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Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

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13 March 2018

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **TUESDAY, 20 MARCH 2018** 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 3 - 6)

   Minutes of the Audit and Scrutiny Committee held on 1 December 2017

   AUDIT ITEMS

4. **INTERNAL AUDIT SUMMARY OF ACTIVITIES** (Pages 7 - 18)

   Report by Chief Internal Auditor

5. **INTERNAL AUDIT REPORTS TO AUDIT & SCRUTINY COMMITTEE** (Pages 19 - 52)

   Report by Chief Internal Auditor

6. **INTERNAL AUDIT REPORT FOLLOW UP 2017-18** (Pages 53 - 58)

   Report by Chief Internal Auditor

7. **2018/19 INTERNAL AUDIT ANNUAL PLAN** (Pages 59 - 66)

   Report by Chief Internal Auditor

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   SCRUTINY ITEMS

10. **SCRUTINY FRAMEWORK** (Pages 153 - 166)

    Report by Chief Internal Auditor

11. **COUNCIL PERFORMANCE REPORT - APRIL TO SEPTEMBER 2017 - TO FOLLOW**

    Report by Executive Director of Customer Services

12. **RISK MANAGEMENT OVERVIEW** (Pages 167 - 178)

    Report by Head of Strategic Finance

13. **AUDIT SCOTLAND REPORT - FINANCIAL OVERVIEW 2016-17** (Pages 179 - 232)

    Report by Head of Strategic Finance

14. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 233 - 284)

    Report by Head of Strategic Finance

15. **UNAUDITED ANNUAL ACCOUNTS 2017-18** (Pages 285 - 320)

    Report by Head of Strategic Finance

16. **AUDIT AND SCRUTINY COMMITTEE WORKPLAN** (Pages 321 - 326)

Audit and Scrutiny Committee

Martin Caldwell (Chair)	Councillor Jim Findlay
Councillor George Freeman	Councillor Sir Jamie McGrigor
Councillor Julie McKenzie	Councillor Alan Reid
Councillor Sandy Taylor (Vice-Chair)	Councillor Andrew Vennard

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

MINUTES of MEETING of AUDIT AND SCRUTINY COMMITTEE held in the COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 1 DECEMBER 2017

Present: Martin Caldwell (Chair)

Councillor Jim Findlay
Councillor George Freeman
Councillor Sir Jamie McGrigor
Councillor Alan Reid
Councillor Sandy Taylor

Attending: Shona Barton, Area Committee Manager
Kirsty Flanagan, Head of Strategic Finance
Laurence Slavin, Chief Internal Auditor
Mhairi Weldon, Senior Audit Assistant
David McConnell, Audit Scotland

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated on behalf of Councillor Julie MacKenzie.

2. DECLARATIONS OF INTEREST

There were no Declarations of Interest intimated.

3. MINUTES

The Minute of the meeting of the Audit and Scrutiny Committee, held on 19 September 2017 was approved as a true record.

4. INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Committee gave consideration to a report providing a summary of Internal Audit activity and progress during Quarter 3 against a number of areas, which included:

- 2017/18 Audit Plan progress
- Individual audits undertaken
- Continuous monitoring programme testing
- Internal Audit development plan
- Performance indicators

Decision:

The Committee endorsed the report.

(Ref: Report by Chief internal Auditor, dated 1 December 2017, submitted.)

5. INTERNAL AUDIT REPORTS TO AUDIT & SCRUTINY COMMITTEE 2017-2018

The Committee gave consideration to a report containing the action plans which detailed findings, where Internal Audit, in agreement with management, have classified the findings either high or medium information in relation to the following 5 audits:

- Performance Management
- Scottish Living Wage Compliance
- Recruitment and Selection
- Records Management Plan
- SEEMIS

Decision:

The Committee endorsed the summary report and detail within each individual report.

(Ref: Report by Chief Internal Auditor, dated 1 December 2017, submitted.)

6. INTERNAL AUDIT REPORT FOLLOW UP 2017/18

The Committee gave consideration to a report and accompanying appendices which documented the results from a review performed by Internal Audit into the progress made by departmental management across all services in completing actions which were due to be implemented by 30 September 2017.

Decision:

The Committee endorsed the content of the report.

(Ref: Report by Chief Internal Auditor, dated 1 December 2017, submitted.)

7. DRAFT ANNUAL AUDIT PLAN 2018/19

The Committee gave consideration to a report introducing the draft Annual Audit Plan for financial year 2018/19. Members noted that the audits detailed in the plan had been selected using a risk based assessment of the audit universe which is all of the auditable areas within the Council. The Committee provided feedback on the draft Plan to the Chief Internal Auditor.

Decision:

The Committee agreed to note the content of the draft Annual Audit Plan.

(Ref: Report by Chief Internal Auditor, dated 1 December 2017, submitted.)

8. VAT RISK REVIEW

The Committee gave consideration to a report providing a further update on the current status of actions identified as a result of the VAT Risk Review undertaken by tax consultants KPMG in 2016.

Decision:

The Committee agreed to note the progress made by the Council on addressing the areas of potential risk in the Council's VAT accounting processes.

(Ref: Report by Head of Strategic Finance, dated 1 December 2017, submitted.)

9. AUDIT AND SCRUTINY COMMITTEE WORKPLAN

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

Decision

The Committee noted the draft Workplan.

(Reference: Audit Committee Workplan dated 1 December 2017, submitted)

The Audit and Scrutiny Committee unanimously agreed to suspend Standing Orders, to allow them to give consideration to agenda items 10 (Requests for information – Annual Report 2016-17) and 11 (Corporate Complaints – Annual Report 2016-17).
.

10. REQUESTS FOR INFORMATION - ANNUAL REPORT 2016-17

The Committee gave consideration to a report providing an update on the position regarding the recording, responding to, monitoring and reporting of requests for information under the Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIR's) for the period between 1 April 2016 and 31 March 2017.

Decision:

The Committee agreed to note the content of the report.

(Ref: Report by Executive Director of Customer Services, dated 13 November 2017, submitted.)

11. CORPORATE COMPLAINTS - ANNUAL REPORT 2016-17

The Committee gave consideration to a report providing information on how the Council has dealt with complaints during the period between 1 April 2016 and 31 March 2017 and performed against the statutory indicators which have been agreed between the Scottish Public Services Ombudsman (SPSO) and the Local Authorities Complaint Handling Network.

Decision:

The Committee agreed to note the content of the report.

(Ref: Report by Executive Director of Customer Services, dated 13 November 2017, submitted.)

ARGYLL AND BUTE COUNCIL **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

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 4.

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

- **2017/18 Audit Plan progress**: The audit plan is currently on track.

- **Individual Audits undertaken**: 4 audits have been completed during the period. Of these audits, are all rated as Substantial. There are a further 5 audits currently in progress.

- **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 & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

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 4 against a number of areas;

- 2017/18 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 Audits completed to February are detailed in Table 1. At the time of writing there are five Quarter 4 audits in progress which will be reported to the June meeting of the Committee.

Table 1: Summary of audits performed in quarter 4 2017/18

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions
Earmarked Reserves	Substantial	0	0	3
Catering - Compliance with Nutritional guidelines	Substantial	0	2	2
Rural Resettlement Fund	Substantial	0	1	1
Leisure Management	Substantial	0	3	2
Trading Standards (June committee)	In progress	-	-	-
Waste Management *(June Committee)*	In progress	-	-	-
ICT SLAs and System Development *(June Committee)*	In progress	-	-	-
Psychological Services *(June Committee)*	In progress	-	-	-
Street Lighting *(June Committee)*	Due to start March 18	-	-	-

4.2 Indicative audits planned for the Quarter 1 2018/19 are shown in table 2 below.

Table 2: Audits scheduled for Quarter 1 2018/19

Quarter 1
Community Empowerment Act
ALEO - LiveArgyll
General Data Protection Regulation
Equality & Diversity
Purchasing Cards

4.3 **Additional updates from Quarter 4;**

- The previous self-assessment against PSIAS has been reviewed and updated. No material weaknesses have been identified. Areas for improvement, and their current status, are summarised below.

Improvement	**Current Status**
Regular programme of development team meetings	Implemented – three audit development days held in 2017/18 Q4 and they are to be held quarterly in 2018/19.
Chief Internal Auditor (CIA) to attend SMT and DMTs on a regular basis	Implemented – CIA attends SMT and DMTS regularly
IA Charter and manual to be updated to be better aligned to the PSIAS and also reflect changes to working practice	Ongoing – CIA to provide revised documents to Audit & Scrutiny Committee in June 2018
Revise the audit universe to reflect new service plans with risk profiles more clearly aligned to auditable units.	Ongoing – CIA to provide revised Audit Universe to Audit & Scrutiny Committee in September 2018
Ensure a more consistent approach to the management of operational risk registers.	Ongoing – CIA working with DMTs to revise approach to risk management (see below)
Review current access to audit drive on council network for appropriateness.	Complete – CIA has reviewed and amended access rights.

- The CIA has been involved in the review and update of the risk management manual and risk registers. This work is ongoing with a completion date of June 2018.

- The CIA attended a meeting with the LiveArgyll General Manager, Chair of LiveArgyll and Chair of the Finance & Audit Sub Committee on the 26 January. It was agreed at this meeting that LiveArgyll audit reports would be provided to the Chair and Sub-Committee Chair for their review and comment before they are presented to the Audit & Scrutiny Committee.

- The CIA has finalised the scrutiny framework to ensure there is a clear and transparent method for assessing potential scrutiny topics. The framework is included as a separate agenda item.

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

Control effectiveness is assessed in one of four categories as set out below.

Control Assessment	Definition
Effective	Indicates minimum uncontrolled risk due to strong controls in place which are operating effectively.
Satisfactory	Control mitigations are in place however refinement opportunity exists to further reduce risk and/or enhance compliance.
Improvement Needed	Residual risk exists which place some 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 continuous monitoring 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 control effectiveness with follow up detail.

Table 3: Continuous monitoring programme results:

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Payroll	Monthly payrun reports	Effective	Effective	One issue regarding no bank details on file.	Corrective actions taken. Bank details now on file.
NDR	Reconciliations and reliefs	Satisfactory	Satisfactory	All reconciliations reviewed were found to be correct; however minor errors were found in supporting spreadsheet. From a sample of 90 reliefs reviewed, one had incorrect discount code applied, 3 had a missing field and 2 had no supporting documentation.	Spreadsheet has now been updated to reflect correct figures. System has now been updated to reflect correct information and missing documentation provided.

Test Area	Controls Tested	Control Design	Control Effectiveness	Findings	Management Commentary
Thomson Court	Establishment Visit	Satisfactory	Satisfactory	Key for cupboard containing petty cash was not held securely. No log or evidence of PECOS training undertaken by staff. Purchase order for recent acquisition of hoist missing	Key now kept in locked key safe box affixed to wall, access to which is responsibility of the senior member of staff on duty. A training record will be established and maintained. Purchase order and invoice now provided, reviewed and found to be correct.
Garelochhead Primary	Imprest	Effective	Effective	Receipts for school meals income are not numbered, coded or signed. Imprest has not been in use since February 2015.	Receipt book has been purchased for use and will be numbered, coded and signed. Creditors have been notified to close the imprest account.
Creditors	Duplicate invoice testing Invoice Authorisation	Effective	Effective	Two invoice batches from a sample of 10 were not authorised in accordance with the contents of the Authorised signatory list on the HUB.	Awaiting management response

4. 6 A follow up process for national reports is in place whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. Table 4 below details the National Reports issued during quarter 4.

Table 4: Issue of National Reports in Quarter 4:

National Report	Issued To	Detail	Management response/ Action taken
Local Government in Scotland – Financial Overview	• Head of Strategic Finance already aware of this report	"Councils are showing increasing signs of financial stress and face even tougher challenges	Report has been discussed at the Strategic Management Team

National Report	Issued To	Detail	Management response/ Action taken
		ahead, says the Accounts Commission."	and is included on the agenda for the March meeting of the Audit & Scrutiny Committee.
Private Finance Initiative (PFI) and PF2	• Head of Strategic Finance	"A briefing on the rationale, costs and benefits of the Private Finance Initiative; the use of and impact of PFI, and ability to make savings from operational contracts; and the introduction of PF2"	This report was considered by the Head of Strategic Finance and the Special Projects & Quality Improvement Manager. Both agreed that there was no further action required as a result of this report.
Early Learning & Childcare	• Acting Executive Director of Community Services	"Councils are preparing to provide 1,140 funded hours for all 3 and 4-year-olds - and eligible two year-olds - to improve outcomes for children and to support parents to work, study or train. Providing those hours will require a large increase in the number of childcare staff and changes to premises. This will be difficult to achieve in the time available"	The service have confirmed that they are currently taking action to address a number of the recommendations contained within the report, expressed in the Council's ELCC draft delivery plan for the implementation of 1140 hours of Early Learning and Childcare. This includes: - Argyll and Bute's Education Service is currently preparing the revised ELCC financial templates for submission to Scottish Government on 2 March 2018. The Services has provided Community Services Committee with regular update reports on the preparation and submission of the Council's Draft ELCC delivery plan, which aims to deliver on the aspirations of 1140 hours of ELCC for all eligible children by 2020. This is predicated on the

National Report	Issued To	Detail	Management response/ Action taken
			availability of the required financial resources: Capital and Revenue, as expressed in the Committee papers. - The draft delivery plan reflects the delivery of 1140 hours through a mixed provision including Local Authority, Partners Providers, Childminders and Social Enterprise models. The draft plan also takes account of the need for flexible provision to meet the needs of working parents and includes a full review and analysis of the workforce requirements to support the expansion programme. - Engagement through COSLA and other appropriate national bodies, e.g. ADES and SOLACE is routinely taking place to review and discuss matters pertaining to the ELCC policy ambitions. This engagement is supporting the Authority in reviewing all proposals and for revising advice to Elected Members.

