Development and Infrastructure Services - Pippa Milne	18,717	18,498	Pension	40,070	2,375
			<i>Lump Sum</i>	79,236	785
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan (from 1-10-15)	13,859	11,512	Pension	16,792	1,631
			<i>Lump Sum</i>	20,735	205
Head of Children and Families (Section 3 Social Work Officer) - Louise Long (from 15-7-15)	13,859	13,697	Pension	6,593	1,531
			<i>Lump Sum</i>	-	-

EMPLOYEE EXIT PACKAGES

The numbers of exit packages with cost per band for compulsory and other redundancies are set out in the table below:

The Remuneration Report

No	2015/16			Exit Package Cost Band	No	2016/17		
	Cash Value					Cash Value		
	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £			Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £
66	306,493	87,436	393,929	£0 - £20,000	45	106,794	225,776	332,570
7	88,677	99,844	188,521	£20,001 - £40,000	5	-	137,480	137,480
8	207,961	178,207	386,168	£40,001 - £60,000	4	44,304	123,899	168,203
1	60,480	-	60,480	£60,001 - £80,000	2	-	127,484	127,484
1	82,076	-	82,076	£80,001 - £100,000	3	98,802	168,669	267,471
1	103,865	-	103,865	£100,001 - £150,000	-	-	-	-
84	849,552	365,487	1,215,039		59	249,900	783,308	1,033,208

Exit package costs include redundancy payments, pension strain and compensatory lump sum payments for all retirees. The costs should also include the capitalised cost of compensatory added years ("CAY"), which will be payable to the pension fund until the retiree ceases to claim their pension. For employees with pensions provided by the Strathclyde Pension Fund (the provider for all employees other than teachers) the notional cost of added years is noted separately in the table as costs are based on an assessment by the pension's provider of the present value of all future payments to the retiree. These amounts are not based on actual costs but instead use actuarial assumptions on pensioner longevity and other factors and as such will be subject to change and will not reflect the actual costs incurred.

The Cash Value costs noted in the table represent the actual costs incurred by the Council for the agreed exit packages. The capitalised added years pension element for members of the Teachers' Pension Scheme is included in the cash value cost as payment is made in advance to the teachers' pension fund to settle this liability.

The total cost of £1.033m in the previous table includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2017 of £0.25m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 33 on page 110 provides more information on the exit packages agreed in the last two financial years.

2015-16			Service	2016-17		
Net Expenditure Chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
2,167	(185)	2,352	Chief Executive and Strategic Finance	2,041	(100)	2,141
			Community Services:			
368	(29)	397	Executive Director of Community Services	310	(15)	325
12,840	(2,520)	15,360	Community and Culture	11,170	(2,021)	13,191
71,080	(26,323)	97,403	Education	72,298	(8,968)	81,266
			Customer Services			
12,706	137	12,569	Executive Director of Customer Services	12,932	182	12,750
7,687	(2,014)	9,701	Customer and Support Services	8,310	(2,408)	10,718
12,140	(7,108)	19,248	Facility Services	11,907	(2,291)	14,198
2,014	(169)	2,183	Governance and Law	2,083	(94)	2,177
3,408	(242)	3,650	Improvement and HR	3,177	(124)	3,301
			Development and Infrastructure Services			
1,246	(103)	1,349	Executive Director of Development & Infrastructure Services	1,268	(54)	1,322
4,257	(508)	4,765	Economic Development	3,886	(566)	4,452
3,149	(375)	3,524	Planning and Regulatory Services	3,003	(224)	3,227
21,899	(7,596)	29,495	Roads and Amenity Services	20,855	(9,858)	30,713
57,769	(2,901)	60,670	Health and Social Care Integration	56,208	(3,184)	59,392
1,414	953	461	Other Non-Departmental Costs	(48)	(518)	470
214,144	(48,983)	263,127	Net Cost of Services	209,400	(30,243)	239,643

Expenditure and Funding Analysis

(220,494)	23,208	(243,702)	Other Income and Expenditure	(210,472)	24,173	(234,645)
(6,350)	(25,775)	19,425	(Surplus) / Deficit	(1,072)	(6,070)	4,998
(46,067)			Opening General fund Balance	(52,417)		
(6,350)			Plus (Surplus) or Deficit on General Fund Balance	(1,072)		
(52,417)			Closing General Fund Balance at 31 March 2017	(53,489)		

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on pages 52 to 53.

Statement of Comprehensive Income and Expenditure

2015-16			Note	2016-17		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Service	Gross Expenditure £'000	Gross Income £'000
2,489	137	2,352	Chief Executive and Strategic Finance	2,268	127	2,141
			Community Services:			
397	-	397	Executive Director of Community Services	325	-	325
20,663	5,303	15,360	Community and Culture	19,057	5,866	13,191
100,864	3,461	97,403	Education	84,892	3,626	81,266
			Customer Services			
14,772	2,203	12,569	Executive Director of Customer Services	15,001	2,251	12,750
35,208	25,507	9,701	Customer and Support Services	36,081	25,363	10,718
32,203	12,955	19,248	Facility Services	27,223	13,025	14,198
2,548	365	2,183	Governance and Law	2,551	374	2,177
3,700	50	3,650	Improvement and HR	3,379	78	3,301
			Development and Infrastructure Services			
1,349	-	1,349	Executive Director of Development & Infrastructure Services	1,322	-	1,322
7,459	2,694	4,765	Economic Development	5,519	1,067	4,452
6,056	2,532	3,524	Planning and Regulatory Services	5,797	2,570	3,227
64,082	34,587	29,495	Roads and Amenity Services	65,894	35,181	30,713
72,161	11,491	60,670	Health and Social Care Integration	75,793	16,401	59,392
482	21	461	Other Non-Departmental Costs	1,557	1,087	470
364,433	101,306	263,127	Net Cost of Services	346,659	107,016	239,643

Statement of Comprehensive Income and Expenditure

		Other Operating Income and Expenditure:	
	323	Net (Gain)/loss on Disposal of Long Term Assets	266
	1,373	Other Operating Income and Expenditure	1,339
	1,696	Total Other Operating Income and Expenditure	1,605
		Financing and Investment Income and Expenditure:	
	16,994	Interest Payable and Similar charges	16,133
	(2,514)	Interest and Investment Income	(3,627)
	4,730	Net Pension Interest Expense	3,367
	19,210	Total Financing and Investment Income and Expenditure	15,873
		Taxation and Non-Specific Grant Income:	
	(176,473)	General Government Grants	(166,251)
	(16,922)	Government Capital Grants and Other Capital Contributions	(11,375)
	(27,840)	Non-domestic Rates Redistribution	(30,446)
	(43,373)	Council Tax Income	(44,051)
	(264,608)	Total Taxation and Non-Specific Grant Income	(252,123)
	19,425	Deficit on Provision of Services	4,998
	(578)	(Surplus)/Deficit on revaluation of Long Term Assets	(1,290)
	(61,209)	Other Post Employment Benefits (Pensions)	48,407
	(61,787)	Other Comprehensive Income and Expenditure	47,117
	(42,362)	Total Comprehensive Income and Expenditure	52,115

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Expenditure and Funding Analysis on pages 50 to 51.

Balance Sheet

31 March 2016		Note	31 March 2017	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment	14	
258,485		- Other Land and Buildings		255,848
10,687		- Vehicles, Plant, Furniture and Equipment		9,552
201,164		- Infrastructure Assets		200,944
1,868		- Community Assets		2,271
2,817		- Surplus Assets		2,907
15,486		- Assets Under Construction		18,830
	490,507	Total Property Plant & Equipment		490,352
	1,539	Heritage Assets	15	1,671
	577	Intangible Assets	16	728
	8,094	Investment Property	17	11,021
	491	Long Term Investments	25	492
	4,897	Long-Term Debtors	20	4,926
	506,105	Total Long Term Assets		509,190
		Current Assets		
555		Inventories		529
18,106		Short Term Debtors (Net of Impairment)	21	15,981
2,381		Assets Held for Sale	22	691
35,019		Short Term Investments		52,500
7,940		Cash and Cash Equivalents	23	7,889
	64,001	Total Current Assets		77,590
		Current Liabilities		
(18,303)		Short-term Borrowing	25	(14,298)
(31,915)		Short-term Creditors	24	(30,115)
-		Capital Grant Receipts in Advance	28	(567)
(2,675)		Provisions	27	(1,818)
(1,935)		Other Short Term Liabilities	26	(2,008)
	(54,828)	Total Current Liabilities		(48,806)
		Long-term Liabilities		
(141,519)		Borrowing Repayable within a Period in Excess of 12 Months	25	(157,937)
(74,809)		Other Long-term liabilities	26	(72,801)
(1,190)		Provisions	27	(1,255)
-		Capital Grant Receipts in Advance	28	(5,000)
(94,441)		Other Long-term liabilities (Pensions)	29	(149,777)
	(311,959)	Total Long-term Liabilities		(386,770)
	203,319	Total Assets less Liabilities		151,204

Balance Sheet

31 March 2016		Note	31 March 2017	
£'000	£'000		£'000	£'000
		Unusable Reserves		
54,847		- Revaluation Reserve	56,033	
194,492		- Capital Adjustment Account	194,647	
(4,165)		- Financial Instruments Adjustment Account	(3,836)	
(94,441)		- Pensions Reserve	(149,777)	
(4,529)		- Accumulated Absences Account	(4,312)	
	146,204			92,755
		Usable Reserves		
4,027		- Capital Funds	4,064	
671		- Repairs and Renewals Funds	896	
52,417		- General Fund Balance	53,489	
	57,115			58,449
	203,319	Total Reserves		151,204

The Balance Sheet is a snapshot of the value as at the 31 March 2017 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported as follows:

- **Unusable reserves:** are reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".
- **Usable reserves:** are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

The Unaudited Annual Accounts were issued on 29 June 2017.

Kirsty Flanagan
Head of Strategic Finance
29 June 2017

Statement of Movement in Reserves

Movements in 2016-17	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						Total Reserves
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves	
Balance at 31 March 2016	(52,417)	(671)	(4,027)	(57,115)	(54,847)	(194,492)	94,441	4,165	4,529	(146,204)	(203,319)
(Surplus)/Deficit on Provision of Services	4,998			4,998						-	4,998
Other Comprehensive Income and Expenditure					(1,290)		48,407			47,117	47,117
Total Comprehensive Income and Expenditure	4,998	-	-	4,998	(1,290)	-	48,407	-	-	47,117	52,115
<i>Adjustments between accounting basis and funding basis under regulations:</i>											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost				-	104	(104)				-	-
Amortisation of Intangible Assets				-		-				-	-
Depreciation of Non-current Assets	(23,261)			(23,261)		23,261				23,261	-
Impairment of Non-current Assets	(1,993)			(1,993)		1,993				1,993	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	11,375			11,375		(11,375)				(11,375)	-
Capital Expenditure Charged to the General Fund	229			229		(229)				(229)	-
Net Gain or Loss on Sale of Non-current Assets	(266)		(1,613)	(1,879)		1,879				1,879	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	329			329				(329)		(329)	-
Employee Benefits	217			217					(217)	(217)	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(6,929)			(6,929)			6,929			6,929	-

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	12,023			12,023		(12,023)				(12,023)	-
Statutory Repayment of Debt - NPDO Finance	1,935			1,935		(1,935)				(1,935)	-
Total Statutory Adjustments	(6,341)	-	(1,613)	(7,954)	104	1,467	6,929	(329)	(217)	7,954	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(1,343)	-	(1,613)	(2,956)	(1,186)	1,467	55,336	(329)	(217)	55,071	52,115
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	271	(225)	1,576	1,622		(1,622)				(1,622)	-
(Increase)/Decrease in Year	(1,072)	(225)	(37)	(1,334)	(1,186)	(155)	55,336	(329)	(217)	53,449	52,115
Balance at 31 March 2017 Carried Forward	(53,489)	(896)	(4,064)	(58,449)	(56,033)	(194,647)	149,777	3,836	4,312	(92,755)	(151,204)

This Statement shows the movement in the 2016-17 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Movement in Reserves

Comparative Movements in 2015-16	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						
	General Fund Balance	Repairs and Renewals Fund		Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves
		£'000	£'000								
Balance at 31 March 2015	(46,067)	(669)	(3,742)	(50,478)	(55,224)	(209,599)	144,738	4,516	5,090	(110,479)	
(Surplus)/Deficit on Provision of Services	19,425			19,425						-	
Other Comprehensive Expenditure and Income					(578)		(61,209)			(61,787)	
Total Comprehensive Expenditure and Income	19,425	-	-	19,425	(578)	-	(61,209)	-	-	(61,787)	
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	955	(955)					-
Amortisation of Intangible Assets	(118)			(118)		118					118
Depreciation and of Non-current Assets	(20,700)			(20,700)		20,700					20,700
Impairment of Non-current Assets	(25,006)			(25,006)		25,006					25,006
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	16,922			16,922		(16,922)					(16,922)
Capital Expenditure Charged to the General Fund	743			743		(743)					(743)
Net Gain or Loss on Sale of Non-current Assets	(323)		(652)	(975)		975					975
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	351			351				(351)			(351)
Employee Benefits	561			561					(561)		(561)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(10,912)			(10,912)			10,912				10,912