4.7 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 identify potentially fraudulent claims and payments to be identified. Note though that the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. The Council is currently on track with the NFI upload timetable and, where matches have been identified, these are being reviewed. A reminder process is now in place to ensure that matches are reviewed on a timely basis.

Table 5: National Fraud Initiative Progress at 06/03/2018:

Operational Area	Total Matches	Rec Matches	Matches Complete	WIP	Match Description
CT to Elect Register	924	924	924	0	CT records to Electoral Register/ other data sets to ensure discount awarded to only those living alone aged over 18, taking into account disregarded occupants.
CT rising 18s	99	99	99	0	
CT to other Datasets	1080	1080	32	0	
Housing Benefits	500	29	165	0	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	740	146	150	4	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	194	156	194	0	Blue badge records to DWP data to identify deceased claimant with valid badge.
Private Residential Care Homes	50	23	50	0	Care home records to DWP data to identify deceased claimant with ongoing payments.
Housing Waiting list	433	416	412	10	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Personal Budgets	19	1	19	0	Direct payment records to those in other authorities, DWP and pension records to identify individuals claiming from multiple authorities, undisclosed income or where the claimant has died and payments ongoing.
Council Tax Reduction	729	13	306	0	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	4831	240	342	0	Analyses creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.
Procurement	176	68	68	0	Payroll records to Companies House and creditors data to identify employees who appear to have a personal interest in a company that the authority has traded with.

Overall Summary of Matches

Matches Complete	Work In Progress	Cleared	Frauds	Errors	Total Value £	Recovering	Recovering Value £
2761	14	2667	4	90	4,216	3	4,059

4.8 The table below details progress 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. Additional actions have been added in respect of self-assessment activity and making improvements to our internal documentation, report templates and refreshing the continuous monitoring programme.

Table 6: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Audit plan preparation	2018/19 Draft Plan submitted to December Audit & Scrutiny Committee	Complete	December 2017
Audit reporting	Review current internal audit report template and consider areas for improvement in terms of style and presentation.	Complete	March 2018
Audit fieldwork documentation	Further develop the risk control assessment document so it acts as a formal work programme which will provide greater assurance over audit completion and facilitate more comprehensive review.	Complete	March 2018
PSIAS Assessment	Agree development actions arising from Peer to Peer review scheduled quarter 4.	On track	March 2018
Continuous monitoring	Review the current suite of controls reviewed under the continuous monitoring programme to identify whether it would benefit from revision.	On track	June 2018
Internal Audit Charter & Manual	Review the current Internal Audit charter and manual and update to better align to PSIAS and reflect changes to working practice.	On track	June 2018
Risk Management Manual	Review the current risk management manual and update where necessary.	On track	June 2018
Audit risk universe	Review existing audit risk universe and update to reflect new service plans and better	On track	September 2018

Area For Improvement	Agreed Action	Progress Update	Timescale
	associate risk profiles to auditable units.		
Training and CPD	Formalise plans for internal audit training, including continuing professional development (CPD)	On track	On-going

4.9 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 – FQ4 17/18 (as at February 2018)			
TEAM RESOURCES			
PRDs IA Team G ➡	TARGET	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	3	3	
Financial			
Revenue Finance	BUDGET	ACTUAL	G ➡
YTD Position Year End Outturn	£190,911 £240,561	£154,423 £240,561	
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Risk management policy, strategy and guidance manual reviewed.	Status	On Track	G ➡
	Target	On Track	
Risks Management Overview report approved	Status	On Track to revised plan	G ⬇
	Target	Complete	
Review of Strategic Risk register	Status	On Track	G ➡
	Target	On Track	
Annual Audit Plan	Status	On Track	G ➡
	Target	On Track	
Planned number of days continuous monitoring programme complete	Status	On Track	G ➡
	Target	On Track	
Annual audit plan approved by 31 March	Status	On Track	G ➡
	Target	On Track	
Effective participation in NFI – Data completion	Status	On Track	G ➡
	Target	On Track	
% of audit recommendations	Actual	100%	G

accepted	Target	100%	→
% Recommendations followed up	Actual	100%	G
	Target	100%	→
Percentage qualified staff	Actual	40%	R
	Target	60%	→
% satisfaction rates from post audit surveys	Actual	94%	G
	Target	80%	↓
% customer satisfaction with audit reports	Actual	100%	G
	Target	80%	↑
Internal Audit Training days	Actual	55 days	G
	Target	50 days	↑

5. CONCLUSION

5.1 The 2017/18 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective 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

Laurence Slavin
Chief Internal Auditor
20 March 2018

For further information contact:
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ARGYLL AND BUTE COUNCIL **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

INTERNAL AUDIT REPORTS TO AUDIT & SCRUTINY COMMITTEE 2017 - 2018

1. EXECUTIVE SUMMARY

1.1 There are four audits being reported to the Audit & Scrutiny 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:

- **Earmarked Reserves:** This audit has provided a substantial level of assurance as internal control, governance and management of risk is generally sound. A sound process was in place with regards the approval, monitoring and reporting of earmarked reserves. Three low rated recommendations were made which focused on formally documenting this process and ensuring a consistent approach to record keeping is adopted to ensure a clear audit trail is available to support decision making.

- **Catering - Compliance with Nutritional Guidelines:** This audit has provided a substantial level of assurance as internal control, governance and management of risk is generally sound. Appropriate controls were found to be in place to ensure compliance with the Health Promotion and Nutrition (Scotland) Act. Two medium and two low recommendations were made which related to upgrading to latest nutritional software, implementation of good practice to all schools, approval of new menus and updating of training records.

- **Rural Resettlement Fund:** This audit has provided a substantial level of assurance as internal control, governance and management of risk is generally sound. Appropriate controls were found to be in place to ensure compliance with Council policy. One medium and one low recommendation were made which related to the requirement of a procedural document for the assessment self-employed and business application and also for clarity as to frequency of reporting of the RRF to the P&R committee.

- **Leisure Management Booking System:** This audit has provided a substantial level of assurance as internal control, governance and management of risk is generally sound. Policies and procedures were in place in relation to the operation and governance of the system and there were system controls around the use and operation of the system. Two medium recommendations were made in relation to the security of user access to the system and an additional medium recommendation has been made around users manually altering the VAT field in the system. Two low recommendations were made in relation to documenting an agreed process and rectifying printing issues users have been having.

2. RECOMMENDATIONS

2.1 Audit & Scrutiny Committee to 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

Laurence Slavin
Chief Internal Auditor
20 March 2018

For further information contact:
Laurence Slavin, Chief Internal Auditor, 01436 657694

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Argyll and Bute Council

Internal Audit Report

January 2018

FINAL

Earmarked Reserves

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	**0**	**0**	**3**

Contents

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1. Executive Summary

Introduction

1. As part of the 2017/18 internal audit plan, approved by the Audit & Scrutiny Committee in March 2017, we have undertaken an audit of Argyll and Bute Council's (the Council) earmarked reserves.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. In July 2014, the Chartered Institute of Public Finance & Accountancy (CIPFA) published LAAP bulletin 99. This provides guidance to local authority chief financial officers on the establishment and maintenance of local authority reserves and balances.

5. It is the responsibility of the Council's Section 95 Officer (Head of Strategic Finance) to advise on the level of reserves the Council should hold and to ensure there are clear protocols for their establishment and use. The Council holds a general fund reserve, which comprises of the following elements:

    - a contingency for any unforeseen events or emergencies, which is reviewed annually as part of the budget setting process
    - the Strategic Housing Fund
    - balances held to support the following year's budget
    - earmarked funds.

6. The Council's end of year flexibility policy (the policy) details seven situations where earmarking of the general fund reserve is permitted, being:

    - unspent grants
    - unspent third party contributions
    - unspent budget within the Devolved Management of Resources Scheme of Delegation for schools
    - previous Council or Policy and Resources Committee decisions
    - existing legal commitments

- Scottish Government initiatives
- energy efficiency fund.

7. Outwith these seven situations, unspent budget is not automatically carried forward and will be transferred back to the general fund unless a business case for earmarking unspent funds is submitted and approved. Business cases must be linked to the objectives, priorities and targets set out in the Council's corporate plan, area plans and service plans and are initially submitted to the Strategic Management Team before being presented to full Council.

8. The general fund balance as at 31 March 2017 was £53.489 million with £41.519 million of this held as earmarked balances.

Scope

9. The objective of the audit was to "review compliance with the policy in place and the control environment around the approval, reporting and monitoring of earmarked reserves" as outlined in the terms of reference agreed with the Head of Strategic Finance on 26 October 2017***.***

Audit Opinion

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

11. Our overall audit opinion for this audit is that we can take a **substantial** level of assurance. This means that whilst internal control, governance and the management of risk is sound there are minor areas of concern which need to be addressed in order for the residual risk to be at an acceptable level.

Key Findings

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

    - The policy does not cover all requirements of LAAP bulletin 99. The policy is reviewed on an annual basis as part of the budget process; however this is not evidenced.
    - Although there is a sound process in place for the approval, monitoring and reporting of earmarked reserves, this is not formally documented.
    - The monitoring of earmarked reserves is incorporated into the normal budget monitoring process and progress is discussed with budget holders at engagement meetings. However, these discussions are not consistently recorded.

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

2. Objectives and Summary Assessment

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	There are appropriate and accessible policies/procedures to support the management of earmarked reserves which are aligned to LAAP bulletin 99.	Substantial	There is an end of year flexibility policy in place however this policy does not reference all requirements as set out in LAAP bulletin 99. The policy is subject to an annual review as part of the budget process; however there is no evidence of this.
2	Current practice is compliant with the Council's approved earmarked policy and procedures.	Substantial	There is a sound process in place for the approval, monitoring and reporting of earmarked reserves; however this is not formally documented.
3	Documentation is complete, accurate and not excessive and is compliant with the data retention policy.	Substantial	Drawdown requests are submitted by the relevant finance contacts and there is a clear audit trail of these requests. However, finance contacts are not consistently recording discussions with budget holders in relation to progress and drawdown of earmarked reserves.

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

3. Detailed Findings

There are appropriate and accessible policies/procedures to support the management of earmarked reserves which are aligned to LAAP bulletin 99

16. LAAP bulletin 99 recommends that "for each earmarked reserve held by a local authority there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy."

17. The reason for/purpose of the earmarked reserve and an indicative spend profile are detailed in the business cases for new earmarked reserves and are also recorded in the year-end earmarked reserve report to Council.

18. Although there is a sound process in place in relation to the management and control of earmarked reserves, this process is not referenced in the policy.

19. Earmarked reserves are reviewed on an ongoing basis throughout the year with a report submitted to full Council at the year-end which provides a justification for the ongoing earmarking. This process is not referenced in the policy.

20. The current policy was reviewed and approved by Council on 29 June 2017. The policy is reviewed on annual basis as part of the budget process; however this review is not evidenced. Current practice is that the policy is only included in the year end earmarked reserves report if it has been subject to change.

Action Plan 1

Current practice is compliant with the Council's approved earmarked policy and procedures

21. There were 13 new earmarked reserves approved in 2016/17 and a business case was submitted for each. All 13 business cases contained the information as required by the policy.

22. From a sample of 11 earmarked reserves, expenditure to date was reviewed and was consistent with the agreed purpose of the reserve.

23. Following council approval, there is a process in place for the monitoring and review of earmarked reserves;

    - funds are held in a central cost centre
    - drawdown requests are prepared by the finance contact on behalf of budget holder and submitted to consolidated team for processing
    - the consolidated team move budget from the central cost centre into the relevant service cost centre to cover expenditure
    - progress with earmarked funds, including over/under spends, is regularly monitored and reported to departmental management teams and the Head of Strategic Finance by principal accountants
    - progress is also reported to the Policy & Resources Committee (P&R) as part of the earmarked reserves report which is a standing agenda item.

24. This process is not formally documented.

Action Plan 2

Documentation is complete, accurate and not excessive and is compliant with the data retention policy

25. Access to the general ledger is restricted to designated personnel. Access is requested via the Oracle Systems Administrator via a request form that requires third tier manager authorisation.

26. Financial papers reported to Council and the P&R committee are public documents in line with standard practice.

27. The earmarked reserve monitoring spreadsheet and a register of budget changes are maintained within strategic finance's shared drive.

28. The monitoring of earmarked reserves is incorporated into the normal budget monitoring process and progress is discussed with budget holders at engagement meetings. However, these discussions are not consistently recorded. In some cases there was no audit trail of the original request from the budget holder.

Action Plan 3

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	**Update End of Year Flexibility Policy** The end of year flexibility policy does not reference all requirements as set out in LAAP bulletin 99. The policy is subject to an annual review as part of the budget process however this review is not evidenced. The policy is not included in the year-end report to council if it has not been subject to any changes.	Failure to ensure policies and procedures are aligned to bulletin may lead to non-compliance with legal and/or professional requirement and standards.	The policy will be amended to reflect LAAP bulletin 99 and the policy will be included as an appendix to the end of year earmarked reserves report to Council going forward.	Head of Strategic Finance 30 June 2018
Low	**2**	**Procedure Note for Managing Earmarked Reserves** Although there is a sound process in place for the approval, monitoring and reporting of earmarked reserves, the process has not been formally documented.	Failure to document formal policies, procedures and processes may lead to inefficient and ineffective operations resulting in inconsistencies and non-compliance with agreed practice.	A procedure note will be prepared to formally document this process.	Head of Strategic Finance 31 August 2018
Low	3	**Completeness & Consistency of Record Keeping** The monitoring of earmarked reserves is incorporated into the normal budget monitoring process and progress is discussed with budget holders at engagement meetings. However, these discussions are not consistently recorded. In some cases there was no audit trail of the original request from the budget holder.	Failure to maintain complete and consistent records may lead to an inability to support decision making.	A consistent approach to record keeping will be adopted to ensure a clear audit trail is available to support decision making.	Head of Strategic Finance 31 August 2018

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

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

Appendix 2 – Levels of Audit Opinion

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

Argyll & Bute Council - Internal Audit Report

January 2018

Final

Catering: Compliance with Nutritional Guidelines

Audit Opinion: ***Substantial***

	High	Medium	Low
Number of Findings	***0***	***2***	***2***

Contents

Contact Details

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1. Executive Summary

Introduction

1. As part of the 2017/18 internal audit plan, approved by the Audit & Scrutiny Committee in March 2017, we have undertaken an audit of Argyll & Bute Council's (the Council) system of internal control and governance in relation to compliance with nutritional guidelines for school meals.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and we would like to record our appreciation for the cooperation and assistance we received from all officers over the course of the audit.

Background

4. The Schools (Health Promotion and Nutrition) (Scotland) Act 2007 ('the HPN Act') requires local authorities to ensure that food and drink provided in schools complies with the nutritional requirements specified by Scottish Ministers in regulations. The HPN Act also makes health promotion a central purpose of schooling. The Scottish Government subsequently published guidance in September 2008 which details the nutritional requirements that all state aided schools must adhere to.

5. The Council recently implemented Saffron, an application which helps facilitate compliance with nutritional guidelines. Saffron has been adopted for primary school menu planning and we have been given assurances by management that it will also be adopted for secondary school menu planning prior to the next secondary school Education Scotland inspection.

Scope

6. The overall scope of the audit was to ensure the Council is complying with the HPN act and that nutritional guidelines are embedded in processes, procedures and school menus. The terms of reference was agreed with the Head of Facility Services on 21 November 2017.

Audit Opinion

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

8. Our overall audit opinion for this audit is that we can take a **Substantial** level of assurance. This means that whilst internal control, governance and the management of risk is broadly reliable there are a number of areas of concern which need to be addressed in order for the residual risk to be at an acceptable level.

Key Findings

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

- Saffron should be updated to reflect the latest food composition dataset
- procedures should be established to monitor the implementation of Education Scotland recommendations and this feedback should be disseminated, where relevant to good practice, to all school catering staff
- training records should be kept up to date
- management approval of new menus should be documented.

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

2. Objectives and Summary Assessment

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	Saffron complies with the requirements of the HPN Act.	Reasonable	Adequate controls are in place within Saffron to ensure compliance with the HPN Act however Saffron should be updated to reflect the latest version of the McCance & Widdowson food composition dataset.
2	The current school menus meet the requirements of the HPN Act.	Substantial	Appropriate controls are in place within Saffron to ensure primary school menus are compliant with the HPN Act. The process to manage Education Scotland feedback could be strengthened.
3	The menu analysis process complies with the HPN Act.	Substantial	Current procedures and processes facilitate compliance with the HPN Act.
4	Performance monitoring is in place and is reported appropriately.	Substantial	Performance reporting on nutritional compliance is appropriate.
5	Adequate staff training is in place to ensure compliance with legislative requirements	Substantial	Training on nutrition and statutory compliance for employees is carried out on a regular basis however the recording of training could be improved.

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

3. Detailed Findings

Saffron complies with the requirements of the HPN Act

13. We assessed Saffron against guidelines published by the Scottish Government in 2008 which set out the functionality that nutritional analysis software should meet. This incorporated a number of compliance tests including confirmation that Saffron has the appropriate functionality to:

- ensure recipes and menus adhere to Scottish legislative requirements laid out in the Nutritional Requirements for Food and Drink in Schools (Scotland) Regulations 2008
- create a list of nutritionally analysed ingredients utilising the McCance & Widdowson food composition dataset and information provided by suppliers
- calculate the nutrient content of school menus averaged over five consecutive school days.

14. Our overall conclusion was that the functionality of Saffron is consistent with the Scottish Government guidelines thus providing assurance that the Council has adopted an appropriate software package which will help facilitate compliance with the HPN Act.

15. The Scottish Government guidelines state that Saffron should be populated with the most up-to-date version of the McCance & Widdowson food composition dataset. This dataset stores the composition of all basic foods and composition data of a range of foods that have been analysed as part of the Food Standards Agency's nutrient analysis catch-up project and the nutrient analysis project of pasta and pasta sauces. The Council is currently operating version 6 of the dataset and should consider upgrading to version 7 which is currently available.

Action Plan 1

The current school menus meet the requirements of the HPN Act.

16. Embedded within Saffron are the nutritional rules for each of the 13 nutrient and allergens to ensure compliance with the HPN Act. Saffron reflects the targets for these nutrients as set out in the legislation. The Council create four weekly primary school menus within Saffron and Saffron applies these rules to assess compliance with the nutritional requirements highlighting where a menu has either; failed to comply, met requirements within accepted tolerance or fully met requirements. All current menus are compliant with the nutritional requirements.

17. Saffron has been adopted for primary school menu planning. The nutritional content of secondary school menus was previously assessed using a software package called Nutmeg. The Council's licence to use Nutmeg has expired and there are no plans to renew it as Saffron will be adopted for secondary school menu planning prior to the next Education Scotland inspection. Education Scotland usually provide approximately a fortnight notice of an impending school inspection and management have provided assurance that this provides sufficient time to analyse secondary school menus to ensure compliance with the HPN Act.

18. Education Scotland carry out periodic audits of schools to ensure compliance with the HPN Act. During 2017 Education Scotland visited Hermitage Academy and Dunoon Primary and confirmed both were generally compliant. Education Scotland provided feedback on these audits by e-mail with the feedback highlighting areas for improvement and also identified areas of good practice. This feedback is provided informally during the audit and by e-mail after the audit is complete.

There is no process in place to monitor whether the recommendations are implemented. Current practice is that recommendations are only implemented within the school inspected, however, there will be benefit, where applicable, in implementing recommendations and identified good practice more widely to deliver improvements in other schools.

Action Plan 2

The menu analysis process complies with the HPN Act

19. The quality manual states that menus should be approved by the Commercial Manager, Service Managers, heads of service and the lead councillor for education, however there was no evidence that this has been carried out for the current suite of school menus.

Action Plan 3

Performance monitoring is in place and is reported appropriately

20. Performance reporting on nutritional compliance is undertaken at various levels including Facility Services departmental meetings, Catering and Cleaning Management team meetings with compliance reporting embedded within Pyramid.

21. There are regular catering and cleaning team meetings and the Head of Facility Services meets with the Executive Director of Customer Services every six weeks to discuss Pyramid scorecard information which includes compliance with the HPN Act.

22. The reporting functionality within Saffron system allows for greater automation of performance reporting than was previously available. There is an ongoing project to develop the current functionality of Saffron, a part of which focuses on the development of performance reporting. Areas where performance reporting has been enhanced and currently operational are productivity reporting i.e. meals per man hour, school meal uptake, cost / spend analysis and cost per meal.

Adequate staff training is in place to ensure compliance with legislative requirements

23. Staff training on nutrition and statutory compliance is carried out on a regular basis however a review of the training records database showed that the last recorded date for employee training occurred in January 2015. Training records should be kept up-to date to help ensure staff are receiving the appropriate suite of training to allow them to perform in their role.

Action Plan 4

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**McCance & Widdowson Composition Dataset** Saffron is not currently populated with the most up-to-date version of the McCance & Widdowson food composition dataset. The Council are currently operating version 6 of the dataset and should consider upgrading to version 7.	If the underlying dataset is inaccurate then the accuracy of compliance reporting could be compromised.	McCance and Widdowson does not provide details of Non Milk Extrinsic Sugars (NMES) content for items, and the current version 6 of SAFFRON has had the data added manually by SAFFRON. This is a significant undertaking and SAFFRON will update to Version 7 but only when the full data is available. Consequently moving to version 7 at the current time creates a greater risk of non-compliance with statutory guidance than remaining with version 6. We will implement version 7 when we have full assurance that all NMES data has been populated in it.	Catering and Cleaning Officer 31 December 2018 Or on receipt of confirmation that NMES data is populated.

Medium	2	**Implementing and Sharing Good Practice and Recommendations** Current practice is that feedback from Education Scotland on school catering audits, including recommendations and identified areas of good practice, are only fed back and implemented within the school inspected rather than communicated more widely to all school catering officers. Furthermore there is no process to monitor whether Education Scotland recommendations are implemented in schools.	The Council may not be maximising the benefit obtained from audit recommendations and good practice identified within audited schools.	Procedures and processes will be updated.	Catering and Cleaning Officer 31 March 2018
Low	3	**Management Approval of School Menus** The quality manual states that management, including the lead councillor for education, must approve new school menus. There is no evidence of compliance with this requirement.	Changes to school menus are not subject to the appropriate review and approval.	Going forward documentation will be retained to evidence approval of amendments to school menus.	Catering and Cleaning Officer 31 March 2018
Low	4	**Maintaining Training Records** Staff training on nutrition and statutory compliance is carried out on a regular basis however the training records database is not being updated to record this.	Staff may not be receiving the appropriate training to allow them to carry out their duties effectively.	Training records will be updated timeously following completion of training.	Admin Staff 31 March 2018

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

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

Appendix 2 – Levels of Audit Opinion

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

Argyll & Bute Council - Internal Audit Report

February 2018

Final

Rural Resettlement Fund

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	***0***	***1***	***1***

Contents

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1. Executive Summary

Introduction

1. As part of the 2017/18 internal audit plan, approved by the Audit & Scrutiny Committee in March 2017, we have undertaken an audit of Argyll & Bute Council's (the Council) system of internal control and governance in relation to the **R**ural Resettlement Fund (RRF).

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and we would like to record our appreciation for the cooperation and assistance we received from all officers over the course of the audit.

Background

4. Argyll and Bute is one of four council areas in the last census that recorded a falling population in a number of areas particularly amongst economically active people of working age. The Council's 2016-17 Budget included an announcement of a one-off £500,000 Rural Resettlement Fund (RRF) to help incentivise new residents and/or businesses to relocate to Argyll and Bute and help grow our population. The fund is particularly focussed on attracting and retaining economically active individuals and smaller businesses into the area.

5. The RRF has been targeted at three groups namely personnel relocations, persons already self-employed wishing to relocate to Argyll and business relocations. Since the fund was launched in December 2016 £240,000 has been awarded to personnel relocations, £20,000 to self-employed persons and £nil to business relocations.

Scope

6. The scope of the audit was to carry out general control testing around assessment and award criteria, payments and records maintenance as outlined in the terms of reference agreed with the Head of Economic Development on 16th January 2018.

Audit Opinion

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

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

Key Findings

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

    - Procedures should be established for the assessment of RRF grants for both self-employed and business relocations.
    - There should be greater clarity over the regularity of RRF performance reporting to the Policy and Resources committee with this regularity adhered to.

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

2. Objectives and Summary Assessment

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	There are appropriate and accessible policies/procedures to support the management of the rural resettlement fund.	Substantial	RRF policy is set out in papers agreed by Council in May 2016 and clear procedures for the award of personnel relocation grants have been documented. There are no procedures for the processing of self-employed and business relocation grant applications though it is recognised these account for only 8% of grants awarded.
2	Current practice is compliant with the Council's agreed policy and procedures	Substantial	Comprehensive controls, aligned to Council policy, are in place for both personnel and self-employed relocation grant applications. There is appropriate internal performance reporting however reporting to the Policy and Resources Committee could be improved.
3	Documentation is complete, accurate and not excessive, is stored appropriately and is compliant with the data retention policy	Substantial	All documentation relating to grant applications and award are securely held within the RRF shared drive.

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

3. Detailed Findings

***There are appropriate and accessible policies/procedures to support the management of the rural resettlement fund*.**

13. Development and Infrastructure services are responsible for RRF governance arrangements with award approval delegated to the Head of Economic Development and Strategic Transportation (EDST) services.

14. Council policy on the RRF was approved by the Policy and Resources (P&R) Committee via recommendations to the August 2016 committee. This included:

    - the types and levels of support to be funded
    - that the fund will operate on a "first come first serve basis"
    - £10,000 has been allocated for marketing of RRF
    - that the RRF will be administered by EDST

15. EDST have assigned the assessment of grant applications across three separate teams within the service to handle applications from:

    - personnel relocations
    - self-employed persons
    - business relocation.