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	10,792			10,792		(10,792)				(10,792)	-
Statutory Repayment of Debt - NPDO Finance	1,877			1,877		(1,877)				(1,877)	-
Total Statutory Adjustments	(25,813)	-	(652)	(26,465)	955	15,510	10,912	(351)	(561)	26,465	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(6,388)	-	(652)	(7,040)	377	15,510	(50,297)	(351)	(561)	(35,322)	(42,362)
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	38	(2)	367	403		(403)				(403)	-
(Increase)/Decrease in Year	(6,350)	(2)	(285)	(6,637)	377	15,107	(50,297)	(351)	(561)	(35,725)	(42,362)
Balance at 31 March 2016 Carried Forward	(52,417)	(671)	(4,027)	(57,115)	(54,847)	(194,492)	94,441	4,165	4,529	(146,204)	(203,319)

This Statement shows the movement in the 2015-16 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amounts of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2015-16 £'000		Note	2016-17 £'000
19,425	Net Deficit on the Provision of Services		4,998
(35,867)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(19,429)
4,640	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		3,777
(11,802)	Net Cash OutFlow from Operating Activities	37	(10,654)
9,799	Investing Activities	38	18,915
17,909	Financing Activities	39	(8,210)
15,906	Net Decrease in Cash and Cash Equivalents		51
(23,846)	Cash and Cash Equivalents at the beginning of the Reporting Period		(7,940)
(7,940)	Cash and Cash Equivalents at the end of the Reporting Period	23	(7,889)

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2016-17 financial year and its position at the year-end of 31 March 2017. The Council must ensure that its Annual Accounts are prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded for the income that might not be collected.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made,

Notes to the Financial Statements

it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with loans fund principal charges.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance loans fund principal, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognised costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Notes to the Financial Statements

1.6.3 Post-Employment Benefits

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

a) Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

b) Local Government Pension Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This pension scheme is accounted for as a defined benefits scheme:

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in the net pension's liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years' service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to the Non Distributed Costs in the Comprehensive Income and Expenditure Statement.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council – The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
 - Re-measurements comprising

Notes to the Financial Statements

- The return on plan assets – Excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve
 - Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

1.6.4 Post Employment Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirements benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material impact disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.8 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Notes to the Financial Statements

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9 Financial Assets

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for the identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Notes to the Financial Statements

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

1.11 Heritage Assets

The main heritage assets held by the Council are two art collections and a historic jail and courthouse which is operated as a “living” museum. The “Argyll Collection” is an art collection which was set up to provide the young people of Argyll and Bute with direct access to a wide range of quality art recognising that they had limited access to museums and galleries. In addition the Council holds other works of art which are held at various libraries and the Campbeltown Museum. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council’s main heritage assets are accounted for as follows:

The Art Collections

The collections cover a range of media including acrylic, charcoal, embroidery, engraving, etching, gouache, lithography, oil, pastel, pencil, procion dye, screenprint, monoprint, watercolour, woodcut, ceramic, bronze and woodcarving. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These valuations are updated periodically. The assets within the art collections are deemed to have indeterminate lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant and recent information from sales at auctions.

Notes to the Financial Statements

Inveraray Jail and Courthouse and “Other” Historic Buildings

The building is owned by Argyll and Bute Council and leased out to an organisation which runs it as a “living museum”. The building is valued in accordance with its property, plant and equipment policy. Other buildings included in this category are McCaig’s Folly in Oban and Castle Lodge in Dunoon.

Archaeology and “Other” Museum Exhibits

The Council does not consider that reliable cost or valuation information can be obtained for archaeological items and “other” museum exhibits outwith the art collections. This is because of the diverse nature of the assets held and lack of comparable values. Consequently, the Council does not recognise these assets on the Balance Sheet.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council’s general policies on impairment (see note 1.18.3 in this summary of significant accounting policies). The proceeds of any disposals are accounted for in accordance with the Council’s general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory requirements relating to capital expenditure and receipts (see note 1.18.4 in this summary of significant accounting policies).

1.12 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council’s goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare Group Accounts. In the Council’s own single entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

1.14 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Notes to the Financial Statements

1.15 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.16.1 The Council as Lessee

a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Notes to the Financial Statements

b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.16.2 The Council as Lessor

a) Finance Leases

Where the Council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt on disposal of the asset is used to write down the debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

b) Operating Leases

Where the Authority grants an operating lease over a property or an item of plant and equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, with the exception of rental income from Investment Property which is credited to Interest and Investment Income. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads and Support Services

The costs of overheads and support services are not charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

1.18 Assets Held for Sale

Property, land and buildings are classified as *Assets Held for Sale* when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.

Notes to the Financial Statements

- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of *Property, Plant and Equipment* will be reclassified as *Assets Held for Sale*.

1.19 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administrative purposes that are expected to be used during more than one financial year are classified as *Property, Plant and Equipment*.

1.19.1 Recognition

Expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.19.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Accounts. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- School buildings – current value, but because of their specialist nature, are measured at depreciated cost which is used as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Notes to the Financial Statements

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost is used as a proxy for current value.

Assets included in the balance sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of an impairment loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.19.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.19.4 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an *Asset Held for Sale*. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Non-Departmental Costs line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as *Assets Held for Sale*.

Notes to the Financial Statements

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Disposal receipts are categorised as capital receipts. All capital receipts are credited to the Capital Fund, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the costs of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.19.5 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the balance sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance Cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.21 Provisions, Contingent Liabilities and Contingent Assets

1.21.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

1.21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.21.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.22 Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 30 to the accounts.

Notes to the Financial Statements

1.23 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable.

1.23 ACCOUNTING FOR THE CARBON REDUCTION COMMITMENT SCHEME

The council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2017 for 2017/18).

For this disclosure there are no new standards, introduced by the 2017/18 Code, which will impact on the 2017/18 Financial Statements.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below:

Government Funding: There is a high degree of uncertainty about future levels of funding for local government. However, the Council had determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Service Concessions: The Council currently operates two Private Finance Initiative (PFI), or similar, contracts which are accounted for as Service Concession arrangements under IFRIC12 – *Service Concession Arrangements*. The Council has determined that in the case of the Schools NPDO contract the Council has control over the services provided through use of the schools and that a qualifying asset has been created. The appropriate accounting treatment is to bring the assets "on balance sheet" along with a finance lease liability.

The Council also operates a Waste Management PPP contract. In this case the Council determined that a "qualifying asset" had not been created and that the Council did not have significant control over the services being provided. The appropriate accounting treatment was therefore determined to be "off balance sheet" and that payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account.

Holiday Pay Accrual: Unused holiday entitlement earned at 31 March 2017 but not taken at that date has been quantified on the basis of a 5% sample of all non-term time Council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement as at 31 March and no estimation is required for these staff. The liability shown in the 2016-17 financial statements in respect of the holiday pay accrual is £4.312m.

Notes to the Financial Statements

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions															
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £2.4m for every year that useful lives had to be reduced.</p>															
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	<p>The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:</p> <table border="1" data-bbox="1223 895 2130 1406"> <thead> <tr> <th data-bbox="1223 895 1641 1066">Sensitivities at 31 March 2017</th> <th data-bbox="1641 895 1888 1066">Approximate % Increase to Employer Obligation</th> <th data-bbox="1888 895 2130 1066">Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1223 1066 1641 1150">0.5% decrease in real discount rate</td> <td data-bbox="1641 1066 1888 1150">10%</td> <td data-bbox="1888 1066 2130 1150">81,288</td> </tr> <tr> <td data-bbox="1223 1150 1641 1235">1 year increase in member life expectancy</td> <td data-bbox="1641 1150 1888 1235">3-5%</td> <td data-bbox="1888 1150 2130 1235">26,759 - 40,644</td> </tr> <tr> <td data-bbox="1223 1235 1641 1319">0.5% increase in salary increase rate</td> <td data-bbox="1641 1235 1888 1319">3%</td> <td data-bbox="1888 1235 2130 1319">26,759</td> </tr> <tr> <td data-bbox="1223 1319 1641 1406">0.5% increase in pension increase rate</td> <td data-bbox="1641 1319 1888 1406">7%</td> <td data-bbox="1888 1319 2130 1406">52,139</td> </tr> </tbody> </table>	Sensitivities at 31 March 2017	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	10%	81,288	1 year increase in member life expectancy	3-5%	26,759 - 40,644	0.5% increase in salary increase rate	3%	26,759	0.5% increase in pension increase rate	7%	52,139
Sensitivities at 31 March 2017	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	10%	81,288															
1 year increase in member life expectancy	3-5%	26,759 - 40,644															
0.5% increase in salary increase rate	3%	26,759															
0.5% increase in pension increase rate	7%	52,139															

<p>Arrears</p>	<p>At 31 March 2017, the Council had a balance of sundry debtors of £2.93m. A review of significant balances suggested an allowance of 23.9% (£0.703m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate an increase of the allowance by 10% would increase the bad debt provision required by £0.29m.</p>
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5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £41.519m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2016 £'000	Funds Used £'000	Contributions to/from Funds £'000	New Earmarking agreed 2016-17 £'000	New Earmarking at end of 2016-17 £'000	Balance 31 March 2017 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	6,581	(2,359)	-	-	1,955	6,177
Unspent Grants	874	(575)	-	-	245	544
Contributions Carried Forward	277	(91)	-	-	105	291
Unspent Budget Carried Forward	7,079	(1,996)	(400)	172	2,865	7,720
School Budget Carry Forwards	1,209	(1,210)	-	-	1,034	1,033
Unspent Budget Required for Existing Legal Commitments	1,186	(144)	-	-	-	1,042
CHORD	96	-	-	-	144	240
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	2,805	-	-	-	-	2,805
Investment in Affordable Housing	5,000	-	-	-	-	5,000
Severance Costs	3,500	(1,179)	-	-	-	2,321
Helensburgh Waterfront	5,579	-	-	-	-	5,579
Argyll, Lomond and the Islands Regeneration Initiative	4,500	(47)	-	-	-	4,453
Asset Management	2,492	-	-	-	-	2,492
Energy Efficiency Fund	175	(82)	-	-	43	136
Transformation	100	(17)	-	-	-	83
Scottish Government Initiatives	-	(79)	410	-	343	674
Other	1,819	(835)	(56)	-	1	929
Total Ring-fenced	43,272	(8,614)	(46)	172	6,735	41,519
Contingency	4,743	-	(72)	-	-	4,671
Budget Smoothing in 2019-20	-	-	-	4,000	-	4,000
Unallocated	4,402	-	(1,103)	-	-	3,299
Total General Fund Balance	52,417	(8,614)	(1,221)	4,172	6,735	53,489

The contingency balance of £4.671m is 2% of the Council's budgeted net expenditure for 2017-18.

6. NET COST OF SERVICE ANALYSIS BASED ON SERVICE REPORTING CODE OF PRACTICE (SeRCOP)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is based in the Council’s Management Structure, this is a new requirement under the 2016-17 Accounting Code of Practice. In previous year’s the Comprehensive Income and Expenditure Account’s Net Cost of Service analysis has been based on CIPFA’s Service Reporting Code of Practice (SeRCOP). This note provides an additional analysis based on SeRCOP to aid comparability across previous accounting years.

2015-16			Service	2016-17		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
130,339	7,198	123,141	Education Services	113,554	6,922	106,632
36,436	28,612	7,824	Housing Services (Non-HRA)	33,782	27,428	6,354
13,111	2,189	10,922	Cultural and Related Services	12,064	2,143	9,921
22,618	4,375	18,243	Environmental Services	23,724	4,724	19,000
24,726	6,712	18,014	Roads and Transport Services	25,391	6,850	18,541
8,092	4,691	3,401	Trading Services	8,716	5,637	3,079
11,626	5,288	6,338	Planning and Development Services	7,806	2,724	5,082
77,788	11,660	66,128	Social Work	80,191	17,378	62,813
			Central Services:			
5,199	146	5,053	- Corporate and Democratic Core	4,717	167	4,550
2,354	29	2,325	- Non Distributed Costs	1,985	4	1,981
2,987	1,249	1,738	- Central Services to the Public	2,989	1,299	1,690
335,276	72,149	263,127	Net Cost of Services	314,919	75,276	239,643

Notes to the Financial Statements

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.339m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure can be analysed as follows:

Other Operating Income and Expenditure	2016-17 Actual £'000	2015-16 Actual £'000
Dunbartonshire and Argyll & Bute Valuation Joint Board Requisition	1,316	1,282
Equal Pay Settlements and Legal Costs	15	52
Other Operating Income and Expenditure not attributable to Services	8	39
Total	1,339	1,373

8. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2016-17 income from this agreement amounted to £0.309m.