16. Comprehensive procedural documents for the assessment and award of personnel grants have been implemented which are aligned to Council policy and have clearly defined roles and responsibilities. Equivalent procedures for the processing of self-employed and business relocation applications have not been written although there is a technical checklist that staff follow to ensure compliance. It is recognised that these areas account for only 8% of funds awarded to date.

Action Plan 1

17. Comprehensive technical assessment checklists have been created to help assess personnel and self-employed applications. This details the documents/evidence required from each applicant prior to approval or rejection. They also detail the appropriate authorisation levels for checking and final clearance of award by management. This helps ensure RRF awards are aligned to Council policy.

Current practice is compliant with the Council's agreed policy and procedures.

18. As at January 2018 there have been fifty approved applications for personnel relocation grants, four approved applications for self-employed relocation grants and no approved applications for business relocations grants.

19. A sample of ten approved personnel relocation awards and one approved self-employed award were tested to ensure they had been subject to the appropriate procedures and controls established in the documented procedures and technical assessment checklists referenced in paragraphs 16 and 17. No exceptions were noted providing assurance that controls are operating well with applications considered and approved in line with Council policy.

20. RRF performance is reported to the monthly Council policy meetings attended by the Executive Director of Development and Infrastructure, EDST Head of Service and the Council Leader. The report includes information on the total number of applications made and awarded, the total awarded by sector and the total number of persons who have relocated to Argyll and Bute. In addition a comprehensive report on the RRF was presented to the P&R Committee in August 2017.

21. The policy document presented to the P&R Committee in August 2016 stated that "*the Executive Director for Development and infrastructure will report to the P&R Committee on a regular basis as part of the reporting on the Argyll, Lomond and the Islands Rural Regeneration Initiative*". The fund commenced in December 2016 and, as at January 2018, only one report has been presented to the P&R committee. There is no clarity as to how often the P&R Committee should be updated on progress.

Action Plan 2

Documentation is complete, accurate and not excessive and is compliant with the data retention policy

22. All documentation pertaining to RRF applications and awards are contained within the RRF shared drive and access is restricted to designated personnel. Documentation reviewed within the sample chosen were found to be complete and accurate.

23. Papers reported to Council and the P&R committee are public documents in line with standard practice

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Procedure Note for Self-Employed and Business Applications** There is a comprehensive procedural document in place for the assessment of personnel RRF applications however there is no equivalent document in place for either self-employed or business relocation applications.	Failure to document procedures and processes may lead to non-compliance with Council policy.	A procedural document will be prepared and followed as suggested.	Ishabel Bremner 29 March 2018
Low	2	**Performance Reporting to P&R Committee** RRF performance is supposed to be reported to the P&R Committee on a 'regular basis' as agreed by the Committee in August 2016. The fund commenced in December 2016 and, as at January 2018, only one report has been presented to the committee. There is no clarity as to how often the P&R Committee should be updated on progress.	Failure to report regularly to the P&R Committee may result in a lack of transparency in the use of public funds and lead to ineffective decision making.	Discussion to be had at D&I DMT on frequency of reporting and an agreed timescale provided. In the meantime it has been agreed with the Head of the EDST Service that a report will be submitted to the P&R Committee on 17 May 2018.	Ishabel Bremner 17 May 2018

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

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

Appendix 2 – Audit Opinion

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

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ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE

AUDIT & SCRUTINY COMMITTEE
20 MARCH 2018

INTERNAL AUDIT REPORT FOLLOW UP 2017-18.

1. EXECUTIVE SUMMARY

1.1 Internal Audit document the progress made by departmental management in implementing the actions agreed with Internal Audit. This report and attached appendices are the results from a review performed by Internal Audit for actions due to be implemented by 31 December 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 agreed actions. The contact role involves updating both the Executive Directors and Internal Audit on progress with implementation of agreed actions.

1.3 Appendix 1 is a statistical summary of all agreed actions arising from Internal Audit reports by department. Detailed is the number of agreed actions due as at 31 December 2017, the number implemented, the number of agreed future actions and their status, e.g. on course etc.

1.4 Appendix 2 provides a summary as at 31 December 2017, of all delayed and rescheduled agreed actions from 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 & Scrutiny Committee, management comment and Pyramid status.

1.5 The Education action in relation to the looked after children report, detailed in appendix 2, has been marked as superseded. A decision has been taken to close this action due to the named person legislation currently being on hold and new requirements associated with the General Data Protection Regulations leading to a change in the legislative environment resulting in a fundamental change to what would be required for compliance.

2 RECOMMENDATIONS

2.1 The Audit & Scrutiny Committee to review and endorse the content of this report.

3 CONCLUSION

3.1 Of the agreed actions due for completion by 31 December 2017, 20 have been completed. Internal Audit is satisfied with the status of the remaining two actions being delayed but rescheduled. Good progress is being made on the agreed actions due after 31 December 2017 with three being completed early. Further programmed testing of post follow-up actions will be 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

Laurence Slavin
Chief Internal Auditor
20 March 2018

For further information please contact:
Laurence Slavin, Chief Internal Auditor, 01436 657694

APPENDIX 1

SERVICE SUMMARIES

AGREED ACTIONS DUE 01 OCTOBER 2017 – 31 DECEMBER 2017

SERVICE	Complete	Delayed but rescheduled	Superseded	Total
COMMUNITY & CULTURE	5	0		5
CUSTOMER & SUPPORT SERVICES	2	0		2
ECONOMIC DEVELOPMENT	1	1		2
EDUCATION	2	1	1	4
GOVERNANCE & LAW	2	0		2
IMPROVEMENT & HR	2	0		2
ROADS & AMENITY SERVICES	2	0		2
STRATEGIC FINANCE	4	0		4
TOTAL	**20**	**2**	**1**	**23**

AGREED ACTIONS DUE AFTER 31 DECEMBER 2017

SERVICE	Complete	On Course	Total
ADULT CARE	0	1	1
COMMUNITY & CULTURE	0	1	1
EDUCATION	1	1	2
GOVERNANCE & LAW	0	3	3
IMPROVEMENT & HR	2	3	5
ROADS & AMENITY SERVICES	0	3	3
STRATEGIC FINANCE	0	4	4
TOTAL	**3**	**16**	**19**

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Recommendations Overdue 31 December 2017

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

DEPARTMENT COMMUNITY SERVICES

SERVICE EDUCATION

REPORT NAME LOOKED AFTER CHILDREN - EQUALITY OF EDUCATION

3	It was not evidenced that Education hold a central register of Named Persons for Secondary Schools. **LOW**	A central register of Named Persons in Secondary Schools will be created and published by the Education Service in compliance with new statutory duty.	31 August 2016 **31 December 2017**	Action closed due to named persons legislation on hold and new General Data Protection Regulations resulting In change to legislative environment and compliance requirements.	**Superseded** Education Manager – Inclusion and Equality

REPORT NAME REVIEW OF ADDITIONAL SUPPORT NEEDS - 2016/17

1	No evidence of a formal agreement in place in respect of home and hospital tuition. **MEDIUM**	Management will liaise with Glasgow City Council to formalise agreement on service provision.	30 September 2017 31 December 2017 **31 March 2018**	Rescheduled due to staff absence extension will allow relevant officer to progress this action.	**Delayed but rescheduled** Education Manager – Inclusion & Equality

DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES

SERVICE ECONOMIC DEVELOPMENT

REPORT NAME INTERNAL AUDIT REVIEW OF LEADER SERVICE LEVEL AGREEMENT 2016-17

1	Claims are required to be submitted quarterly. **MEDIUM**	First claim to be submitted by mid-October and up to date by end of December 2017 (This is dependent on the turn around on the LARCS system).	31 December 2017 **28 February 2018**	A claim from January – December 16 was input to the LARCS system and submitted by the 22/12/17. This is the first time that this was done and it took longer than anticipated. The claim January – September 2017 will be completed by the end of February.	**Delayed but rescheduled** European Support Officer

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ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE

AUDIT & SCRUTINY COMMITTEE
20 MARCH 2018

2018/19 INTERNAL AUDIT ANNUAL PLAN

1. SUMMARY

1.1 This report introduces the 2018/19 Internal Audit Annual Audit Plan.

2. RECOMMENDATIONS

2.1 To note the changes between the draft 2018/19 Internal Audit annual plan presented to Committee in December 2017 and the proposed final 2018/19 plan (Appendix 1)

2.2 To agree and approve the Internal Audit Annual Plan 2018/19 (Appendix 2)

3. DETAILS

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

3.2 The draft 2018/19 Internal Audit annual plan was presented to the Audit & Scrutiny Committee on 1 December 2017. In December and January the CIA presented the draft plan to the Council's three Departmental Management Teams and the Strategic Finance Management Team to obtain feedback on the proposed reviews. These, and further discussions with appropriate officers, has resulted in changes between the draft plan and final plan which are set out in Appendix 1. The summary of these changes is:

- New audits - 3
- Audits with increase of days – 1
- Audits with decrease in allocated days – 7
- Audits reallocated to different Council area – 3

3.3 In particular the three new audits are

- VAT added to the continuous monitoring programme
- Housing Benefit and Council Tax Reductions
- School fund governance.

The final audit plan is shown in Appendix 2.

3.4 The methodology followed to identify the reviews in the draft audit plan is as reported to the Audit & Scrutiny Committee on 1 December 2017 so has not been repeated in this paper.

4. CONCLUSION

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

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None
5.6	Risk	None
5.7	Customer Service	None

For further information please contact Internal Audit (01436 657694)

Laurence Slavin
Chief Internal Auditor
20 March 2018

Appendices:
1. **Changes between draft and final 2018/19 Internal Audit Annual Plan**
2. **2018/19 Internal Audit Annual Plan**

Appendix 1. Changes between draft and final 2018/19 Internal Audit Annual Plan

Draft Plan		Revised/Final Plan		
Audit Title	**Days**	**Audit Title**	**Days**	**Reason for change**
Cross Cutting				
Organisational Culture	30	Organisational Culture	40	Further consideration of potential scope and audit approach has resulted in a judgement to increase number of days to accommodate workshops and organisation wide surveys.
Risk Management	20	Risk Management	15	Time invested in 2017/18 to roll out new risk management guidance has resulted in decision to reduce the scope to focus on compliance.
Payroll	30	Payroll	25	Original allocation of 30 days considered excessive.
Council Tax and NDR	20	Council Tax and NDR	15	Benefits elements of this review have been removed and will be addressed under separate audit within Customer Services.
Establishment Visits – School Funds imprest	30	Establishment visits	20	The school visits will be addressed separately within a dedicated audit review.
N/A	0	VAT	20	VAT has been added to the continuous monitoring programme due to previous audit findings.
Chief Executive's Unit				
N/A	0	Community Empowerment Act	25	Re-allocated to Chief Executive's Unit in line with revised structure
Customer Services				
Members Services	20	Members Services	15	Number of days reduced to reflect relative size of members services team.
Off-Payroll working	20	Off-Payroll working	15	Scope of work will be predominantly compliance testing. Therefore original allocation of days deemed excessive. Review reallocated to Customer & Support services from Improvement & HR as recruitment of agency staff sits with the procurement team.
N/A	0	Housing Benefit & Council Tax Reduction	20	Review added following implementation of new Civica benefits system.
N/A	0	Early Years Provision	25	Re-allocated to Customer Services following decision to remove Community Services from the organisational structure.
N/A	0	Adult Learning	25	Re-allocated to Customer Services following decision to remove Community Services from the organisational structure
N/A	0	School Fund Governance	20	Review added due to recurring issues identified through continuous monitoring.
Health and Social Care Partnership				
CareFirst System	30	CareFirst System	25	Original allocation deemed excessive. Carefirst has been reviewed previously meaning less time required for scoping and audit will be more focused.
Internal Audit Management				
Management	120	Management	100	Allocation of days to management has been reduced to reflect CIA involvement in Organisational Culture audit and scrutiny.
Contingency				
Contingency	70	Contingency	60	Reduced to balance total audit days available

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Appendix 2. 2018/19 Internal Audit Plan

DRAFT AUDIT PLAN 2018/19			Planned days	High Level Scope
Department / Service Area	**Sub Service**	**Topic**		
CROSS CUTTING				
Council	Organisational Culture (carried forward from the 2017/18 plan)		40	Assurance over organisational culture and compatibility with the delivery of council objectives
	Risk Management		15	Adequacy of risk management arrangements
	Performance Management		20	Review of business outcomes, service plans and the council's corporate plan
Continuous Monitoring Programme **(covers Council and Live Argyll)**	Arrangements for prevention / detection of fraud		15	Participation in National Fraud Initiative
	Budgeting		20	Internal control environment
	General Ledger		20	Internal control environment
	Creditors		20	Internal control environment
	Debtors		20	Internal control environment
	Payroll		25	Internal control environment
	Treasury Management		20	Internal control environment
	Council Tax and NDR		15	Internal control environment
	Establishment Visits (Council and Live Argyll)		20	Internal control environment
	VAT		20	Internal control environment
	Follow –up Sample testing		30	Compliance
Total Cross Cutting			**300**	
Chief Executive's Unit	Strategic Finance	Financial Planning	25	Review of budget setting and arrangements for medium to long term financial planning
	Chief Executive's Unit	Community Empowerment Act	25	Assess preparedness for new act and appropriate governance and procedures