Agency Income	2016-17 Actual £'000	2015-16 Actual £'000
Scottish Water	309	309
Total	309	309

The Council also acts as agent for the Scottish Government in the collection of non-domestic rate income. Further information on the collection of non-domestic rate income can be found on pages 118 to 119.

9. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

From 1 April 2016 health and social care services were fully integrated as part of the new Health and Social Care Partnership.

During 2016-17 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.

During 2016-17 income received by the Council from this source amounted to £6.495m and the related expenditure was £8.985m. This can be analysed as follows.

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,746	4,327
Provision of Services for People with Learning Disabilities	2,447	3,093
Provision of Services for People with Mental Health Needs	1,302	1,565
Total	6,495	8,985

Notes to the Financial Statements

10. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

The Council has entered into a Public Private Partnership for the provision of its waste disposal service. This agreement requires the provider to upgrade or replace three waste disposal sites, two transfer stations and five civic amenity sites. In addition, the provider will also provide composting facilities to meet waste diversion targets. When the agreement ends in September 2026 the provider will hand back to the Council the waste disposal facilities with a life of 5 years.

The Council has paid a service charge of £5.042m (2015-16 £4.890m) which represents the value of the service provided from 1 April 2016 to 31 March 2017. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2017 - 2018	5,748
2018 - 2022	31,002
2022 - 2027	23,207
Total	59,957

This equates to £5.328m per annum over the life of the contract.

11. FEES PAYABLE TO AUDIT SCOTLAND

In 2016-17 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2016-17 £'000	2015-16 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	256	262
Total Remuneration	256	262

The fee for 2016-17 includes £3,300 for the audit of the Council's charitable trusts.

Notes to the Financial Statements

12. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2016-17:

Grant Income	2016-17 £'000	2015-16 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	166,251	176,473
Non Domestic Rates	30,446	27,840
Specific Capital Grant	76	131
General Capital Grant	9,465	13,514
Coastal Communities Fund	600	-
SUSTRANS	-	109
Scottish Government - Regeneration Capital Grant Fund	300	675
Strathclyde Partnership for Transport (SPT)	171	527
Other Grants	746	1,810
Other Government Capital Grants	17	146
Total	208,072	221,225
Credited to Services		
Scottish Government Specific Grants	365	370
General Capital Grant - Private Sector Housing Improvement Grants	1,409	1,977
General Capital Grant - Economic Development	157	-
Housing Benefit Subsidy	22,983	23,280
Other Revenue Government Grants	1,569	1,372
Total	26,483	26,999

Notes to the Financial Statements

13. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

13.1 Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 12 – Grant Income on page 82.

13.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2016-17 is shown in the Remuneration Report on page 40.

During the year there were two organisations in which members had a significant interest and where the total of transactions exceeded £10,000.

Transactions in which Members have a significant interest	Expenditure £'000
Trident Taxis	17
MacDougall's Garage	33

Notes to the Financial Statements

13.3 Other Related Bodies

This category relates to transactions with entities which are controlled or significantly influenced by the Authority.

During the year transactions with other related bodies were as follows:

Related Bodies	Expenditure £'000
Transactions with related bodies during the year totalled	3,360
<i>Of these, transactions with the following exceeded £10,000:</i>	
Visit Scotland	111
Scotland Excel	73
Convention of Scottish Local Authorities (COSLA)	72
West Highland Housing Association Ltd	540
Argyll Community Housing Association (ACHA)	1,067
Link Group Ltd	60
Fyne Homes Ltd	216
Oban Addiction Support and Information Services (OASIS)	21
Argyll and Bute Citizens Advice Bureau	44
Kintyre Recycling	179
RE-JIG (Recycling)	15
Fyne Futures	147
SEEMIS	166
South Kintyre Development Trust	61
Islay and Jura Community Enterprise	94
Mid Argyll Community Enterprise	78
Oban and Lorn Community Enterprise - Atlantis Leisure	459
Total	3,403

Given the relationships the Council has with other organisations and partners it is possible that some related party transactions may exist. However, the purpose of the requirement to complete the disclosure is to provide additional information to the users of the Annual Accounts and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

Notes to the Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT

14.1 Movement in Property, Plant and Equipment

Movements in 2016-17	Other Land & Buildings £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2016-17 £'000
Cost or Valuation						
At 1 April 2016	277,214	263,226	1,870	2,821	15,486	592,134
Additions	12,826	5,805	397	-	6,256	27,092
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(6,006)	-	-	345	116	(5,545)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,734)	-	-	(17)	-	(4,751)
Derecognition - Disposals	(75)	-	-	-	(41)	(524)
Assets reclassified (to)/from Held for Sale	(326)	-	-	(238)	-	(564)
Other movements in cost or valuation	553	522	13	-	(2,987)	(323)
At 31 March 2017	279,452	269,553	2,280	2,911	18,830	607,519
Depreciation and Impairments						
At 1 April 2016	(18,729)	(62,062)	(2)	(4)	-	(101,627)
Depreciation Charge for 2016-17	(12,059)	(6,547)	-	(60)	-	(23,151)
Depreciation written out to the Revaluation Reserve	6,778	-	-	22	-	6,800
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	294	-	-	27	-	321
Derecognition - Disposals	-	-	-	-	-	374
Other movements in depreciation and impairment	112	-	(7)	11	-	116
At 31 March 2017	(23,604)	(68,609)	(9)	(4)	-	(117,167)
Balance Sheet amount at 1 April 2017	255,848	200,944	2,271	2,907	18,830	490,352
Balance Sheet amount at 1 April 2016	258,485	201,164	1,868	2,817	15,486	490,507

Comparative Movements in 2015-16	Other Land & Buildings £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2014-15 £'000
Cost or Valuation						
At 1 April 2015	299,883	245,190	1,671	4,228	30,223	610,019
Additions	4,716	5,017	199	49	14,390	27,446
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(8,181)	-	-	323	274	(7,584)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(27,772)	(51)	-	221	-	(27,602)
Derecognition - Disposals	(724)	(4,983)	-	(312)	(2)	(6,657)
Assets reclassified (to)/from Held for Sale	9,292	-	-	(1,688)	-	7,604
Other movements in cost or valuation	-	18,053	-	-	(29,399)	(11,092)
At 31 March 2016	277,214	263,226	1,870	2,821	15,486	592,134
Depreciation and Impairments						
At 1 April 2015	(18,566)	(61,205)	(2)	(236)	-	(97,745)
Depreciation Charge for 2015-16	(11,330)	(5,789)	-	(119)	-	(20,956)
Depreciation written out to the Revaluation Reserve	-	-	-	186	-	186
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	3,302	-	-	1	-	3,303
Derecognition - Disposals	7,614	4,932	-	114	-	13,284
Other movements in depreciation and impairment	251	-	-	50	-	301
At 31 March 2016	(18,729)	(62,062)	(2)	(4)	-	(101,627)
Balance Sheet amount at 1 April 2016	258,485	201,164	1,868	2,817	15,486	490,507
Balance Sheet amount at 1 April 2015	281,317	183,985	1,669	3,992	30,223	512,274

Notes to the Financial Statements

14.2 Valuation of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment has been adapted for the public sector by IPSAS 17 – Property, Plant and Equipment. Under IPSAS 17 each category of Property, Plant and Equipment is valued as follows:

- Infrastructure, community assets and assets under construction are valued at historical cost
- Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value
- All other classes of assets are valued at fair value. Where there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold then an estimate of fair value is made using a depreciated replacement cost approach.

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured is re-valued at least every five years. Assets identified as Corporate Surplus Assets are valued in accordance with IFRS 13 - Fair Value Measurement. The Balance Sheet value of Corporate Surplus assets at 31 March 2017 was £2.907m. Corporate Surplus assets are valued at their fair value on 31 March each year. Level 3 inputs were used for most Corporate Surplus asset valuations.

Revaluations of council owned Land and Property were carried out at 31 March 2017 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by external valuers, Ryden LLP. Valuations of land and buildings were carried out in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following table shows the progress of the Council's rolling programme for the revaluation of Other Land and Buildings:

Valued at Fair Value as at:	Other Land & Buildings £'000
31 March 2017	30,054
31 March 2016	49,179
31 March 2015	35,769
31 March 2014	34,676
31 March 2013	106,170
Total Cost or Valuation	255,848

Notes to the Financial Statements

14.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer (20 to 50 years)
- Infrastructure – straight-line allocation over 40 years
- Vehicles, Plant and Equipment - straight-line allocation over the useful life of the asset as determined by a suitably qualified officer (3 to 20 years)
- Vessels – straight line allocation over 25 years

14.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2016-17 total spending on capital projects was £27.406m.

	2016-17 £'000	2015-16 £'000
Opening Capital Financing Requirement	253,896	257,556
Capital Investment:		
Property Plant and Equipment:		
Other Land and Buildings	12,826	4,716
Vehicles, Plant, Furniture and Equipment	1,808	3,075
Infrastructure Assets	5,805	5,017
Community Assets	397	199
Surplus Assets	-	49
Assets Under construction	6,256	14,390
Heritage Assets	32	25
Intangible Assets	282	277
Total Capital Investment	27,406	27,748
Sources of Finance:		
Capital Receipts	(1,613)	(652)
Government Grants	(11,375)	(16,922)
Capital Financed from Current Revenue	(229)	(743)
Repayment of External Loans	(12,023)	(10,792)
Capital Element of Finance Lease Payments	-	-
Capital Element of Schools NPDO Payments	(1,935)	(1,877)
Capital Receipts transferred to Capital Fund	1,613	652
Capital Receipts Used from Capital Fund	(1,576)	(367)
Other	(254)	(707)
Total Funding	(27,392)	(31,408)
Closing Capital Financing Requirement	253,910	253,896

Notes to the Financial Statements

14.5 Commitments under Capital Contracts

At 31 March 2017, the Council had commitments on capital contracts of £15.012. This expenditure will be funded from a combination of government grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2016 were £11.458m. The major commitments are:

	£'000
Dunoon Queens Hall	9,602
Oban Maritime Visitor Facility	1,600
Oban Transit Berthing Facility	1,500
Rothesay Pavilion	675
Dunclutha House	520
Glengorm Wind Turbine	375
Riverside Leisure Facility	240
Helesburgh Office Rationalisation	136
Tobermory Area Office	124
Lochgilphead Resource Centre	101
Mossfield Grass Pitch	89
Campbeltown Flood Scheme	50

15. HERITAGE ASSETS

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 66.

Reconciliation of the carrying value of heritage assets held by the Council:

Movements in 2016-17	Art Collections	Heritage Property	Total
	£'000	£'000	£'000
Cost or Valuation			
Net Book Value at 1 April 2016	1,316	223	1,539
Additions	-	32	32
Disposals	-	-	-
Revaluations	-	-	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-	-	-
Transfer from Assets Under Construction	-	100	100
At 31 March 2017	1,316	355	1,671

Notes to the Financial Statements

16. INTANGIBLE ASSETS

Intangible assets comprise software licences and carbon reduction commitment allowances purchased in advance. Purchased software licences are shown at cost and this cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Statement over the economic life of the licences, assessed as five years.

The carbon reduction commitment allowances relate to allowances purchased in advance as part of the Carbon Reduction Energy Efficiency Scheme (Phase 2). These allowances will be surrendered in October of each year on the basis of emissions, i.e. carbon dioxide produced as energy is used.

The movement in intangible assets during the year was:

Movements in 2016-17	Carbon Reduction Commitment Allowance	Purchased Software Licences	Total Intangible Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1 April 2016	242	1,277	1,519
Additions	282	-	282
Disposals	(242)	-	(242)
Reclassifications	-	222	222
At 31 March 2017	282	1,499	1,781
Depreciation and Impairments			
At 1 April 2016	-	(942)	(942)
Charge for 2016-17	-	(111)	(111)
Disposals	-	-	-
At 31 March 2017	-	(1,053)	(1,053)
Balance Sheet amount at 1 April 2017	282	446	728
Balance Sheet amount at 1 April 2016	242	335	577

Notes to the Financial Statements

Comparative Movements in 2015-16	Carbon Reduction Commitment Allowance	Purchased Software Licences	Total Intangible Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1 April 2015	234	1,237	1,471
Additions	242	35	277
Disposals	(234)	-	(234)
Reclassifications	-	5	5
At 31 March 2016	242	1,277	1,519
Depreciation and Impairments			
At 1 April 2015	-	(824)	(824)
Charge for 2015-16	-	(118)	(118)
Disposals	-	-	-
At 31 March 2016	-	(942)	(942)
Balance Sheet amount at 1 April 2016	242	335	577
Balance Sheet amount at 1 April 2015	234	413	647

17. INVESTMENT PROPERTY

Investment property has been accounted for in accordance with IAS 4 - Investment Property, except where interpretations or adaptations to fit the public sector are detailed in the Code. The definition of an investment property in the context of the public sector is one that is used solely to earn rentals or for capital appreciation or both.

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2017. Revaluations of investment properties were carried out at 31 March 2017 by external valuers, Ryden LLP.

17.1 Movement in Investment Property

The movement in investment property during 2016-17 was:

Movements in 2016-17	Investment Properties £'000
Cost or Valuation	
At 1 April 2016	8,094
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	2,645
Transfers	282
At 31 March 2017	11,021

Notes to the Financial Statements

17.2 Investment Property Income and Expenditure

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2016-17 £'000	2015-16 £'000
Rental Income from Investment Property	214	220
Direct operating expenses arising from investment property	(101)	(89)
Net gain/(loss)	113	131

18. SCHOOLS NON-PROFIT DISTRIBUTING ORGANISATION (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the non-profit distributing organisation (NPDO) variant of a public private partnership, became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

18.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2013 and depreciation to date are included as part of Other Land and Buildings as follows:

Movements in 2016-17	Other Land & Buildings £'000
Cost or Valuation	
At 1 April 2016	93,206
Additions	361
Revaluations	-
At 31 March 2017	93,567
Depreciation and Impairments	
At 1 April 2016	(5,105)
Charge for 2016-17	(1,700)
Revaluations	-
At 31 March 2017	(6,805)
Balance Sheet amount at 1 April 2017	86,762
Balance Sheet amount at 1 April 2016	88,101

Notes to the Financial Statements

18.2 Schools NPDO Finance Lease Liability

The finance lease liability arising from the Schools NPDO contract is as follows:

Movements in 2016-17	£'000
Balance at 1 April 2016	(75,994)
Repayments	1,935
Schools NPDO Finance Lease Liability at 31 March 2017	(74,059)
Split:	
Obligations payable within 1 year	(2,008)
Obligations payable after 1 year	(72,051)
Schools NPDO Finance Lease Liability at 31 March 2017	(74,059)

18.3 Payments due to Operator under Schools NPDO Contract

The Council is committed to paying the following sums under the Schools NPDO contract:

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2017 - 2020	6,392	-	21,896	15,081	43,369
2020 - 2025	14,888	922	31,847	27,888	75,545
2025 - 2030	22,156	2,819	23,135	31,977	80,087
2030 - 2035	30,622	3,102	9,800	32,958	76,482
Total	74,058	6,843	86,678	107,904	275,483

19. OPERATING LEASES

19.1 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2016-17 were as follows:

	2016-17 £'000	2015-16 £'000
Land and Buildings	198	198
Vehicles	367	195
Plant and Equipment	162	171
Total	727	564

19.2 Assets Held Under Operating Leases

The Council was committed at 31 March 2017 to making payments of £0.528m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	14	71
Leases expiring between 1 and 5 years	103	273
Leases expiring after 5 years	67	-
Value at 31 March 2017	184	344

Notes to the Financial Statements

20. LONG TERM DEBTORS

	31st March 2017 £'000	31st March 2016 £'000
House Loans	27	37
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	1,103	1,179
Strategic Housing Fund Loans to Registered Social Landlords	2,946	2,831
Other Long Term Debtors	100	100
Total Long Term Debtors	4,926	4,897

21. DEBTORS

	31 March 2017		31 March 2016	
	£'000	£'000	£'000	£'000
Arrears of Local Taxation	14,563		13,970	
Council Tax				
Less: Provision for Bad Debts	(12,002)		(11,383)	
		2,561		2,587
Housing Benefits Overpayments	1,192		1,266	
Less: Provision for Bad Debts	(1,030)		(1,027)	
		162		239
Debtor Accounts	2,930		2,834	
Less: Provision for Bad Debts	(703)		(684)	
		2,227		2,150
Net Debtor to Scottish Government for Non Domestic Rates		863		-
VAT Recoverable from HMRC		3,016		2,999
Strategic Housing Fund Loans due within 1 Year		584		1,005
Other Debtors		6,568		9,126
Total Debtors		15,981		18,106

Notes to the Financial Statements

22. ASSETS HELD FOR SALE

The movement in assets held for sale during 2016-17 was:

Movements	2016-17 £'000	2015-16 £'000
Balance outstanding at start of year	2,381	25
Assets newly classified as held for sale (Property, Plant and Equipment)	134	2,907
Revaluation losses	(45)	-
Revaluation gains	-	26
Impairment losses	-	(564)
Assets declassified as held for sale (Property, Plant and Equipment)	-	(13)
Assets Sold	(1,779)	-
Balance outstanding at year-end	691	2,381

23. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2017 £'000	31 March 2016 £'000
Cash held by the Authority	57	64
Cash in transit	125	254
Short term deposits with banks	1,722	688
Short term deposits in Money Market Funds	9,500	10,750
Bank Current Accounts (Overdraft)	(3,515)	(3,816)
Total Cash and Cash Equivalents	7,889	7,940

24. CREDITORS

	31 March 2017 £'000	31 March 2016 £'000
Accrued Payrolls and Superannuation	6,288	6,421
Accrued Employer's National Insurance Contributions and PAYE	2,397	2,149
Accrual for Short Term Accumulating Absences	4,312	4,529
Creditors System Liability	4,382	4,865
Accrued Expenditure	4,442	4,226
Other Creditors	8,294	9,725
Total Creditors	30,115	31,915

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS DISCLOSURES

25.1 Types of Financial Instruments

Accounting regulations require the “financial instruments” (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of “financial instruments”:

	31 March 2017		31 March 2016	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending				
Loans and Receivables	5,418	76,370	5,388	61,065
Borrowing				
Financial Liabilities at amortised cost	205,482	71,676	197,073	71,408

25.2 Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2017 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2017		31 March 2016	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	81,788	81,997	66,453	66,521
Borrowing				
Financial Liabilities	277,158	357,723	268,481	326,205

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above the current market rates increases the amount the Council would receive if it agreed the early repayment of loans.

Notes to the Financial Statements

25.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments.

25.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

25.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, money market funds, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and money market funds whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2017 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2017 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks and Money Market Funds	28,722	-	-

The information in respect of the Council's debtors can be found in note 20 and 21 on page 94. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 21 represents the Council's assessment of the likely recoverability of the debt outstanding.

The credit risk around unprovided for debt is considered to be low. Debtors relate to the normal business of the council and credit is issued on the council's standard credit terms. There are no significant amounts past due but not impaired where recoverability is considered to be an issue.

25.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

Notes to the Financial Statements

The maturity analysis of financial liabilities is as follows:

	31 March 2017 £'000	31 March 2016 £'000
Maturity analysis of financial liabilities		
Less than one year	71,676	71,408
Between one and two years	14,460	31,872
Between two and five years	24,698	30,020
More than five years	166,324	135,181
	277,158	268,481

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

25.7 Market Risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

Changes in market rates also affect the notional "fair value" of lending and borrowing. For example, a rise in interest rates would reduce the "fair value" of both lending and borrowing at fixed rates. Changes in "fair value" of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government's grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for "loan charges".

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2017, with all other variables held constant:

	31 March 2017 £'000
Impact on tax-payer	
Increase on interest payable on variable rate borrowings	36
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
Net effect on Statement of Comprehensive Income & Expenditure	36

Notes to the Financial Statements

	31 March 2017 £'000
Other accounting presentational changes	
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	43,188

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

25.8 Price Risk

The Council has no investment classified as "available-for-sale".

25.9 Foreign Exchange Risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

25.10 Short-Term Deposits

The short-term deposits arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The Council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31 March 2017 £'000	31 March 2016 £'000
Banks and Money Market Funds	28,722	11,438

25.11 Soft Loans

There were no soft loans paid out during 2016-17 and there were no amounts outstanding at 31 March 2017 from previous year's soft loans advanced.

25.12 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2017 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 34 and 35 on pages 110 to 111.

	31 March 2017 £'000	31 March 2016 £'000
Common Good	110	110
Trust Funds	728	695

Notes to the Financial Statements

26. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £74.809m as at 31 March 2017 and comprise the following:

Movements in 2016-17	Opening Balance 31 March 2016 £'000	Movement in Year £'000	Closing Balance 31 March 2017 £'000
Schools NPDO Finance Lease Liability (See note 18.2)	(75,994)	1,935	(74,059)
Land Contamination	(750)	-	(750)
Total Other Liabilities	(76,744)	1,935	(74,809)
Split:			
Short Term Liabilities (due within 1 year)			(2,008)
Long Term Liabilities (due after 1 year)			(72,801)
Total Other Liabilities			(74,809)

27. PROVISIONS

	Opening Balance 31 March 2016 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2017 £'000
Equal Pay Claims	(77)	-	70	-	(7)
Income due to Registered Social Landlords	(148)	-	13	-	(135)
Reorganisation Redundancy Costs	(81)	(44)	56	-	(69)
Service Choices Redundancy Costs	(937)	(207)	726	211	(207)
Landfill Sites - Restoration and Aftercare Costs	(1,042)	(78)	-	-	(1,120)
Utilities Provision	(510)	-	-	41	(469)
Other Provisions	(1,070)	(112)	49	67	(1,066)
Total Provisions	(3,865)	(441)	914	319	(3,073)
Split:					
Short Term Provisions (due within 1 year)					(1,818)
Long Term Provisions (due after 1 year)					(1,255)
Total Other Liabilities					(3,073)

A provision was created at the end of 2005-06 in relation to employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. There may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2016-17 amounted to £1.858m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected has been created amounting to £0.135m.

In line with expectations, liabilities have arisen in respect of employees who will be made redundant as a result of operational restructuring and Service Choices. The Council has significant budget savings to make over the next 5 years and there has been a complete service provision review, Service

Notes to the Financial Statements

Choices. As a result of Service Choices and other savings agreed as part of the budget process for 2017-18, a number of posts will be removed resulting in increased redundancy costs. In line with normal practice, the Council invited all employees to express an interest in voluntary redundancy and a number of employees have subsequently either taken or have been offered a redundancy package. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2017, a provision of £0.207m has been created during 2016-17. For further information refer to note 33 - Termination Benefits on page 110.

A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. The landfill sites were revalued at 31 March 2017 and the provision for restoration and aftercare increased to £1.120m. These have been provided for based on the net present value of estimated future costs.

The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.041m has been reversed during 2016-17 resulting in a total provision of £0.469m.

The "other" provisions includes funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2017-18. Also included within "other" provisions is £0.253m for a potential liability the Council faces from the over claiming of VAT on staff mileage for the period 2012 to 2016 which will require to be repaid to HMRC.

28. CAPITAL GRANTS RECEIVED IN ADVANCE

	Opening Balance 31 March 2016 £'000	Capital Grants Received £'000	Amounts Used £'000	Closing Balance 31 March 2017 £'000
Ministry of Defence LIBOR Funding - Helensburgh & Grant in Aid - Gaelic School Capital Fund	-	(5,000)	-	(5,000)
	-	(584)	17	(567)
Total Other Liabilities		(5,584)	17	(5,567)
Split:				
Capital Grant Receipts in Advance (due within 1 year)				(567)
Capital Grant Receipts in Advance (due after 1 year)				(5,000)
Total Other Liabilities				(5,567)

The Chancellor of the Exchequer, in his Spring 2016 Budget, awarded Argyll and Bute Council LIBOR funding of £5m. The Ministry of Defence (MOD) are acting on behalf of Her Majesty's Treasury (HMT) with regard to all matters relating to this funding.

The purpose of the grant is to provide a contribution to the costs of the provision of the new Helensburgh Leisure Centre on condition that serving personnel and their families are offered favourable admission terms. This is because the LIBOR funds are to be used to recognise the contribution made by the Armed Forces Community to the nation.

Notes to the Financial Statements

29. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

Local Government Pension Scheme

This is administered by Strathclyde Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts due by statute as described in the accounting policies note.

29.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the pension schemes by the 31 March 2017. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2017. The amounts are as follows:

- Local Government Pension Scheme – £1.311m
- Teachers' scheme – £0.738m

29.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2014. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2017 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

Notes to the Financial Statements

	2016-17 £'000	2015-16 £'000
Comprehensive Income and Expenditure Statement:		
Cost of Services:		
<i>Service cost comprising:</i>		
Current Service Cost	17,268	19,689
Past Service Cost (Including Curtailments)	782	398
Net Cost of Services	18,050	20,087
Net Interest Expense	3,367	4,730
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	21,417	24,817
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Return on Assets (excluding amounts included in net interest)	(101,991)	3,039
Other Experience	866	(8,403)
Change in Financial Assumptions	149,532	(55,845)
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	69,824	(36,392)
Statement of Movement in Reserves:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(6,929)	(10,912)
Actual Amount charged against the General Fund Balance for pensions in the year:		
Employer's Contributions Payable to the Scheme	14,488	13,905

29.3 Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2016-17 £'000	2015-16 £'000
Defined Benefit Obligation at 1 April	612,214	651,859
Current Service Cost	17,268	19,689
Past Service Costs including Curtailments	782	398
Interest Cost	21,467	20,918
Contributions by Scheme Participants	3,786	3,812
Re-measurement Gains and (Losses)	150,398	(64,248)
Estimated Benefits Paid	(19,574)	(20,214)
Defined Benefit Obligation at 31 March	786,341	612,214

Notes to the Financial Statements

Reconciliation of fair value of the scheme (plan) assets:

	2016-17 £'000	2015-16 £'000
Fair Value of Employer Assets at 1 April	517,773	507,121
Re-measurement Gains and (Losses):		
Expected Rate of Return on Pension Fund Assets	101,991	(3,039)
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	18,100	16,188
Employers Contributions	14,488	13,905
Contributions by Scheme Participants	3,786	3,812
Estimated Benefits Paid	(19,574)	(20,214)
Fair Value of Employer Assets at 31 March	636,564	517,773

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

29.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

	2016-17 £'000	2015-16 £'000
Local Government Pension Scheme		
Present Value of Funded Liabilities	(756,727)	(585,370)
Present Value of Unfunded Liabilities	(29,614)	(26,844)
Fair Value of Employer Assets	636,564	517,773
(Deficit) in the Scheme	(149,777)	(94,441)

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits.