Appendix 2. 2018/19 Internal Audit Plan

DRAFT AUDIT PLAN 2018/19			Planned days	High Level Scope
Department / Service Area	**Sub Service**	**Topic**		
Total Chief Executive's Unit			**50**	
CUSTOMER SERVICES				
Governance and Law	Central Governance	Member Services	15	Arrangements for member support and development
Governance and Law	Central Governance	General Data Protection Regulation	20	Arrangements in place to ensure compliance with new GDPR
Improvement and HR	Human Resources	Equality & Diversity	20	Review adequacy and accessibility of policies & procedures and training
Customer and Support Services	Procurement, commission and creditors	Off-Payroll working	15	Review arrangements in place for compliance with new legislation and policy
Customer and Support Services	Procurement, commission and creditors	Purchasing Cards	20	Review of control environment and the purchase card system
Customer and Support Services	Revenue and Benefits	Housing Benefit & Council Tax Reduction	20	Review of control environment in new Civica system
Facility Services	Property Services	Land and Asset Disposal	20	Follow up from previous audit report in 2014/15. Review policies & procedures in place and general control environment
Education	Early Years	Early Years Provision	25	Assess preparedness for provision of additional hours
Education	Adult Learning	Adult Learning	25	Review control environment and policies & procedures
Education	Primary and Secondary Schools	School Fund Governance	20	Review control environment and policies & procedures
Total Customer Services			**200**	
HEALTH AND SOCIAL CARE PARTNERSHIP – Former Council Service Areas				
Health and Social Care	Adult Services	Self-directed support (SDS)	30	Assess progress implementing SDS and response to Audit Scotland's national report
Health and Social Care	Children & Families	Carefirst system	25	Review control environment including system reporting and monitoring

Appendix 2. 2018/19 Internal Audit Plan

DRAFT AUDIT PLAN 2018/19			Planned days	High Level Scope
Department / Service Area	**Sub Service**	**Topic**		
Total Health and Social Care Partnership			**55**	
DEVELOPMENT AND INFRASTRUCTURE SERVICES				
Economic Development	Airports	Operating Manual	10	Evidence Compliance with Aerodrome Operating Manual
Planning and Regulatory Services	Regulatory Services	Environmental Services	20	Governance, monitoring & reporting arrangements
Planning and Regulatory Services	Regulatory Services	Planning Fees	15	Implementation and application of new charges
Roads and Amenity Services	Marine	Marine Services: Jura Ferry Service	10	Review control environment and policies & procedures
Roads and Amenity Services	Roads Maintenance and Management	Roads Maintenance	20	Follow up from previous audit report in 2014/15. Review control environment and policies & procedures
Roads and Amenity Services	Fleet, waste and infrastructure	Waste Management	15	Review of new refuse process and reporting and monitoring arrangements
Total Development and Infrastructure			**90**	
Verification Activity /Short Audits	Grant verification	File and grant claim review (including LEADER & FLAG)	25	Evidence Compliance with award Criteria
	LGBF	Accuracy of Submission	10	Accuracy of submission
	Live Argyll	Governance, Recording and Reporting	40	Review of governance, monitoring and performance reporting arrangements
	Travel and Subsistence	System and Manual Claims	5	Authorisation and controls
	Stores and Stock Control	Stores and Stock Control	5	Access, security and record keeping
Total Verification			**85**	
Internal Audit Management			100	Planning & reporting Risk Management Service Support and Advice Project Support and Advice Scrutiny Development
Contingency			60	Investigations & consultancy
Total Available Audit Days			**940**	

Appendix 2. 2018/19 Internal Audit Plan

Customer Services

- **Education Learning & Teaching**
  - School fund governance
- **Education Lifelong Learning & Support**
  - Early Years Provision
  - Adult Learning
- **Governance & Law**
  - Member Services
  - General Data Protection Regulation
- **Customer & Support**
  - Purchasing Cards
  - Housing Benefit & CT Reduction
  - Off-Payroll working
- **Improvement & HR**
  - Equality & Diversity
- **Facility Services**
  - Land and Asset disposal

Development & Infrastructure

- **Roads & Amenity**
  - Marine Services (Jura)
  - Roads Maintenance
  - Waste Management
- **Economic Development**
  - Oban Airport
- **Planning & Regulatory**
  - Environmental Services
  - Planning Fees

Chief Exec's Unit

- **Strategic Finance**
  - Financial Planning
  - Community Empowerment Act

Cross Cutting: Organisational Culture, Risk Management and Performance Management

Verification/Short Audits: Grant verification (included LEADER & FLAG), LGBF, Travel & Subsistence and Stores & Stock control

Continuous Monitoring Programme

(NFI, Budgeting, General Ledger, Creditors, Debtors, Payroll, Treasury Management, Council Tax & NDR, VAT and Establishment visits)

Health and Social Care Partnership

- Adult Services
- Children & Families
- Self - Directed Support
- Carefirst System

Leisure Trust

Live Argyll

- Recording and Reporting (delivered in conjunction with SLA)

ARGYLL AND BUTE COUNCIL | AUDIT & SCRUTINY COMMITTEE

STRATEGIC FINANCE | 20 MARCH 2018

INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL

1. SUMMARY

1.1 This report outlines the proposed changes to the Internal Audit Charter and Internal Audit Manual. Both have been updated to reflect changes in the working practices within Internal Audit and to better align them with the requirements of the Public Sector Internal Audit Standards (PSIAS) (see Appendix 3).

2. RECOMMENDATIONS

2.1 To approve the amended Internal Audit Charter (Appendix 1).

2.2 To approve the amended Internal Audit Manual (Appendix 2).

3.0 DETAIL

3.1 Under the PSIAS, Internal Audit is required to prepare an Internal Audit Charter, consistent with the Mission of Internal Audit that defines internal audit's purpose, authority and responsibility.

3.2 However just having a Charter is not sufficient to comply with the requirements of PSIAS. The requirement for a Charter is just one element of PSIAS. Full compliance requires the adoption of a range of principles and working practices which are closely aligned to the requirements as set out in PSIAS.

3.3 Whilst there is no written requirement, within PSIAS, for an Internal Audit Manual to be created, in general, it is considered good practice to develop manual to help guide the overall management and administration of the department and the audit approach adopted. Given the mandatory nature of PSIAS it also makes sense for that manual to be consistent with the requirements of PSIAS.

3.4 Internal Audit's previous Internal Audit Charter and Internal Audit Manual have been revised to better reflect the requirements of the PSIAS and also to reflect changes within the department that have been introduced since the previous versions of the documents were approved. In particular the Internal Audit Manual has been specifically aligned to the provisions of the PSIAS, with appropriate cross referencing, meaning that, in complying with the manual, the internal audit team are demonstrating compliance with the

PSIAS

4.0 CONCLUSION

4.1 The Internal Audit Team has updated the Internal Audit Charter and Internal Audit Manual to better reflect the requirements of the Public Sector Internal Audit Standards.

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

Laurence Slavin
Chief Internal Auditor
20 March 2018

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

Appendices:
1. **Internal Audit Charter**
2. **Internal Audit Manual**
3. **PSIAS**

Argyll and Bute Council

Internal Audit Charter

March 2018

Contents

Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (the Standards), which came into effect in April 2013, and were updated in April 2017.

2. The Standards require the Argyll and Bute Council (the Council) to have an Internal Audit Charter (the Charter), consistent with the Mission of Internal Audit, that defines internal audit's purpose, authority and responsibility.

Internal Audit Mission (PSIAS Section 3)

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

Definition of Internal Auditing (PSIAS Section 4)

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

Definition of Roles

5. The Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of Internal Audit work:

    - **Board** - refers to the Council's Audit and Scrutiny Committee (the Committee) which has delegated responsibility for overseeing the work of Internal Audit
    - **Senior management** - is defined as the Chief Executive and members of the Council's Senior Management Team (SMT)
    - **Chief Audit Executive** - refers to the Chief Internal Auditor (CIA).

Purpose of Internal Audit

6. The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, Internal Audit will also

    - support the Head of Strategic Finance (s95 officer) and the Committee in the discharge of their duties
    - support the Council's Monitoring Officer
    - support the Council's anti-fraud and corruption arrangements
    - provide advice and guidance on control implications for new or changed systems where appropriate
    - support the Council and the SMT during key transformational / change projects.

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

8. The Internal Audit activity is established by the Committee with Internal Audit's responsibilities defined by the Committee as part of their oversight role.

Authority and Scope

9. Internal audit, with strict accountability for confidentiality and safeguarding records and information, has authorised full, free, and unrestricted access to any and all of the Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit, through the CIA, will also have free and unrestricted access to the Committee. Designated auditors are entitled, without necessarily giving prior notice, to require and receive:

    - access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature
    - access at all reasonable times to any land, premises, officers and members of the Council
    - the production of any cash, stores or other property of the Council under an officer's and member's control
    - explanations concerning any matter under investigation.

10. Where the Council works in partnership with other organisations, the role of internal audit will be defined on an individual basis. Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Committee and in consultation with the SMT to ensure that appropriate audit resources are available to provide assurance over the Council's activities.

Independence and Objectivity

11. Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content. This will ensure that the work of Internal Audit is independent and objective.

12. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

13. The CIA has additional responsibilities for risk management. The CIA will declare an interest for audit assignments in these areas with the next most senior internal audit team member taking additional reporting responsibilities where such conflicts arise. This arrangement will address the recognised independence issues arising from the CIA's other responsibilities.

14. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, as detailed in the Chartered Institute of Internal Audit's Code of Ethics.

15. Internal auditors must also make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments, as detailed in the 7 Principles of Public Life (the 'Nolan principles').

16. The CIA will confirm to the committee, at least annually, the organisational independence of Internal Audit.

Organisation

17. The CIA is the officer responsible to the Committee for the provision of an independent Internal Audit service. The CIA will discharge this responsibility through the direct application of internal audit resources.

18. The CIA reports, on an administrative basis, to the Head of Strategic Finance who is the Council's nominated Section 95 Officer and a member of the SMT. However the CIA also has unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors including the Executive Director for Customer Services who is the Council's Monitoring Officer.

19. The CIA has direct access to the Chair of the Committee to discuss any matters the Committee or auditors believe should be raised privately. One of the functions of the Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Officers of the Council is afforded to all members of the Internal Audit service.

20. The CIA is required to hold a professional qualification and be suitably experienced with other team members having suitable experience and/or be working towards a relevant qualification.

Resourcing

21. The CIPFA Local Government Application note for applying PSIAS states that '*No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage'.*

22. It is the CIA's responsibility to ensure that resourcing arrangements are in place to deliver the annual risk based internal audit plan and that those resources are flexible enough to cope with special requests. Where applicable the CIA may seek additional input from external providers.

23. The internal audit plan will include document the budgeted resource requirements for the audit year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the Committee.

Responsibility and Scope

24. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives. This recognises that Internal Audit's remit extends to the entire control environment of the organisation.

25. Internal Audit is not a substitute for the operation of effective internal controls, which are the direct and sole responsibility of management. However, Internal Audit's specific commitments do include (but are not necessarily limited to) the following:

    - examining and evaluating the adequacy of the Council's system of internal control, including those pertaining to the deterrence, detection and investigation of fraudulent or illegal acts
    - reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information
    - reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations
    - reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets
    - appraising the economy and efficiency with which resources are employed and the quality of performance in carrying out assigned responsibilities
    - coordinating Internal Audit activities with the work of the External Auditors and assisting them as required.

26. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Committee and the SMT including fraud risks, governance issues, and other matters needed or requested by the Committee.

Fraud and Corruption

27. Managing the risk of fraud and corruption is the responsibility of the SMT. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.

28. Audit procedures alone cannot guarantee that fraud and corruption will be detected, nor does Internal Audit have the responsibility for prevention and detection of fraud. However, individual auditors will be alert in their work to risks and exposures that could allow a fraud, irregularity or corrupt practice to take place.

29. Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service / Executive Director will notify the Council's Head of Strategic Finance and the CIA for consideration of appropriate action. Further guidance can be found in the Council's Anti-Fraud strategy and Public Interest Disclosure Policy. The CIA, whilst not participating in the investigation of the alleged fraud, will liaise with the Executive Director – Customer Services in their investigation of the alleged fraud and in particular:

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

Professionalism

30. Internal Audit will adhere to the Standards, which are based on the Chartered Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit's performance.

31. Other professional guidance will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and Internal Audit's manual.

32. A programme of personal review and development (PRD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Internal Audit Plan

33. At least annually, the CIA will submit an Internal Audit plan that includes risk assessment criteria to the Committee for review and approval. The CIA will communicate the impact of any resource limitations and significant interim changes to the SMT and the Committee.

34. The Internal Audit plan will be developed based on a prioritisation of those key risks facing the Council including input of the SMT and the Committee. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:

    - the Council's risk registers and risk management framework
    - a balance of coverage across all operational areas (this constitutes the assurance nature of the plan ensuring an adequate level of internal audit review annually within each service)
    - experience gained from previous Internal Audit activity
    - the impact of national issues (e.g. economic factors, the introduction of new legislation)
    - the impact of local issues (e.g. corporate or service action plans)
    - periodic review of core financial and operational systems
    - the available audit resource and skills
    - staff development and training
    - time needed for the management of the Internal Audit service
    - contingency set aside for consultancy, reviews or investigations
    - liaison with other assurance providers such as the External Auditor and other scrutiny bodies.