Notes to the Financial Statements

29.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2017 comprised:

	2016-17 £'000	2015-16 £'000
Cash and Cash Equivalents	23,976	17,842
Equity Instruments (by industry type)		
Consumer	60,206	48,561
Manufacturing	47,786	38,791
Energy and Utilities	18,918	15,256
Financial Institutions	44,299	35,726
Health and Care	25,891	20,888
Information Technology	36,616	29,562
Sub-total Equity Instruments	233,716	188,784
Bonds (by sector)		
Corporate	6	1
Government	-	-
Sub-total Bonds	6	1
Real Estate		
UK Property	76,781	55,624
Overseas Property	-	-
Sub-total Real Estate	76,781	55,624
Private Equity (All)	52,484	50,365
UK		
Investment Funds and Unit Trusts		
Equities	204,664	134,395
Bonds	35,740	63,194
Commodities	428	176
Infrastructure	-	-
Other	8,631	7,267
Sub-total Investment Funds and Unit Trusts	249,463	205,032
Derivatives		
Forward Foreign Exchange Contracts	85	-
Other	53	125
Sub-total Derivatives	138	125
Total Assets	636,564	517,773

Notes to the Financial Statements

Fair Value of Pension Fund Assets	2016-17 £'000	2015-16 £'000
Equity Securities		
Quoted in an Active Market	233,595	188,376
Not Quoted in an Active Market	121	408
Sub-total Equity Securities	233,716	188,784

29.6 Basis for Estimating Assets and Liabilities

The Council's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Mortality assumptions	2016-17 Years	2015-16 Years
Longevity at 65 for current pensioners:		
Men	22.1	22.1
Women	23.6	23.6
Longevity at 65 for future pensioners:		
Men	24.8	24.8
Women	26.2	26.2
Financial Assumptions	2016-17 %	2015-16 %
Rate of Inflation (CPI)	2.4%	2.2%
Rate of Increase in Salaries	4.4%	4.2%
Rate of Increase in Pensions (CPI)	2.4%	2.2%
Rate for discounting scheme liabilities	2.6%	3.5%
Long-term Expected Rate of Return on Assets in the Fund	2016-17 %	2015-16 %
Equity Investments	2.6%	3.5%
Bonds	2.6%	3.5%
Property	2.6%	3.5%
Cash	2.6%	3.5%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

29.7 Asset and Liability Matching (ALM) Strategy

The main fund (Fund 1) of Strathclyde Pension fund does not have an asset and liability matching strategy (ALM) as this is used mainly by mature funds. The Fund does match, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested into too narrow a range.

Notes to the Financial Statements

29.8 Impact on the Authority's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's contributions have been set at 19.3% for 2017-2018.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £12.032m. This is based on an assumed pensionable payroll of £62.341m.

The assumed weighted average duration of the defined benefit obligation for the Council falls into the "Medium" duration category which is between 17 and 23 years (this is different from the mortality assumptions quoted in the table above in "Basis for Estimating Assets and Liabilities").

29.9 Teachers Pensions – Administered By Scottish Public Pensions Agency

Teachers employed by the Authority are members of the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency. The Scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified by the regulations.

The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four yearly valuation was undertaken as at 31 March 2012. The next valuation was at 31 March 2016 and this has set contribution rates from 1 April 2019.

The Authority has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Authority is unable to identify its share of the underlying assets and liabilities of the scheme.

The employer contribution rate from 1 September 2015 was 17.2% of pensionable pay. While the employee rate applied is variable it provides an actuarial yield of 9.6% of pensionable pay.

At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employers' pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employers' contribution rate.

As a proportion of the total contributions into the Teachers' Pension Scheme during the year ended 31 March 2017, the Authority's own contributions equate to 1.49%

	2016-17	2015-16
Amount Paid Over (£'000)	5,729	5,353
Rate of Contribution (%)	17.20%	17.20%
Amount of Added Years Awarded by the Council (£'000)	528	526

The contributions due to be paid to the Teacher's Scheme by Argyll and Bute Council in the next financial year are estimated to be £5.759m.

Notes to the Financial Statements

30. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 56 to 57.

30.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

30.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

30.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

30.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority had set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

Notes to the Financial Statements

30.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages 56 to 57.

31.1 Capital Funds

The Authority holds two funds which make up the Capital Funds total in the Statement of Movement in Reserves, these are:

Usable Capital Receipts Reserve

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006, the receipts from the sale of council houses were transferred to the Usable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure.

Capital Fund

During the 2007-08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008.

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2016-17	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2016	2,776	1,251	4,027
Proceeds of Disposals	-	1,613	1,613
Transfer to Capital Adjustment Account	-	(1,622)	(1,622)
Contribution to Capital Fund From Revenue	-	36	36
Interest Earned	6	4	10
Balance at 31 March 2017	2,782	1,282	4,064

31.2 Repairs and Renewals Fund

The movement in the Education Repairs and Renewals Fund is as follows:

Movements in 2016-17	Balance at 31 March 2016 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2017 £'000
Education	671	334	2	(111)	896
Total	671	334	2	(111)	896

Notes to the Financial Statements

32. CONTINGENT LIABILITIES

The Council settled a number of equal pay claims during 2016-17, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council.

In a recent legal case, the European Court of Justice ruled that if a worker's remuneration includes contractual commission; their holiday pay must also take account of that commission. All pay elements such as overtime, standby/emergency call outs and commission should be included in the calculation of holiday pay. At this stage the extent of the Council's potential liability is unknown.

The Limitation (Childhood Abuse) (Scotland) Bill is before the Scottish Parliament and if enacted will remove the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of the Council's potential liability is unknown.

There are other legal challenges which are on-going and may result in future liabilities.

33. TERMINATION BENEFITS

A number of savings options as a result of service reviews and other savings have been agreed at Council budget meetings to balance the Council budget. A number of these savings options were reliant on a reduction in the Council's staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees have had their redundancy application accepted.

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employees who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2015-16 was £1.215m for 84 employees and in 2016-17 was £1.033m for 59 employees. These costs are detailed further in the Remuneration Report on pages 48 to 49.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2016 have been accounted for in 2016-17, or in previous financial years.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

34. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 57 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

Funds for which Argyll and Bute Council act as sole trustee:

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	13	3	482	482
GM Duncan Trust	-	3	81	81
MacDougall Trust	24	-	724	724
Various Other Trust Funds	4	1	507	507
Total Trust Funds	41	7	1,794	1,794

Notes to the Financial Statements

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. MacDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

A number of the trust funds administered by Argyll and Bute Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered by Argyll and Bute Council comply and will continue to comply with these requirements.

35. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcreggan. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2017. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

35.1 Common Good Income and Expenditure Account for the year ended 31 March 2017

2015-16 Actual £'000		2016-17 Actual £'000
202	Expenditure	207
(287)	Income	(84)
(85)	(Surplus)/Deficit for the Year	123

35.2 Common Good Balance Sheet at 31 March 2017

2015-16 Actual £'000		2016-17 Actual £'000
4,017	Tangible Fixed Assets	3,882
2,006	Investments	2,307
175	Current Assets	194
(4)	Current Liabilities	(12)
6,194	Total Assets less Liabilities	6,371
4,022	Revaluation Reserve	3,888
2,172	Common Good Fund	2,483
6,194	Total Net Worth	6,371

Notes to the Financial Statements

36. Tax Incremental Financing (TIF) Projects

The council entered into an agreement with the Scottish Government in May 2014 in respect of the Lorn Arc Tax Incremental Finance (TIF) scheme. This agreement essentially allows for the repayment of debt arising from infrastructure investment from incremental Non-Domestic Rates (NDR) revenue. The assets to be funded by the TIF project largely comprise public realm and infrastructure improvements within the Lorn Arc area of Oban. The project is for 25 years, with the first material capital investment incurred during the financial year ending 31 March 2015.

During the TIF project period, the council is entitled to retain the TIF revenue from its NDR revenue, a pro-rate amount of NDR equal to the amount (if any) by which the collected amount exceeds the collectable amount. The council is required to apply 100% of the TIF revenue towards repayment of the TIF debt. Following repayment in full, and until the end of the project period, the council is entitled to retain 50% of the TIF revenue for further infrastructure investment.

Net capital expenditure incurred in the year to 31 March 2017, to be funded from borrowing, in respect of TIF assets totalled £0.724m. This is reflected in the "Summary of Capital Expenditure and Financing" outlined within note 14.4 on page 89. The total TIF debt to be repaid over the project period, in respect of investment to 31 March 2017, has been calculated in accordance with finance circular No. 4/2014 at £1.035million.

Notes to the Financial Statements

37. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The Net Cash Flows for Operating Activities can be reconciled to the Net (Surplus)/Deficit on the Provision of Services as follows:

	2016-17 £'000	2015-16 £'000
Net (Surplus)/Deficit on Provision of Services	4,998	19,425
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	(6,341)	(25,813)
Transfer to/from Other Statutory Reserves	271	38
Increase/(Decrease) in Inventories	(26)	221
Increase/(Decrease) in Debtors	(2,670)	605
(Increase)/Decrease in Creditors and Provisions	2,146	1,437
Other Revenue Adjustments	(12,809)	(12,355)
	(19,429)	(35,867)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	5,712	6,517
Capital Element of Finance Lease Payments	(1,935)	(1,877)
	3,777	4,640
Net Cash Flows from Operating Activities	(10,654)	(11,802)
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	8,973	8,656
Interest Paid on Finance Leases	7,697	7,903
Interest Received on Bank Deposits	(571)	(534)
Net Cash Outflow from Servicing of Finance	16,099	16,025

38. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2016-17 £'000	2015-16 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	20,294	21,082
Investments made/(disposed of) during year	17,481	5,510
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(1,613)	(652)
Other Receipts from Investing Activities	(17,247)	(16,141)
Net Cash Outflow from Investing Activities	18,915	9,799

Notes to the Financial Statements

39. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2016-17 £'000	2015-16 £'000
Cash Receipts of Short and Long Term Borrowing	(28,502)	(16,541)
Other Receipts from Financing Activities	2,267	744
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,935	1,877
Repayments of Short and Long Term Borrowing	16,090	31,829
Other Payments from Financing Activities	-	-
Net Cash (Inflow)/Outflow from Financing Activities	(8,210)	17,909

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2015-16 Actual £'000		2016-17 Actual £'000
54,498	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,804
1,892	Add Back: RSL Second Home Discount Additional Income	1,858
(12,377)	Less: Other Discounts and Reductions	(12,003)
(934)	Provision for Bad and Doubtful Debts	(1,055)
43,079	Total	43,604
294	Adjustment to Previous Years' Community Charge and Council Tax	447
43,373	Transfers to General Fund	44,051

Notes to the Council Tax Income Account

1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2016-17 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Up to £27,000	67%	785.33
B	£27,001 - £35,000	78%	916.22
C	£35,001 - £45,000	89%	1,047.11
D	£45,001 - £58,000	100%	1,178.00
E	£58,001 - £80,000	122%	1,439.78
F	£80,001 - £106,000	144%	1,701.56
G	£106,001 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

2. CALCULATION OF THE COUNCIL TAX BASE 2016-17

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,674	9,986	9,453	6,044	7,390	4,113	2,809	243	47,712
Less - Exemptions / Deductions	1,064	822	1,095	535	618	251	172	49	4,606
- Adjustment for Single Chargepayers	857	1,032	740	429	439	202	114	6	3,819
Effective Number of Properties	5,753	8,132	7,618	5,080	6,333	3,660	2,523	188	39,287
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	3,836	6,325	6,772	5,080	7,740	5,287	4,205	376	39,621
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									505
Nominal Tax Yield									40,126
Less Provision for Non-Collection - 1.40%									561
Council Tax Base 2016-17 - Number of Band D equivalents									39,565

Non Domestic Rate Income Account

The Non-Domestic Rate Income Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2015-16 Actual £'000		2016-17 Actual £'000
42,309	Gross rates levied and Contributions in Lieu	42,248
	Less:	
(10,877)	Reliefs and other deductions	(11,137)
-	Payment of Interest	-
(241)	Provision for Bad and Doubtful Debts	(242)
31,191	Net Non-Domestic Rate Income	30,869
-	Tax Incremental Finance (TIF) Scheme NDR Income Retained	-
(3,351)	Contribution (to)/from national non-domestic rate pool	(423)
27,840	Transfers to General Fund	30,446

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2016-17 £	2015-16 £
Industrial and freight transport subjects	8,735,000	7,677,100
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	70,346,799	58,701,043
Commercial subjects:		
Shops	14,315,325	13,418,530
Offices	5,995,360	5,577,590
Hotels, Boarding Houses etc.	8,521,950	6,599,075
Others	1,982,280	1,993,560
Total Rateable Value	109,896,714	93,966,898

2. NON-DOMESTIC RATE CHARGE

	2016-17 Pence	2015-16 Pence
Rate Per Pound	48.4p	48.0p
Supplementary Rate Per Pound for Properties over £35,000	2.6p	1.3p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

Group Accounts - Introduction

INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17: Based on International Financial Reporting Standards, places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” of the financial performance and position of the Council’s Group.