Reporting and Monitoring

35. Following the conclusion of each Internal Audit engagement, a written report will be prepared, reviewed by the CIA and distributed as appropriate. Internal Audit reports will also be presented to the Committee.

36. The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific issues and risks. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

37. Internal Audit will be responsible for appropriate follow-up on engagement findings and actions. All findings will remain open until appropriate action is demonstrably taken by management or the risk of no action is formally accepted.

Periodic Assessment

38. Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of Internal Audit activity. This consists of an internal annual self-assessment of the service and its compliance with the Standards and ongoing performance monitoring. The adequacy of Internal Audit is also assessed on an annual basis by the Council's external auditors.

39. External assessments against the Standards will be conducted at least once every four years by a suitably qualified, independent assessor. These reviews form part of a national peer review programme administered by the Scottish Local Authorities Chief Internal Auditor Group.

40. The conclusions of all internal and external assessments will be reported to the Committee.

Approval

41. This Charter was reported to and approved by the Committee at its meeting on 20 March 2018 and shall be subject to regular review by the CIA and the Committee.

Argyll and Bute Council

Internal Audit Manual

March 2018

Contents

Introduction

1. The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013, and were updated in April 2017.

2. This Internal Audit Manual (the Manual) has been created to provide guidance to the Internal Audit section of Argyll and Bute Council (the Council) on the administration of the department and audit approach to be adopted. The contents are guided by the requirement of PSIAS with the key sections cross referenced to the appropriate section in PSIAS.

Internal Audit Mission (PSIAS Section 3)

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

Definition of Internal Auditing (PSIAS Section 4)

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

Ethics (PSIAS Section 6)

Overview

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

    - principles that are relevant to the profession and practice of internal auditing
    - rules of conduct that describe behaviour norms expected of internal auditors.

Applicability and Enforcement

6. A '*Code of Ethics'* applies to all of those who are commissioned to provide internal audit services to the Council. Suspected or known breaches of the '*Code of Ethics'* should be referred to at least one of the following, as considered appropriate:

    - Chief Internal Auditor (CIA)
    - Head of Strategic Finance (Section 95 Officer)
    - Executive Director Customer Services (Monitoring Officer)
    - Audit and Scrutiny Committee (the Committee).

7. The fact that a particular piece of 'behaviour' which has been identified as being possibly inappropriate is not specifically covered by, or mentioned within, the Council's own 'Code of Conduct', does not necessarily prevent it from being unacceptable, discreditable or indeed unprofessional.

8. For members of the Chartered Institute of Internal Auditors, breaches of the '*Code of Ethics'* will be evaluated and administered in line with the Institute's disciplinary procedures. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation. Such procedures are without prejudice to the Council's own disciplinary procedures.

Relevant Codes

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

Integrity

10. Internal auditors should:

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

Objectivity

11. Internal auditors should:

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

Confidentiality

12. Internal auditors should:

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

Competency

13. Internal auditors should:

- only carry out services for which they have the necessary knowledge, skills and experience
- perform services in accordance with the International Standards for the Professional Practice of Internal Auditing (as applied in the PSIAS)
- continually improve the proficiency and effectiveness and quality of their services, for example through the Council's Performance Review and Development (PRD) scheme.

Principles of Public Life

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

Exhibit 1– Nolan's Seven Principles of Public life

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

PSIAS Attributes

Internal Audit Charter (PSIAS 1000 - 1120)

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

Exhibit 2– PSIAS Attributes Detailed in the Internal Audit Charter

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

Proficiency (PSIAS 1210)

16. The Internal Audit team will work with proficiency and due professional care. The CIA shall be a CCAB accountant or CMIIA internal auditor with suitable experience.

17. The CIA is responsible for recruiting appropriate internal audit staff in accordance with the Council's recruitment processes. As part of the role the CIA shall:

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

Due Professional Care (PSIAS 1220)

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

Quality Assurance and Improvement Programme (PSIAS 1300)

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

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

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

22. In accordance with the requirements of PSIAS the CIA has developed and maintains a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.

23. The QAIP assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This assessment takes into account quality improvement from both internal and external assessments.

Internal Assessments (PSIAS 1311)

24. At an audit activity level written policies and procedures, covering both technical and administrative matters are formally documented to guide audit staff in consistent conformance with PSIAS and the Code of Ethics. This is demonstrated by:

    - an annual assessment is undertaken, which is reported to the Committee, in order to determine the extent to which Internal Audit conforms to the Standards
    - maintenance of the Charter, setting out the purpose, authority and responsibility of Internal Audit
    - maintenance of the Manual, providing guidance on working practices.

25. Audit work conforms to written policies and procedures. This is demonstrated by:

    - all audit working papers being subject to formal review by the CIA
    - draft and final reports are checked and approved by the CIA and appropriate officers
    - this Manual setting out the various processes to ensure consistent conformance with PSIAS and the Code of Ethics.

26. Post-engagement client surveys to inform lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed. These are issued at the end of each audit engagement with results acted upon and reported to the Committee.

External Assessments (PSIAS 1312)

27. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) has developed a framework for undertaking external assessments as follows:

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

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

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

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

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

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

Disclosure of Non-conformance (PSIAS 1322)

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

Performance

Managing the Internal Audit Activity (PSIAS 2000)

32. The work of Internal Audit is specified to deliver upon the requirements of the Annual Internal Audit Plan in accordance with the Charter and this Manual.

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

Planning (PSIAS 2010)

34. The Annual Internal Audit Plan is based on a documented risk assessment process. The Internal Audit plan will be developed based on a prioritisation of those key risks facing the Council including input of the SMT and the Committee. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:

- the Council's risk registers and risk management framework
- a balance of coverage across all operational areas (this constitutes the assurance nature of the plan ensuring an adequate level of internal audit review annually within each service)
- experience gained from previous Internal Audit activity
- the impact of national issues (e.g. economic factors, the introduction of new legislation)
- the impact of local issues (e.g. corporate or service action plans)
- periodic review of core financial and operational systems
- the available audit resource and skills
- staff development and training
- time needed for the management of the Internal Audit service
- contingency set aside for consultancy, reviews or investigations
- liaison with other assurance providers such as the External Auditor and other scrutiny bodies.

35. The risk based plan will include suitable flexibility to reflect the changing risks and priorities of the organisation with this being kept under review by the CIA during the course of the year. Such action may be taken in response to changes in the Council's business, risks, operations, programmes, systems and controls.

36. Internal Audit may also provide consultancy work on the basis that it improves the management of risks, adds value and improves the Council's operations. A specific contingency will be made in the internal audit plan to allow for management requests and consultancy work. The CIA will consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. Such consultancy work will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Committee before any significant unplanned consultancy work is accepted.

Communication and Approval (PSIAS 2020)

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

Resource Management (PSIAS 2030)

38. The CIPFA Local Government Application note for applying PSIAS states that '*No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage'.*

39. It is the CIA's responsibility to ensure that resourcing arrangements are in place to deliver the annual risk based internal audit plan and that those resources are flexible enough to cope with special requests. Where applicable the CIA may seek additional input from external providers.

40. The internal audit plan will document the budgeted resource requirements for the audit year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the Committee.

Policies and Procedures (PSIAS 2040)

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

Coordination and Reliance (PSIAS 2050)

42. The CIA is required to share information as appropriate with other providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

43. In preparing the Internal Audit Annual Plan, the CIA shall seek to establish the extent to which assurance can be placed on the work planned by external scrutiny bodies such as the Council's External Auditors, Audit Scotland or the Local Area Network and also any internal control reviews undertaken by local management. This work informs our planned activities for the year with other sources of assurance being used to inform the annual assurance statement as well as future audit

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

Reporting to Senior Management and the Board (PSIAS 2060)

44. The CIA shall prepare and present performance reports to each sitting of the Committee. Performance reports will capture the activities of Internal Audit relative to the plan.

45. Ongoing reporting will also highlight specific issues as they relate to risk exposures, control issues, fraud, governance or any other matters that the CIA deems appropriate for consideration by the Committee. Significant issues will also be captured within the annual internal audit report.

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

46. Under any circumstances where an external internal audit service provider acts as the internal audit activity, the provider shall ensure that the Council is aware that the responsibility for maintaining an effective internal audit activity remains the responsibility of the Council. This is not applicable in the financial year 2018/19.

Nature of the Work

47. Internal audit activity shall evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach as outlined in the Charter.

48. Planned audit work includes consideration of a number of different types of audit assignments including systems, regularity, performance, consultancy, risk and IT. This varied application of audit resources ensures that different aspects of Council business have been subjected to testing with assurances being sought over a range of activities.

Governance (PSIAS 2110)

49. The work of Internal Audit will include reviews to improve the Council's governance processes for:

- making strategic and operational decisions
- overseeing risk management and control
- promoting appropriate ethics and values within the Council
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the Council
- coordinating the activities of and communicating information among the Committee, external and internal auditors, other assurance providers and management.

50. The work of Internal Audit shall also consider the design, implementation, and effectiveness of the Council's ethics-related objectives, programmes and activities and that the Council's information technology governance supports the organisation's strategies and objectives.

Risk Management (PSIAS 2120)

51. The work of Internal Audit shall evaluate the effectiveness of the Council's risk management processes by determining whether:

- organisational objectives support and align with the Council's mission
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the Council's risk appetite

- relevant risk information is captured and communicated in a timely manner across the Council, thus enabling the staff, management and the board to carry out their responsibilities.

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

Control (PSIAS 2130)

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

Engagement Planning

Engagement Objectives (PSIAS 2210)

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

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

Engagement Scope (PSIAS 2220)

60. The scope of the audit work should be established so that it is sufficient to satisfy the engagement's objectives. The engagement scope should consider the following relevant areas of the Council (this should also consider relevant areas under the controls of outside parties):

- systems
- records
- personnel
- physical properties.

61. Where significant consulting opportunities have arisen during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be developed and agreed with the CIA.

62. It is accepted that not all areas of a process will be reviewed at each audit, which might include geographical areas; the scope should be sufficient to satisfy the engagement objectives, but should also state, where appropriate, which areas are not covered.

63. For a consulting engagement, the scope of the engagement should be sufficient to address any agreed-upon objectives. If the internal auditors develop any reservations about the scope of a consulting engagement while undertaking that engagement, they are required to discuss those reservations with the relevant officer and the CIA to determine whether to continue with the engagement.

64. During consulting engagements, internal auditors are required to address the controls that are consistent with the objectives of those engagements.

Engagement Resource Allocation (PSIAS 2230)

65. The CIA is required to decide upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on the nature and complexity of each individual engagement, time constraints and the resources available.

66. An initial consideration of the resources required is in the audit plan, but this should be reviewed when the scope and objectives of the engagement are determined.

Engagement Work Programme (PSIAS 2240)

67. The CIA has developed a template work programme which provides a clear link between the programme and the agreed terms of reference and Internal Auditors should use this template for all assignments. The template demonstrates how the work performed meets the agreed engagement objectives.

68. The work programme should be created by the internal audit team member assigned the audit, in discussion with the CIA, and include procedures for identifying, analysing, evaluating and documenting information. Work programmes for consulting engagements may vary in form and content depending on the nature of the engagement. This will require the approval of the CIA.

69. Work programmes must be approved by the CIA prior to implementation for each engagement and amended as necessary.

Performing the Engagement

Identifying Information (PSIAS 2310)

70. Internal auditors are required to identify sufficient, reliable, relevant and useful information to achieve each engagement's objectives.

71. Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

Analysis and Evaluation (PSIAS 2320)

72. When performing audits, internal auditors are required to base their conclusions and engagement results on appropriate analysis and evaluation whilst remaining alert to the possibility of:

    - intentional or unintentional wrongdoing
    - errors and omissions
    - poor value for money
    - failure to comply with Council policy
    - conflicts of interest.

Documenting Information (PSIAS 2330)

73. Internal auditors are required to document the relevant information required to support engagement conclusions and results. This includes the need to ensure that working papers are sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.

74. Records management must be consistent with the Council's overall document retention policy, which is in turn consistent with the requirements of the Information Commissioner's Office. Internal Audit record keeping must also be consistent with the specific requirements of the area audited, for example EU audits require documents to be kept for 7 years after the last payment has been made.

75. Electronic engagement records are kept in a restricted folder and on Sharepoint. ICT are responsible for the security controls, and the CIA is responsible for specifying who should have access to this.

76. The CIA shall obtain the approval of senior management and/or legal counsel as appropriate before releasing any engagement records to external parties.

Engagement Supervision (PSIAS 2340)

77. All internal audit engagements shall be properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed.

78. Appropriate evidence of supervision and management review should be documented and retained for each engagement.

Communicating Results

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

Criteria for Communicating (PSIAS 2410)

80. All audit reports are to be drafted using the template developed by the CIA. This template requires, as a minimum, the overall audit opinion, executive summary, objectives and summary assessment, detailed findings, and an action plan. Any deviation from the template report requires approval by the CIA.

81. Prior to issuing the draft report internal auditors are required to discuss the draft findings with the appropriate officers to confirm factual accuracy. This will generally be carried out at a clearance meetings and a template has been created to facilitate and document that meeting.

82. Where auditors make recommendations and include an action plan, such recommendations are graded to allow the significance of findings to be ascertained.

83. Action plans will include a management response that sets out the agreed action and timescales for the completion of improvement actions. Internal Audit will enter the agreed actions and timescales in the internal audit follow up database.