THE GROUP ACCOUNTS

The Group Accounts comprise the following financial statements:

- **Group Statement of Comprehensive Income and Expenditure:** this statement shows the accounting cost in the year of providing the Council’s services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 56 to 57.
- **Group Balance Sheet:** The Balance sheet is a snapshot of the value at the 31 March 2017 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).
- **Group Statement of Movement in Reserves:** this statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts. The Council’s reserves are analysed into those which are “Usable Reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council’s share of the reserves of Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation). The Council’s Statement of Movement in Reserves on pages 56 to 57 gives a more detailed analysis of the movement in the Council’s usable and unusable reserves during 2016-17.

Group Statement of Comprehensive Income and Expenditure

2015-16			Service	2016-17		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
2,489	137	2,352	Chief Executive and Strategic Finance	2,268	127	2,141
121,924	8,764	113,160	Community Services	104,274	9,492	94,782
88,431	41,080	47,351	Customer Services	84,235	41,091	43,144
78,946	39,813	39,133	Development and Infrastructure Services	78,532	38,818	39,714
72,161	11,491	60,670	Health and Social Care Integration	75,793	16,401	59,392
678	21	657	Other Non-Departmental Costs	1,761	1,087	674
2,824	2,795	29	Associates Accounted for on an Equity Basis	3,170	3,300	(130)
367,453	104,101	263,352	Net Cost of Services	350,033	110,316	239,717
			Other Operating Income and Expenditure:			
		323	Net (Gain)/loss on Disposal of Fixed Assets			266
		1,373	Other Operating Income and Expenditure			1,339
		1,696	Total Other Operating Income and Expenditure			1,605
			Financing and Investment Income and Expenditure:			
		17,000	Interest Payable and Similar charges			16,133
		(2,801)	Interest and Investment Income			(4,008)
		4,730	Net Pension Interest Expense			3,367
		18,929	Total Financing and Investment Income and Expenditure			15,492
			Taxation and Non-Specific Grant Income:			
		(176,473)	General Government Grants			(166,251)
		(16,922)	Government Capital Grants and Other Capital Contributions			(11,375)
		(27,840)	Non-domestic Rates Redistribution			(30,446)
		(43,373)	Council Tax Income			(44,051)
		(264,608)	Total Taxation and Non-Specific Grant Income			(252,123)
		19,369	(Surplus)/Deficit on Provision of Services			4,691
		(578)	(Surplus)/Deficit on revaluation of Fixed Assets			(1,290)
		(61,209)	Other Post Employment Benefits (Pensions)			48,407
		(950)	Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds			1,536
		(62,737)	Other Comprehensive Income and Expenditure			48,653
		(43,368)	Total Comprehensive Income and Expenditure			53,344

Group Balance Sheet



31 March 2016			31 March 2017	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment		
258,485		- Other Land and Buildings	255,848	
10,687		- Vehicles, Plant, Furniture and Equipment	9,552	
201,164		- Infrastructure Assets	200,944	
5,885		- Community Assets	6,155	
2,817		- Surplus Assets	2,907	
15,486		- Assets Under Construction	18,830	
	494,524	Total Property Plant & Equipment		494,236
	1,539	Heritage Assets		1,671
	577	Intangible Assets		728
	8,094	Investment Property		11,021
	4,897	Long-Term Debtors		4,926
	2,497	Long-Term Investments		2,798
	2,973	Investment in Associates		3,114
	515,101	Total Long Term Assets		518,494
		Current Assets		
555		Inventories	529	
18,155		Short Term Debtors (Net of Impairment)	15,993	
2,381		Assets Held for Sale	691	
35,019		Short Term Investments	52,500	
7,991		Cash and Cash Equivalents	7,960	
	64,101	Total Current Assets		77,673
		Current Liabilities		
(18,232)		Short-term Borrowing	(14,188)	
(31,915)		Short-term Creditors	(30,127)	
-		Capital Grant Receipts in Advance	(567)	
(2,675)		Provisions	(1,818)	
(1,935)		Other Short Term Liabilities	(2,008)	
	(54,757)	Total Current Liabilities		(48,708)
		Long-term Liabilities		
(141,519)		Borrowing Repayable within a Period in Excess of 12 Months	(157,937)	
(74,809)		Other Long-term liabilities	(72,801)	
(1,190)		Provisions	(1,255)	
-		Capital Grant Receipts in Advance	(5,000)	
(94,441)		Other Long-term liabilities (Pensions)	(149,777)	
(1,384)		Liabilities in Associates	(2,931)	
	(313,343)	Total Long-term Liabilities		(389,701)
	211,102	Total Assets less Liabilities		157,758

Group Balance Sheet



31 March 2015			31 March 2017	
£'000	£'000		£'000	£'000
54,847		Unusable Reserves		
194,492		- Revaluation Reserve	56,033	
(4,165)		- Capital Adjustment Account	194,647	
(94,441)		- Financial Instruments Adjustment Account	(3,836)	
(4,529)		- Pensions Reserve	(149,777)	
		- Accumulated Absences Account	(4,312)	
	146,204			92,755
		Usable Reserves		
4,027		- Capital Funds	4,064	
671		- Repairs and Renewals Funds	896	
52,417		- General Fund Balance	53,489	
	57,115			58,449
	1,589	Group Reserves		183
	6,194	Common Good Reserves		6,371
	211,102	Total Reserves		157,758

The Unaudited Annual Accounts were issued on 29 June 2017.

Kirsty Flanagan
Head of Strategic Finance
29 June 2017

Group Statement of Movement in Reserves

Movements in 2016-17	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2016	(52,417)	(671)	(4,027)	(57,115)	(146,204)	(203,319)	(1,589)	(6,194)	(211,102)
Surplus/(Deficit) on Provision of Services	4,998	-	-	4,998	-	4,998	(130)	(177)	4,691
Other Comprehensive Income and Expenditure	-	-	-	-	47,117	47,117	1,536	0	48,653
Total Comprehensive Income and Expenditure	4,998	-	-	4,998	47,117	52,115	1,406	(177)	53,344
Total Statutory Adjustments (See Page 56 to 57)	(6,341)	-	(1,613)	(7,954)	7,954	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(1,343)	-	(1,613)	(2,956)	55,071	52,115	1,406	(177)	53,344
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	271	(225)	1,576	1,622	(1,622)	-	-	-	-
(Increase)/Decrease in Year	(1,072)	(225)	(37)	(1,334)	53,449	52,115	1,406	(177)	53,344
Balance at 31 March 2017 Carried Forward	(53,489)	(896)	(4,064)	(58,449)	(92,755)	(151,204)	(183)	(6,371)	(157,758)

Group Statement of Movement in Reserves

Comparative Movements in 2015-16	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2015	(46,067)	(669)	(3,742)	(50,478)	(110,479)	(160,957)	(314)	(6,463)	(167,734)
Surplus/(Deficit) on Provision of Services	19,425	-	-	19,425	-	19,425	29	(85)	19,369
Other Comprehensive Expenditure and Income	-	-	-	-	(61,787)	(61,787)	(1,304)	354	(62,737)
Total Comprehensive Expenditure and Income	19,425	0	0	19,425	(61,787)	(42,362)	(1,275)	269	(43,368)
Total Statutory Adjustments (See Page 58 to 59)	(25,813)	-	(652)	(26,465)	26,465	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(6,388)	-	(652)	(7,040)	(35,322)	(42,362)	(1,275)	269	(43,368)
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	38	(2)	367	403	(403)	-	-	-	-
(Increase)/Decrease in Year	(6,350)	(2)	(285)	(6,637)	(35,725)	(42,362)	(1,275)	269	(43,368)
Balance at 31 March 2016 Carried Forward	(52,417)	(671)	(4,027)	(57,115)	(146,204)	(203,319)	(1,589)	(6,194)	(211,102)

Notes to the Group Financial Statements

1. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 61 to 74.

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention.

2. COMBINING ENTITIES

The Council has an interest in a number of Associate Entities. For the purposes of consolidation and incorporation within the Group Accounts recognition has been made of the Council's significant influence over Joint Boards and other entities.

The Associates which have been incorporated are:

- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

Under accounting standards, the Council is required to include the results of the above organisations as “associates” because it has “significant influence” over their financial and operating policies. The Council has no shares in or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Two of the three Joint Boards (SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an “associate” although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

The accounting period for all entities is 31 March 2017.

3. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.073m towards Scotland Excel in the 2016-17 financial year.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well-being; promote safety; social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

The Argyll and Bute Integration Joint Board was established as a body corporate by order of Scottish Ministers on 27 June 2015. The partnership between Argyll and Bute Council and NHS Highland has been established in accordance with the provisions of the Public Bodies (Joint Working)(Scotland) Act 2014 and associated Regulations. The Integration Joint Board has responsibility for all health and social care functions relating to adults and children and will oversee the Strategic Planning and budgeting of these, together with corresponding service delivery for the residents of Argyll and Bute. Argyll and Bute Council contributed £60.787m towards the Argyll and Bute Integration Joint Board in the 2016-17 financial year. All transactions are accounted for and shown within the single entity statements and therefore there is no material impact on the group accounts.

Notes to the Group Financial Statements

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

4. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. An acquisition basis has been used as the basis of consolidation. However, as no consideration was given for this interest there is no goodwill involved in these instances.

5. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £6.554m. This gives an overall net asset position for the Group of £157.758m.

All associates have prepared their accounts on a 'going concern' basis. For Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

6. FURTHER DETAILS ON CONSOLIDATION

Due to the significant impact upon the reported figures of the Group Accounts further information in respect of the Associate Entities outlined above can be summarised as follows:

Strathclyde Partnership for Transport

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.606m or 1.62% of the Board's estimated net running costs during 2016-17 and accounted for £2.003m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2016-17 the Council contributed £0.176m or 4.14% of the net annual running costs and accounted for £0.07m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2016-17 Argyll and Bute Council contributed £1.316m

Notes to the Group Financial Statements

towards estimated running costs and accounted for £2.931m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2016/17 £'m	2015/16 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.758	2.832
Net (Surplus)/Deficit	0.460	0.416
Long Term Assets	0.664	0.752
Current Assets	0.597	0.727
Liabilities due within one year	(0.100)	(0.120)
Liabilities due over one year	-	-
Pension Liability	(7.254)	(4.236)
Capital and Revenue Reserves	(6.093)	(2.877)

7. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 52 to 53) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 35 of the Notes to the Financial Statements on page 111 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.371m.

8. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 60. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.

Existing Use Value. The market value of a particular Council property, less the difference between the average rental income between public and private sector properties.

Expected Rate of Return on Pension Assets. The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value. This is the price at which an asset could be exchanged in an arm's length transaction less any grants receivable towards the purchase or use of the asset.

Financial Asset. A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash from another entity or a financial right to exchange financial instruments under conditions that are potentially favourable to the Council.

Financial Instrument. Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another.

Financial Instruments Adjustment Account. This holds the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

Financial Liability. An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another financial asset to another entity or a contractual obligation to exchange financial instruments under conditions which are potentially unfavourable to the Council.

Financial Reporting Standard (FRS). Financial Reporting Standards are issued by the Accounting Standard Board and define proper accounting practice for a given transaction or event.

Fixed Assets. Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Gains/losses on settlements and curtailments. The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is charged or credited to Non Distributed costs in the Comprehensive Income and Expenditure Statement.

General Fund Balance. This contains the net surplus on the provision of Council services combined with any balances from previous years and any contributions to other funds or reserves made during the year.

Group Accounts. The purpose of group accounts is to show the Council's interest in organisations and companies within the Financial Statements. The Council's shares of the assets and liabilities of these other entities are shown in the Group Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Group Balance Sheet.