84. Where there are any areas of disagreement between the internal auditors and management, which cannot be resolved by discussion, such disagreements should be recorded in the action plan and the residual risk highlighted. As all audit reports are reported to the Committee in their entirety this disagreement will be reported to the Committee as and when the report is presented.

85. In completing audit activities auditors are required to include and disclose all material facts identified as part of their audit work and subsequent reports which, if not disclosed, could distort their reports or conceal unlawful practice. Such disclosures should be made with reference to confidentiality requirements or other considerations that may preclude the release of information into the public domain.

Quality of Communications (PSIAS 2420)

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

Errors and Omissions (PSIAS 2421)

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

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

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

Engagement Disclosure of Non-Conformance (PSIAS 2431)

89. Where any non-conformance with the PSIAS or Code of Ethics has impacted on a specific engagement, the communication of the results should include the following disclosures:

    - the principle(s) or rule(s) of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved
    - the reason(s) for non-conformance
    - the impact of non-conformance on the engagement and the engagement results.

Disseminating Results (PSIAS 2440)

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

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

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

Overall Opinion (PSIAS 2450)

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

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

Monitoring Progress (PSIAS 2500)

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

Public Sector Internal Audit Standards

Applying the IIA International Standards to the UK Public Sector

Issued by the Relevant Internal Audit Standard Setters:

CIPFA The Chartered Institute of Public Finance & Accountancy

Department of Health

Llywodraeth Cymru Welsh Government

Department of Finance An Roinn Airgeadais www.finance-ni.gov.uk

HM Treasury

Scottish Government Riaghaltas na h-Alba gov.scot

In collaboration with:

Chartered Institute of Internal Auditors

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Contents

SECTION 1

Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to accounting officers, accountable officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

Framework overview

The Relevant Internal Audit Standard Setters (RIASS)[1] have adopted this 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*, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

1 The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

Scope

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

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the

organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The *Code of Ethics* promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life.*

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary.

Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the accounting or accountable officer, chief financial officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.

SECTION 2

Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
CIPFA			**UK** Local authorities. **England and Wales only** The Office of the Police and Crime Commissioner, constabularies, fire authorities, fire and rescue services, National Park authorities, joint committees and joint boards in the UK. **Scotland only** Integration joint boards and Strathclyde Partnership for Transport.
HM Treasury	**UK*** Government departments and their executive agencies and non-departmental public bodies.		
Department of Health		**England** Clinical Commissioning Groups. NHS Trusts.	

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
Scottish Government	**Scotland** The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, public corporations, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Government and the Scottish Parliament Corporate Body.	**Scotland** NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.	
Welsh Government	**Wales** The Welsh Government, executive agencies and non-ministerial departments, Welsh Government sponsored bodies, public corporations, the National Assembly for Wales and bodies sponsored/supported by the Welsh Government and the National Assembly for Wales.	**Wales** Health Boards and Trusts.	
Northern Ireland Executive: Department of Finance (NI)	Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.		

* Unless the body falls under the jurisdiction of the devolved governments.

SECTION 3

Mission of Internal Audit

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

SECTION 4

Definition of Internal Auditing

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

Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission (see Mission of Internal Audit).

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

SECTION 6

Code of Ethics

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the *Code of Ethics* as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's *Code of Ethics* is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's *Code of Ethics* extends beyond the definition of internal auditing to include two essential components:

Components

1 Principles that are relevant to the profession and practice of internal auditing.

2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The *Code of Ethics* provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This *Code of Ethics* applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the *Code of Ethics* will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this *Code of Ethics*.

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

1.1 Shall perform their work with honesty, diligence and responsibility.

1.2 Shall observe the law and make disclosures expected by the law and the profession.

1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.

1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.

2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

Standards

1000 Purpose, Authority, and Responsibility

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 audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work, and
- describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.[2]

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

2 These requirements should be read in conjunction with Standards 2030 Resource Management and 1112 Chief Audit Executive Roles Beyond Internal Auditing.

1010 Recognising Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing* must be recognised in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter
- approving the risk based internal audit plan
- approving the internal audit budget and resource plan
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters
- approving decisions regarding the appointment and removal of the chief audit executive
- approving the remuneration of the chief audit executive, and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Public sector requirement

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Public sector interpretation

When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the *Code of Ethics* as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

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.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity 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.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Interpretation:

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

Public sector requirement

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

1210.A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1

Internal auditors must 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.

1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3

Internal auditors must 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.

1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results
- Relative complexity and extent of work needed to achieve the engagement's objectives, and
- Cost of the consulting engagement in relation to potential benefits.

1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement programme.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Code of Ethics* and the *Standards.*

Periodic assessments are conducted to evaluate conformance with the *Code of Ethics* and the *Standards.*

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement programme.

Interpretation:

The internal audit activity conforms with the *Code of Ethics* and the *Standards* when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 Disclosure of Non-conformance

When non-conformance with the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Public sector requirement

Such non-conformances must be highlighted by the chief audit executive to be considered for inclusion in the governance statement.

Performance Standards

2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

Interpretation:

The internal audit activity is effectively managed when:

- It achieves the purpose and responsibility included in the internal audit charter.
- It conforms with the *Standards.*
- Its individual members conform with the *Code of Ethics* and the *Standards.*
- It considers trends and emerging issues that could impact the organisation.

The internal audit activity adds value to the organisation and its stakeholders when it considers strategies, objectives and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

Interpretation:

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. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

Public sector requirement

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 Coordination and Reliance

The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Interpretation:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards.* Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

These and other chief audit executive communication requirements are referenced throughout the *Standards*.

2070 External Service Provider and Organisational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Code of Ethics* and the *Standards.*

2100 Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

2110 Governance

The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes for:

- making strategic and operational decisions
- overseeing risk management and control
- promoting appropriate ethics and values within the organisation
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the organisation, and
- coordinating the activities of and communicating information among the board, external and internal auditors other assurance providers and management.

2110.A1

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

2110.A2

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- organisational objectives support and align with the organisation's mission
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the organisation's risk appetite, and
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts.

2120.A2

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

2120.C1

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

2120.C3

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 Control

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts.

2130.C1

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

2200 Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.

2201 Planning Considerations

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

2201.A1

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

2210 Engagement Objectives

Objectives must be established for each engagement.

2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation:

Types of criteria may include:

- Internal (eg policies and procedures of the organisation).
- External (eg laws and regulations imposed by statutory bodies).
- Leading practices (eg industry and professional guidance).

Public sector interpretation

In the public sector, criteria are likely to include value for money.

2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1
In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2
During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 Engagement Resource Allocation

Internal auditors must 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.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

2240 Engagement Work Programme

Internal auditors must develop and document work programmes that achieve the engagement objectives.

2240.A1
Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

2240.C1
Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 Documenting Information

Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions

2330.A1

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2330.C1

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 Communicating Results

Internal auditors must communicate the results of engagements.

2410 Criteria for Communicating

Communications must include the engagement's objectives, scope and results.

2410.A1

Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

2410.C1

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"

Indicating that engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*" is appropriate only if supported by the results of the quality assurance and improvement programme.

2431 Engagement Disclosure of Non-conformance

When nonconformance with the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the *Code of Ethics* or the *Standard(s)* with which full conformance was not achieved.
- Reason(s) for non-conformance.
- Impact of non-conformance on the engagement and the communicated engagement results.

2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

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

2440.A1

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- assess the potential risk to the organisation
- consult with senior management and/ or legal counsel as appropriate, and
- control dissemination by restricting the use of the results.

2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

2500 Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Glossary

Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Board

The highest level governing body (eg a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organisation. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (eg an audit committee).

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organisations.

Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

Fraud

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Public sector definition: Governance Statement

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

Public sector interpretation

Only the Mission and the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

Must

The *Standards* use the word "must" to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organisation is willing to accept.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Should

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).

Argyll and Bute Council

Draft Annual Audit Plan 2017/18

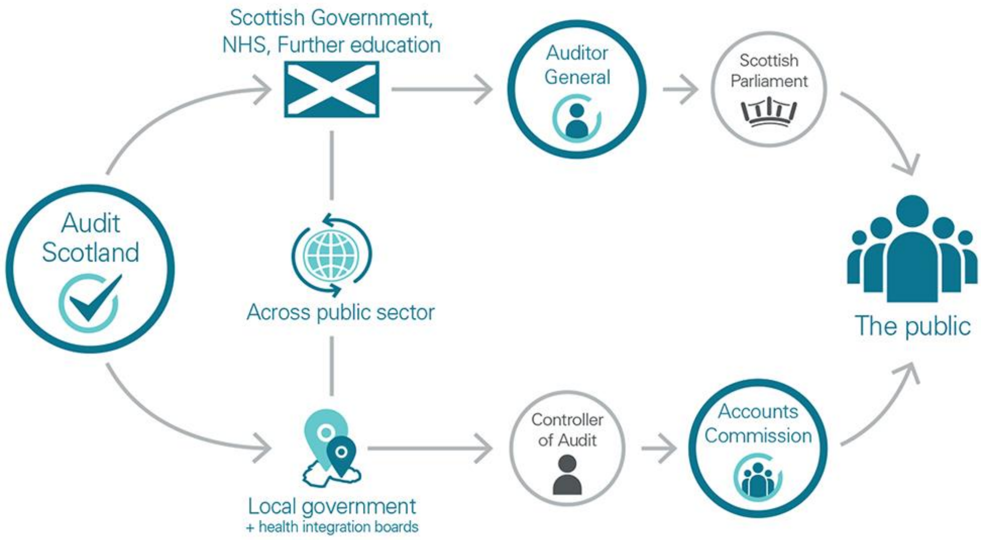
AUDIT SCOTLAND

Prepared for Argyll and Bute Council
March 2018

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.

Contents

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit, including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Argyll and Bute Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in Exhibit 1.

Exhibit 1
2017/18 Key audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks			
1	**Risk of management override of controls** ISA 240 requires that auditors consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Detailed testing of journal entries. Review of accounting estimates and evaluation of the impact of any variability in key assumptions. Focused testing of accruals and prepayments. Substantive testing of transactions after the year end to confirm income and expenditure is accounted for in the correct period. Evaluation of significant transactions that are outside the normal course of business.
2	**Risk of fraud over income** Argyll and Bute Council receives a significant amount of income in addition to Scottish Government funding. The extent and	The council has well developed processes for the authorisation, separation of duties and workflow associated with income	Testing of controls over receivables. Reliance on internal audit's continuous monitoring of

	Audit Risk	Source of assurance	Planned audit work
	complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.	streams. Clear schemes of delegation and authorised signatory databases are regularly updated. Financial systems have built in automated authorisation processes to ensure the risk of fraud is minimised. The annual internal audit plan includes a continuous monitoring programme of testing across income systems. The council has an established Counter Fraud Team.	income controls. Review of arrangements to prevent and detect fraud. Analytical procedures on income streams. Detailed testing of income transactions, including cut-off testing, focusing on the areas of greatest risk.
3	**Risk of fraud over expenditure** Most public sector bodies are net expenditure bodies, therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations on the public purse.	The council has well developed processes for the authorisation, separation of duties and workflow associated with expenditure transactions. Clear schemes of delegation and authorised signatory databases are regularly updated. Financial systems have built in automated authorisation processes to ensure the risk of fraud is minimised. The annual internal audit plan includes a continuous monitoring programme of testing across expenditure systems. The council has an established Counter Fraud Team.	Walk-through of controls over payables. Reliance on internal audit's continuous monitoring of expenditure controls. Review of arrangements to prevent and detect fraud. Analytical procedures on expenditure transactions. Detailed testing of expenditure transactions, including cut off testing, focusing on the areas of greatest risk.
4	**Estimation and judgements** There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: • non current assets (including heritage assets) • provisions (including equal pay claims) • pension liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.	Non current assets are professionally valued on a regular basis in accordance with a predetermined schedule. Provisions are reviewed by finance officers in consultation with the council's legal service. Pension liabilities are derived from valuation calculations prepared by actuaries appointed by Strathclyde Pension Fund.	Completion of "review of the work of an expert" for the professional valuers and actuaries. Review of accounting estimates and disclosures. Additional assurances obtained from legal and HR officers in relation to provisions. Focused substantive testing of non-current assets, provisions and pension liabilities including data submitted by the council to actuaries.