Government Grants. Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the authority.

Heritage Assets. Assets which are intended to be preserved in trust for future generations because of their cultural, environmental and historical associations and are held by the Council of the maintenance of heritage.

International Accounting Standards (IAS). International Accounting Standards are issued by the International Accounting Standards Board and define proper accounting practice for a given transaction or event. IAS's take precedence over other accounting standards in the hierarchy of technical accounting standards.

International Public Sector Accounting Standards (IPSAS), a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

Impairment. A reduction in the value of fixed or financial asset below the valuation held on the balance sheet.

Infrastructure Assets. Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets. Non-financial assets which do not have physical substance but are identifiable and are controlled by the Council.

Interest Cost (Pensions). The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Inventories. Inventories may comprise the following: goods or other assets purchased for re-sale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances; and finished goods.

Liquid Resources. Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded on the active market.

Materiality. Information is included where the information is of such significance as to justify its inclusion, and omission or misstatement could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

National Non-Domestic Rates Pool. All non-domestic rates collected by local authorities are remitted to the national pool and, thereafter, distributed to Councils by the Scottish Government.

Net Book Value. The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

Net Realisable Value. The open market value of the asset in its existing use, or open market value in the case of non-operational assets, less the expenses to be incurred in realising the asset.

Non-Current Assets. Non-current assets are not expected to be realised within 12 months and are held to provide future economic benefits to the Council.

Non-operational assets. Are assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Officers' Remuneration. All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are subject to UK Income Tax).

Operating Leases. A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

Operating Assets. All items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Past Service Costs (Pensions). The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pensions Reserve. The Pensions Reserve absorbs the timing differences arising from different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

Prior Period Adjustments. Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Public Private Partnerships (PPP). Those partnerships enable the council to purchase services from the private sector and pay a fee based on pre-defined output criteria. The private sector uses this fee to repay loans taken out to finance the building or refurbishment of the assets.

Residual Value. The net realisable value of an asset at the end of its useful life.

Related Party Transactions. A related party transaction is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether a charge is made.

Renewal and Repairs fund. This contains funds credited at the Council's discretion from the General Fund and is available for use on capital or revenue expenditure on council assets.

Revaluation Reserve. Records unrealised gains arising since 1 April 2007 from holding fixed assets not yet realised through sales.

Service Expenditure Analysis (SEA). An analysis which groups together expenditure on services within headings or divisions as defined in the Service Reporting Code of Practice (SeRCOP).

Specific Government Grants. These are grants received from Central Government in respect of a specific purpose or service.

Unusable Reserves. Those reserves which hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences.

Usable Reserve. Those reserves which the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Useful Life. The period over which the local authority will derive benefits from the use of a fixed asset.

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Argyll and Bute Council

Interim Audit Report 2016/17



 AUDIT SCOTLAND

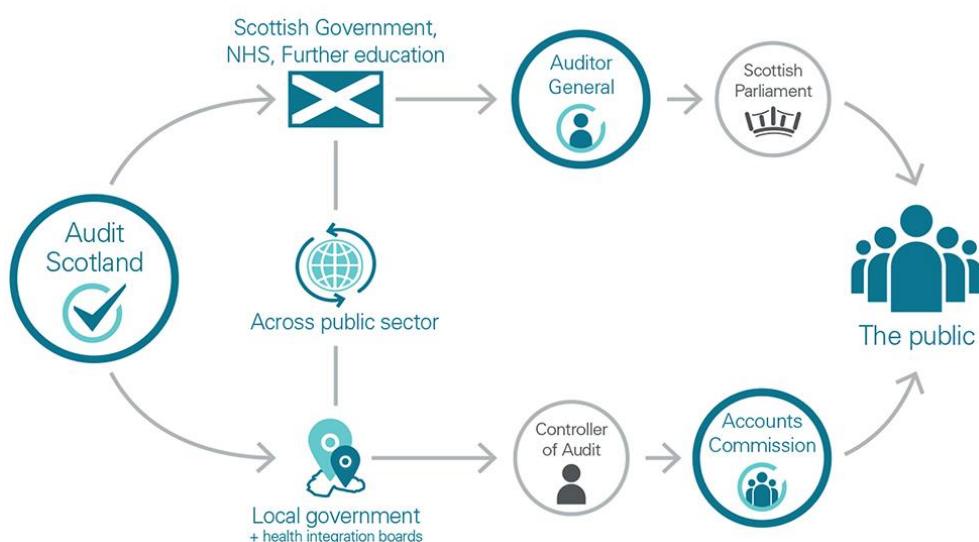
Prepared for Argyll and Bute Council

June 2017

Who we are

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

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



About us

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

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

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

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Argyll and Bute Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that Argyll & Bute Council:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. Under the Code of Audit Practice (2016), we are also required to carry out work on the wider dimension audit. This is focussed on financial management, financial sustainability and governance and transparency.

Conclusion

4. We concluded that, overall, Argyll & Bute Council's systems of internal control are effective. We identified several control weaknesses from our interim audit work as summarised in [Exhibit 1](#) and, where appropriate, will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.



Bank reconciliations



Payroll controls



IT access



Budgets

5. In terms of our wider dimension audit work we concluded that Argyll & Bute Council has appropriate arrangements in place for some aspects of governance and transparency and financial management, with some areas for improvement as set out in paragraphs 13 to 19 and in [Exhibit 1](#). Our 2016/17 Annual Audit Report will include an overall assessment of the council's arrangements for governance and transparency, financial management and financial sustainability. It will also include the results of our review of the council's progress in taking forward the recommendations in the Accounts Commission's Best Value report, published in December 2015.

Work summary

6. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.

7. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Additionally, where possible we place reliance on the work of internal audit to avoid duplication of effort. As outlined in the 2016/17 Annual Audit Plan, we placed formal reliance on the following internal audit work:

- Continuous monitoring programme - General ledger, Creditors, Debtors, Payroll, Treasury management, Council tax and NDR
- Procurement - PECOS, Off-contract purchasing.

8. We carried out early substantive testing on material accounts areas including expenditure and staff costs.

9. In terms of our wider audit dimension audit work, we focussed on some aspects of financial management and governance and transparency, including a follow-up of the 'Role of Boards' national report, published in September 2010. Our work on financial sustainability is on-going and will be reported in full in our 2016/17 Annual Audit Report along with the findings of further review of the council's arrangements for financial management and governance and transparency.

10. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Findings

Review of key controls in the main financial systems

11. We concluded that, overall, the council's systems of internal control are effective. Points arising from our review of key controls and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

Early Substantive Testing

12. To enable us to have a more efficient approach to the final accounts audit, we have carried out substantive testing on transactions up to the end of January 2017 for payroll expenditure, and up to mid-March 2017 for non-payroll expenditure. No significant issues arose from this testing.

Governance and transparency

13. From our review of some aspects of governance and transparency we concluded that:

- The council's overall arrangements for the prevention and detection of fraud are satisfactory.
- The council's risk management arrangements are well embedded. There is a robust process in place for the review and reporting of strategic and operational risk registers and for discussion at quarterly audit committee meetings during the year.

- The council's internal audit reviews Audit Scotland's national reports and passes them to the appropriate management recipient for a high level follow-up. The Chief Internal Auditor summarises this to the Audit Committee on a quarterly basis but this summary does not include all Audit Scotland's national reports of relevance to the council and the follow-up action is not clearly set out. Additionally, only some reports are presented to committees or other member groups for consideration.

14. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of the 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at council and committee meetings. From this work we found:

- At a number of council and audit committee meetings we attended, we observed appropriate level of challenge being applied to decision making.
- The council's website is in line with good practice in the way it sets out committee information, agendas, papers and minutes. It is easy to navigate with a high level of transparency and openness. Access to the council's information and committee papers is readily available to the stakeholders. Agendas and papers are available online prior to meetings and minutes are attached in a timely manner. However, we noted that members' interests did not include all information required by the Councillors' Code of Conduct.
- Although, overall, members and staff observe high standards of conduct and behaviour, long-standing political and personal differences remained among a small number of key individuals in Argyll and Bute Council. Some of these continued to be played out in a public way. During the year, one case was upheld by the Standards Commission, and a councillor censured for breach of the Councillors' Code of Conduct.
- The Council has taken steps to improve member training and development, including the introduction of a new members' induction programme in time for the recent local government elections.

15. The above findings are based on our review of aspects of governance and transparency and we will continue to monitor developments in this area. This will include reviewing the council's progress in taking forward the recommendations in the Accounts Commission's Best Value report, published in December 2015.

Financial Management

16. We reviewed the council's budget monitoring process and considered internal audit's review of financial planning and budget monitoring activities, reported in August 2016. We found that:

- Financial monitoring reports (revenue and capital) are included in a comprehensive financial reports monitoring pack and discussed at the Policy and Resources Committee every two months. The information presented in the pack is appropriate and sufficiently detailed to support effective scrutiny.
- Internal audit provided reasonable assurance for this area. Its review of budget monitoring reports, provided to budget holders on a regular basis by Strategic Finance, found that these were accurate. This was supported by the budget holders' view that the reports were timely, accurate and relevant. Areas for improvement related to improving the recording of cost and demand pressures and a forecast outturn position in the budget holder engagement logs, including planned earmarking within budget monitoring and forecasting protocols, and using trend analysis and unit costing in the budget monitoring process.

17. We will continue to keep the council's budget monitoring process under review.

18. We also followed up on areas for improvement set out in our report on the 2016/17 budget setting process. From our attendance at the 2017/18 budget setting meeting, and from reviewing minutes of the meeting, we have confirmed that officers have addressed all three report's recommendations:

- The budget proposals included a clear breakdown of how a balanced budget would be made up. The amendments proposed at the budget setting meeting primarily focussed on allocating the additional funding announced by the Cabinet Secretary for Finance and the Constitution on 15 December 2016. This included £2.4 million of revenue and £0.7 million of capital funding.
- The minutes of the budget setting meeting were comprehensive and clear.
- The Head of Strategic Finance reminded members of the recommendation in our report on the 2016/17 budget setting process for members to consider circulating proposals for any significant changes to the budgeting pack in advance of the council meeting. Although the alternative budget proposals were tabled on the day rather than, as good practice would indicate, circulated in advance with agenda papers. However, the proposed changes to the budget focussed primarily on allocating the additional funding rather than significantly changing the existing budget proposals.

19. We also found that the Head of Strategic Finance appropriately commented on each alternative budget proposal and confirmed that each presented a suitably balanced budget.

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
Review of controls		
<p>Treasury management reconciliations</p> <p>Due to a temporary lack of staff resources, the treasury team did not prepare monthly treasury management reconciliations in a timely manner during the financial year.</p> <p>There is a risk of errors going undetected if reconciliations are not completed and reviewed in a timely manner.</p>	<p>A decision was taken to move to quarterly reconciliations for a temporary period, due to staff resources. The risk was considered to be low. Monthly reconciliations have now resumed.</p>	<p>Peter Cupples 15 June 2017</p>
<p>Council tax reconciliations</p> <p>For two monthly reconciliations (November 2016 and February 2017) there was no evidence of a secondary review by a senior officer. For one reconciliation (September 2016), it was unclear if the reconciliation had been subject to a secondary review as it was initialled by a senior officer but there was no evidence of another officer completing the reconciliation. Additionally, the November 2016 reconciliation was not completed until</p>	<p>These are the cumulative reconciliations between raw cash account in the general ledger used to record all council tax cash received during the year, and the cash postings made to Northgate council tax system. The Cash section do daily checks on these postings. On a monthly basis, a cumulative (year to date) reconciliation is done by the Revenues Supervisor which is then checked and signed off by the Revenues and Benefits Manager. It</p>	<p>Judy Orr 30 June 2017</p>

Issue identified	Management response	Responsible officer and target date
<p>January 2017.</p> <p>There is a risk of errors going undetected if reconciliations are not reviewed by a secondary senior officer. Reconciliations should also be completed timeously to ensure any issues are identified and resolved promptly.</p>	<p>appears that two of these were not counter signed by the Manager and one was not initialled by the Revenues Supervisor who carried out the reconciliation. The November reconciliation was delayed because of scheduled holidays. The relevant staff members will be reminded to sign these off to evidence the checks carried out, and to make sure they are done timeously. The risk of any errors arising is small as the daily checks are thorough and all issues would also show either on the monthly bank reconciliation or through suspense not being cleared, both of which are subject to separate reviews.</p>	
<p>Changes to suppliers' bank details</p> <p>We reported in our 2015/16 interim report that a previously available Oracle report, which enabled random checks of bank account details changes, was no longer available as a result of an Oracle system upgrade. We were advised this was still an issue for 2016/17. Internal audit reported in their update paper to the March audit committee that a new module would be in operation from 1 April 2017, which would report all bank account changes for 2017/18 so that checks could be carried out on these. But as at the end of May, this module has not yet been put in place.</p> <p>There is a risk of unauthorised amendments being made to standing suppliers' payment details if there is no suitable audit trail of all such amendments.</p>	<p>The new software was procured from Fiscal Technologies in late March. The supplier provided training on 23 May and we are hoping this it will be able to go live this week. We were unable to arrange training earlier due to pressure of year end work. This should provide a suitable audit rail of all such changes for checking.</p>	<p>Judy Orr 30 June 2017</p>
<p>Wider code work</p>		
<p>Governance and transparency - effectiveness of relationships</p> <p>Long-standing political and personal differences remained among a small number of key individuals in Argyll and Bute and some of these continued to be played out in a public way.</p> <p>There is a risk that, if such public disagreement persists, the council's image and reputation is damaged further, with potential implications for relations with local communities and management effectiveness.</p>	<p>The Councillor Induction programme included training on standards and leadership which included an emphasis on developing positive relationships with others and early signs have been encouraging in terms of positive interaction amongst new members.</p>	<p>Charles Reppke 31 May 2017 (end of Induction training)</p>

Issue identified	Management response	Responsible officer and target date
<p>Governance and transparency - presenting reports to members</p> <p>The council has a process in place for reviewing Audit Scotland's national performance reports and disseminating them to management. While the audit committee receives a quarterly summary of this, not all national reports of relevance to the council are included and the follow-up action is not clearly set out. Additionally, only some reports are presented to relevant committees for review and consideration.</p> <p>There is a risk that some opportunities for improvement are not being identified.</p>	<p>The process that is currently in place will be reviewed to ensure that necessary reports are presented to relevant committees for review and consideration and follow up actions are monitored.</p>	<p>Chief Internal Auditor 31 August 2017</p>
<p>Governance and transparency - councillors' interests</p> <p>Although the interests of each councillor are published on the councillors' individual contact pages on the council's website, the information available does not include all that required by the Councillors' Code of Conduct.</p> <p>To increase transparency, members' interests should include all information required by the Councillors' Code of Conduct.</p>	<p>Arrangements are in place for the collated Register of Interests to be published on the Council website.</p>	<p>Charles Reppke 30 June 2017</p>

Source: Audit Scotland

20. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to the Council.

21. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Argyll and Bute Council

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ARGYLL AND BUTE COUNCIL**AUDIT & SCRUTINY COMMITTEE****STRATEGIC FINANCE****27 JUNE 2017**

LOCAL SCRUTINY PLAN 2017/18 – AUDIT SCOTLAND

1. INTRODUCTION

- 1.1 This report introduces the Local Scrutiny Plan (LSP) 2017/18 and is for members' information. The Local Scrutiny Plan sets out the planned scrutiny activity in Argyll and Bute Council during financial year 2017/18 and is based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising representatives of all scrutiny bodies who engage with the Council.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the content of the Local Scrutiny Plan 2017/18.

3. DETAIL

- 3.1 The LSP provides commentary on the risk areas that the LAN has identified as requiring scrutiny. Details of planned scrutiny activity is outlined in the Plan, attached as Appendix 1 to this report. In addition, routine scheduled audit and inspection work will take place through the annual audit process and the on-going inspection of School and care establishments by Education Scotland and the Care Inspectorate respectively. Individual agencies will continue to monitor developments in key areas of Council activity and will provide support and challenge as appropriate.
- 3.2 Sections 3 to 11 of the Plan provides detail on scrutiny risk areas and action taken or plans in place to address or mitigate these. Amongst other things, there is commentary on areas such as financial sustainability. The report highlights that Councils are facing significant financial pressures with reductions in funding and the need to reconfigure services. It further notes that the Council has recognised this risk as part of its risk management process, and has formally agreed that officers should develop a medium to longer term financial strategy to address indicative funding gaps and savings targets for the years 2018/19, 2019/20 and beyond, in accordance with a defined set of budgetary principles.
- 3.3 The report also notes the recent Strategic inspection of the Council's education functions which identified areas of strength as well as areas which require improvement. Education Scotland will provide support and monitor the Council's progress towards improvement on the agreed actions. Education Scotland will carry out further inspection visits within the timescales specified in the published report.
- 3.4 Section 16 of the report notes that a new approach to auditing Best Value was agreed in June 2016 whereby Best Value will be now be assessed over the five

year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once during this five year period. The BVAR report for Argyll and Bute is not planned in the period covered by this scrutiny plan.

- 3.5 The audit work planned this year will focus on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. Audit Scotland will report the results of this work in the 2016/17 annual audit report.

4. CONCLUSION

- 4.1 The Local Scrutiny Plan highlights risk areas identified by the LAN as requiring scrutiny; it does not identify or address all risks in the Council. The Council will be subject to planned scrutiny activity supported by routine Audit and Inspection activity.

5. IMPLICATIONS

- 5.1 Policy - None
- 5.2 Financial -None
- 5.3 Legal -None
- 5.4 HR - None
- 5.5 Equalities - None
- 5.6 Risk – The Local Scrutiny Plan and any findings may inform future year Audit Plan.
- 5.7 Customer Service - None

**Kirsty Flanagan,
Head of Strategic Finance
27 June 2017**

For further information contact:

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APPENDICES

Appendix 1 – Local Scrutiny Plan 2017/18

Argyll and Bute Council

Local Scrutiny Plan 2017/18

Argyll and Bute Council

Local Scrutiny Plan – April 2017 to March 2018

Introduction

1. This local scrutiny plan (LSP) sets out the planned scrutiny activity in Argyll and Bute Council ('the council') during the financial year 2017/18. The plan is based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the council. The shared risk assessment process draws on a range of evidence with the aim of determining any scrutiny activity required and focusing this in the most proportionate way.
2. This plan does not identify or address all risks in the council. It covers only those risk areas that the LAN has identified as requiring scrutiny, or where scrutiny is planned as part of a national programme. Planned scrutiny activity across all councils in Scotland informs the National Scrutiny Plan for 2017/18, which is available on the Audit Scotland website.

Scrutiny Risks

3. The Accounts Commission's Best Value report, published in December 2015, welcomed the council's progress since the previous report in 2013, including better governance, decision-making and scrutiny arrangements, and improving relationships between political groups and between members and officers. However, the Accounts Commission also identified a number of areas where there could be further improvement. These included further developing the council's openness and transparency, and better involving communities in decision-making and scrutiny. The Accounts Commission also found that a number of relationship difficulties still persisted and that the council's approach to addressing the scale of the financial challenge it faced was not sustainable. The council accepted the findings and has developed an improvement plan to address them.
4. The LAN reported in the 2016/17 local scrutiny plan that Audit Scotland would monitor through the annual audit process the council's progress in taking forward the Accounts Commission's recommendations. Audit Scotland followed up aspects of the recommendations as part of the 2015/16 audit. While its 2015/16 annual audit report noted areas of good practice, it also identified areas for improvement, including that:
 - The council should strengthen its relationships with its communities and taxpayers by reporting more information about the budget setting process and wider issues in public

- There was limited evidence of the council taking a new approach to dealing with its financial challenges to provide more sustainable services going forward
 - The council should continue its efforts to improve working relations.
5. The Controller of Audit will continue to monitor through the annual audit process the council's progress in taking forward the Accounts Commission's recommendations. No additional Best Value scrutiny is therefore referred to in this local scrutiny plan.
 6. Councils are facing significant financial pressures with reductions in funding and the need to reconfigure services, increasing non discretionary costs, increasing demand for services and uncertainty around the newly created Integration Joint Boards. As at February 2017, the council forecasts a balanced budget for 2017/18 with a surplus of £193k. Indicative budgets forecast a funding gap of £3.3 million for 2018/19 rising to £9.3 million for 2019/20. The approach to meeting the required savings has yet to be developed. This creates a financial sustainability risk for the council as the level of necessary budget savings may adversely affect the level and quality of service provision. The council has recognised this risk as part of its risk management process, and has formally agreed that officers should develop a medium and long term financial strategy to address indicative funding gaps and savings targets for the years 2018/19, 2019/20 and beyond, in accordance with a defined set of budgetary principles. Audit Scotland will consider the council's approach to achieving financial sustainability through the annual audit process.
 7. A People Strategy for 2016-2020, approved by the council in September 2016, does not contain any detailed information regarding future projections for staff numbers. Without a detailed workforce plan, there is a risk that the council does not have the required capacity and skills to effectively deliver its services in the future. The council is in the process of developing a workforce plan, and has completed detailed discussions at service level on the required capacity and skills, and the particular workforce challenges faced across Argyll and Bute. Audit Scotland will monitor the progress of workforce planning through the annual audit process. No additional Best Value scrutiny is therefore included in this local scrutiny plan.
 8. In last year's local scrutiny plan the LAN reported that, given a number of concerns about the performance of the council's education services, a scrutiny response was required. A strategic inspection of the education functions of Argyll and Bute Council was carried out in autumn 2016 by Education Scotland and the results were published in March 2017. The inspection identified areas of strength as well as areas which require improvement. Education Scotland will provide support and monitor the council's progress towards improvement on the agreed actions. Education Scotland will carry out further inspection visits within the timescales specified in the published report.
 9. Education Scotland has highlighted that the council has spent all of its allocated Scottish Attainment Challenge funding. Plans for taking forward the Pupil Equity Fund (PEF) are under discussion.

10. The Care Inspectorate led on a project on the validated self-evaluation of Alcohol and Drug Partnerships (ADPs) across Scotland during 2016. All ADPs have received individual feedback to support continuous improvement and a national report will be published in May 2017.
11. The LAN has been monitoring the progress of health and social care integration. The Argyll and Bute Integration Joint Board took operational responsibility for services from the 1 April 2016. Audit Scotland will monitor its progress locally, largely as part of the Integration Joint Board audit and through a series of national reports.

Planned scrutiny activity

12. As shown in Appendix 1, the council will be subject to a range of risk-based and nationally driven scrutiny activity between April 2017 and March 2018. For some of their scrutiny activity in 2017/18, scrutiny bodies are still to determine their work programmes which specific council areas they will cover. Where a council is to be involved, the relevant scrutiny body will confirm this with the council and the appropriate LAN lead.
13. In addition to specific work shown in Appendix 1, routine, scheduled audit and inspection work will take place through the annual audit process and the on-going inspection of early learning childcare and schools and care establishments by Education Scotland and the Care Inspectorate respectively.
14. The Care Inspectorate and Healthcare Improvement Scotland will introduce a revised approach to the joint strategic inspections of services for adults for 2017/18 which will assess the extent to which the planning, organisation and co-ordination of services comply with the principles of integration and contribute to the national health and wellbeing outcomes. Inspections will include a focus on joint strategic commissioning. In 2017/18, the Care Inspectorate will also lead on thematic activity in the areas of adult support and protection and self-directed support, working with a range of scrutiny partners.
15. Education Scotland has developed a new model of inspection for Community Learning and Development (CLD). The inspection will be based on the local authority area and will include local authority CLD provision and partners. It is anticipated that all local authorities will be covered in the next 3 years. Education Scotland will also carry out a follow-up review of Careers Information Advice and Guidance (CIAG) services delivered by Skills Development Scotland across all council areas.
16. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Argyll and Bute is not planned in the period covered by this scrutiny plan. The audit work planned this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning,

financial governance and resource management. Audit Scotland will report the results of this work in the 2016/17 annual audit report.

17. Audit Scotland also plans to undertake national performance audit work in a number of areas covering local government during 2017/18. Performance audits relevant to the council include children's mental health, Arms Length External Organisations (ALEOs), City Deals and part two audit of the integration of health and social care. Engagement with councils is still to be determined on some of these studies, and councils will be updated once this has been decided. Details of future audit work are available on the Audit Scotland [website](#).

May 2017

Appendix 1: Scrutiny plan

Scrutiny body	Scrutiny activity	Date
Audit Scotland	Audit Scotland has performance audits planned in 2017/18 on: <ul style="list-style-type: none"> Arms Length External Organisations (ALEOs) City Deals Health and social care integration (part 2) Children's mental health. 	Dates to be determined
Care Inspectorate and Healthcare Improvement Scotland	Joint strategic inspections of services for adults.	Dates to be determined
	Thematic activity in the areas of adult support and protection and self-directed support.	Dates to be determined
Education Scotland	Further inspection visits within the timescales specified in the report published March 2017.	June 2017 September 2017
	Follow up review of the quality of Careers Information and Guidance (CIAG) services delivered by Skills Development Scotland across all council areas.	Dates to be determined
Scottish Housing Regulator (SHR)	SHR will publish the findings of its thematic inquiry work into gas safety and repairs completed during 2016/17. It may carry out further thematic inquiries during 2017/18. SHR will also review the Scottish Social Housing Charter data submitted by landlords and carry out data accuracy visits during the second quarter of 2017/18. If the council is to be involved in a thematic inquiry or a data accuracy visit SHR will confirm this directly with the council and the LAN lead. Where councils are to be involved in a thematic inquiry or a data accuracy visit, the SHR will confirm this directly with the council and the LAN lead.	Dates to be determined