Audit Risk		Source of assurance	Planned audit work
5	**Libraries and Leisure Trust** On 1 October 2017, most of the council's museum, library and sports centre operations were transferred to LiveArgyll, an arms-length trust. This meansthat it will have an initial part year with costs between 1 April and 30 September 2017 being accounted for through the council's community & culture services and costs between 1 October 2017 and 31 March 2018 being treated as a global management fee payable to the new trust. There is a risk that cumulative transactions and balances as at the handover date may not be correctly accounted for. Also, with the accounting period end only two months way, the new Trust has still to confirm the appointment of external auditors.	The council is expected to conduct a mini year-end exercise to confirm relevant transactions and balances at the start of the new trust's operations and to review the calculation of the management fee.	Review of the council's mini year-end exercise including accounting cut-off at the transfer date, and income/assets/liabilities transferred. Obtain component auditor controls assurances and financial statement confirmations for group financial statements audit purposes.
6	**New housing benefits system** The council is expected to implement a new housing benefit system in February 2018 and move the existing housing benefit data from the current Northgate system to the new Civica system. The new system will be used to prepare the housing benefit subsidy claim for 2017/18. As with all new systems there is a risk that there are errors in the data transfer and the initial financial information produced. As this information feeds into the financial statements and the housing benefit subsidy claim, there is a financial statements risk as a result.	TBC	Review of the reconciliations between the closing Northgate and opening Civica systems.
Wider dimension risks			
7	**Financial sustainability** Councils are continuing to face significant financial challenges with pressures on funding and increasing demand for services, creating the need to fundamentally and sustainably reconfigure service provision, On 8 December 2017, the mid-	Continued delivery of Service Choices savings options which align available budget with the council's priorities. Transformation Board is overseeing the implementation of savings options, exploring shared services and other alternative service delivery	Review of the council's annual budget setting arrangements. Assessment of the council's medium to long term financial strategy. On-going review of budget monitoring reports and other reports to members on financial

Audit Risk		Source of assurance	Planned audit work
	range scenario of the council's three year Budget Outlook 2018/19 to 2020/21 estimated a budget gap of £18.140m over the three years with a £2.328m deficit in 2018/19. By comparison, the best case scenario showed a budget gap of £9.039m over the three years with a surplus of £0.591m in 2018/19, and the worst case scenario projected a budget gap of £31.648m over the three years with a deficit of £6.755m in 2018/19. **[To be updated to reflect Feb 2018 position]** This represents a financial sustainability risk for the council and 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.	models. Regular monitoring and reporting on the delivery of savings options. A medium to long term financial strategy has been developed and agreed by members.	position. On-going review of the council's financial position and delivery of planned savings.
8	**Financial sustainability** The developing financial position of the Argyll and Bute Integration Joint Board (IJB) may impact upon that of the council going forward. Recent estimates for the IJB financial outturn 2017/18 are a £2.1-£2.2m overspend. Indications are that future IJB overspends will increase, despite savings plans being developed.		On going review of IJB financial performance and delivery of savings.
9	**Workforce planning** Following from our 2016/17 annual audit report recommendation, the council is developing its strategic workforce plan which is a key element in the development of the council's medium to long term financial strategy and its service redesign plans. However, the plan is yet to be finalised for approval by the full council. Until the strategic workforce plan is finalised, the risk remains that the council may be unable to deliver its corporate strategy and service redesign plans due to any emerging skills and capacity gaps.		Assessment of the strategic workforce plan once approved.

Audit Risk	Source of assurance	Planned audit work
10 Governance and transparency In May 2017, the council formed a new Audit and Scrutiny Committee (ASC) by merging its previous Audit and Performance Review and Scrutiny Committees. The working arrangements and dynamics of all new committees will take some time to settle. Also the Terms of Reference (ToR) for its scrutiny function are still in development. Until this is finalised and the scrutiny function commences, there is a risk that the combined committee is not operating effectively.	Development sessions held for the ASC members. Experienced Chair of the previous Audit Committee and experienced Vice Chair appointed. ToR for the scrutiny function will be agreed at the ASC meeting in March 2018.	Attendance by external audit at all meetings of the ASC, to observe and monitor the level of scrutiny and overall effectiveness of the new combined committee.

Charitable Trusts Administered by Argyll and Bute Council

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council acts as the sole trustee to eight individual charitable trusts.

4. We will carry out the audit of the council's charitable trusts in parallel with the audit of Argyll and Bute Council's financial statements. There are no specific financial statements risks for these audits which we require to bring to your attention except for the risk of the management override of controls which is, according to ISA240, presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements. Planned audit work due to this risk will be proportionate to the size of the charitable trusts and will include a review of accounting estimates and substantive testing of transactions as appropriate to confirm that income and expenditure is accounted for in the correct period.

5. However, as noted in our report to those charged with governance on the 2016/17 audit:

- Six out of eight trusts are dormant, and there may be a perception that they are not being run for the public benefit. Trustees should consider whether the trusts are fulfilling their objectives and whether they should be wound up. The council is continuing to conduct a review of all its charitable trusts but, until this is concluded, there remains a risk that the trustees are not fulfilling the terms of the trust deeds.
- Trust deeds or governing documents for Kidston Park Trust could not be located. Until the council provides a copy of the relevant document to support the purpose and terms of this trust, there remains a risk that the trustees are not fulfilling the terms of the trust deeds.
- The council has decided not to recharge any administration costs to the trusts in 2016/17. This policy is disclosed in the Notes to the Accounts for all

trusts. As a result the full costs incurred in administering the trusts are not known by the trustees.

We will follow up on these issues as part of this year's trust audits.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in Exhibit 2, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

8. We will provide an independent auditor's report to Argyll and Bute Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2
2017/18 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
Annual Audit Plan	March 2018	20 March 2018
Interim Audit Report	June 2018	19 June 2018
Annual Audit Report	September 2018	25 September 2018
Independent Auditor's Report	September 2018	25 September 2018

Audit fee

9. The agreed audit fee for the 2017/18 audit of Argyll and Bute Council is £255,454 (2016/17: £255,908). This includes £3,350 in respect of the separate audits required for the council's charitable trusts. In determining the audit fee we have taken account of the risk exposure of Argyll and Bute Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 29 June 2018.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Scrutiny Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and

establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the financial statements does not relieve management or the Audit and Scrutiny Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 Act, and the Code of Audit Practice (including supplementary guidance), and are guided by the auditing profession's ethical guidance.

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

Audit scope and timing

Financial statements

15. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Argyll and Bute Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Argyll and Bute Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on the financial statements as to:

- whether they give a true and fair view, in accordance with applicable laws and the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the 2017/18 Code), of the state of the affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Materiality

17. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements on the financial statements and in forming our opinion in the auditor's report.

18. We calculate materiality at different levels as described below. The calculated materiality values for Argyll and Bute Council are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross service expenditure for the year ended 31 March 2018, based on the audited accounts for 2016/17.	£4.07 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£2.44 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£41 thousands

Source: Audit Scotland

19. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issues identified will be reported to the Audit and Scrutiny Committee.

Timetable

20. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Exhibit 4 which takes account of submission requirements and planned Audit and Scrutiny Committee dates:

Exhibit 4
Financial statements timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	19 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest submission date for unaudited WGA return	20 July 2018
Latest date for final clearance meeting with Head of Strategic Finance	29 August 2018
Issue of letter of representation and proposed independent auditor's report	18 September 2018

Agreement of audited unsigned annual accounts	18 September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	18 September 2018
Independent auditor's report signed	By 28 September 2018
Latest date for signing of WGA return	28 September 2018

Internal audit

21. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the council's own internal audit service overseen by a Chief Internal Auditor.

Adequacy of Internal Audit

22. Our review of internal audit concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We intend to place reliance on IA work as outlined below.

Areas of Internal Audit reliance

23. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Continuous monitoring programme – General ledger, Creditors, Debtors, Payroll, Treasury management, Council tax and NDR
- Fees and charges
- Lending/Awards controls – SHF, Rural Resettlement Fund, Leader and Flag
- Travel and subsistence

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Continuous monitoring programme – Arrangements for prevention and detection of fraud, Anti fraud strategy, Serious organised crime and Budgeting
- ICT – Service level agreements and Systems development
- Governance – Records management plan, Gifts and hospitality
- Performance management – Performance reporting and Accuracy of LGBF submissions
- Financial management – VAT compliance, and Earmarked reserves

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

Exhibit 5
Audit dimensions

Source: Code of Audit Practice

26. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the council's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

28. The council is currently forecasting funding gaps, over the three years from 2018/19 to 2020/21, ranging from £9.039m in a best case scenario to £31.648m in a worst case scenario. This represents a financial sustainability risk for the council as the level of necessary budget savings may adversely affect the level and quality of service provision. We will closely monitor the council's budget setting process and delivery of necessary savings throughout the course of the 2017/18 audit. We will also assess the council's medium to long term financial strategy. **[To be updated to reflect Feb 2018 position]**

29. The council's strategic workforce plan has yet to be finalised for approval by the full council. This is a key element in the development of the council's medium to long term financial strategy, and its service redesign plans. The plan is expected to be available for approval by the council at its April 2018 meeting. Until the strategic workforce plan is finalised, the risk remains that the council may be unable to deliver its corporate strategy and service redesign plans due to capacity and skills gaps in key areas.

30. There were no other significant financial sustainability risks identified by our planning work that we intend to undertake specific work on in 2017/18.

Financial management

31. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

32. There were no significant financial management risks identified by our planning work that we intend to undertake specific work on in 2017/18.

Governance and transparency

33. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

34. In May 2017, the functions of the Audit and the Performance Review and Scrutiny Committees were merged to form the Audit and Scrutiny Committee (ASC). An experienced Chair of the previous Audit Committee has been appointed to the ASC, with a senior elected member as Vice Chair. Development sessions have been held for the members of the combined committee. Terms of Reference (ToR) for its scrutiny function are still in development and until this is finalised and the scrutiny function commences, there is a risk that the combined committee is not operating effectively.

35. There were no other significant governance and transparency risks identified by our planning work that we intend to undertake specific work on in 2017/18.

Value for money

36. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the council can provide evidence that it is demonstrating value for money in the use of its resources.
- the council can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- the council can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

37. There were no significant value for money risks identified by our planning work that we intend to undertake specific work on in 2017/18.

Best Value

38. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. Auditors have been using the framework for their audit work since October 2016.

39. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value is assessed comprehensively over the five year audit appointment, both through the on–going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

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

40. The six councils on which a BVAR will be published during the second year of the new approach are listed in Exhibit 6. Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

Exhibit 6
2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

41. The work planned in Argyll and Bute Council this year will focus on the council's arrangements for demonstrating Best Value in partnership and collaborative working, and in community responsiveness The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's partnership working and its work on community empowerment are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

42. As part of our 2016/17 audit we reviewed progress made by the council in response to the Best Value report published in December 2015. We reported our findings in our 2016/17 Annual Audit Report. We will review any further progress against remaining actions and report the results of this review in our 2017/18 Annual Audit Report.

Independence and objectivity

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

44. The engagement lead for Argyll and Bute Council is David McConnell, Assistant Director. The engagement lead for the charitable trusts is Ursula Lodge, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Argyll and Bute Council.

Quality control

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

46. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice and relevant supporting guidance issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews, and is currently reviewing the arrangements for external quality reviews.

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

Adding Value

48. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Audited Body has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Argyll and Bute Council

Draft Annual Audit Plan 2017/18

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ARGYLL AND BUTE COUNCIL **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

SCRUTINY FRAMEWORK

1.0 SUMMARY

1.1 The purpose of this paper is to present the proposed Scrutiny Framework which incorporates the scrutiny prioritisation process and the proposed terms of reference for the scrutiny aspect of the Audit & Scrutiny Committee.

2.0 RECOMMENDATIONS

2.1 Members are requested to:

- Approve the Scrutiny Framework, incorporated scrutiny prioritisation process and the terms or reference which will be appended to the existing terms of reference for the audit aspect of the Audit & Scrutiny Committee.
- Note the Chief Internal Auditor's (CIA) intention to develop more detailed guidance manuals to help deliver scrutiny reviews.
- Agree the next steps to develop the annual scrutiny work programme.
- Note the CIA's intent to consider the most effective way to resource the scrutiny work plan going forward.

3.0 DETAIL

3.1 In 2012 the Council established the 'Performance Review and Scrutiny Committee' (PRS) as a central committee of the Council. The scrutiny element of the committee was focused on monitoring the delivery of improvement programmes, commenting on council decisions and policies and making recommendations for improvement as deemed appropriate. The PRS Committee carried out this remit until 2017 when a decision was taken to move the responsibility for scrutiny to a newly established Audit & Scrutiny Committee (previously called the Audit Committee).

3.2 In February 2016 the PRS Committee approved a Scrutiny Handbook as a reference point to undertaking effective scrutiny. It was noted at that meeting that the handbook was a working document which may evolve as scrutiny processes mature within the Council.

3.3 At an Audit & Scrutiny Committee Development Day held on 2 November 2017 it was agreed that the CIA would draft a Scrutiny Framework which incorporated a scrutiny prioritisation process to ensure there is a clear and transparent method for assessing potential scrutiny topics. It was also agreed that the CIA would draft terms of reference for the scrutiny aspect of the Audit & Scrutiny Committee. These will be appended to the existing terms of reference for the audit aspect of the Audit & Scrutiny Committee as part of the annual update of the Council Constitution which is reported to full Council in April.

3.4 The CIA presented the draft prioritisation process to the members of the Audit & Scrutiny Committee (the Committee) in a meeting immediately prior to the 1st

December meeting of the Committee. On 5th December 2017 the draft Scrutiny Framework, incorporating the prioritisation process, was circulated to all members of the Committee with an invitation to comment in advance of the March committee.

3.5 This framework gave cognisance to the Scrutiny Handbook previously approved however the CIA is of the view that the handbook was a more detailed guidance document rather than an overarching framework. As referenced in the proposed framework the CIA will develop and maintain guidance for each of the key stages of a scrutiny review, this guidance will more closely reflect the previously approved handbook.

3.6 The scrutiny work considered by the Audit and Scrutiny Committee is performed alongside the Council's Performance Improvement Framework (PIF) which sets out the Council's approach to continuous improvement and the agreed mechanism for achieving best value across all services. Core to the framework is the role that performance review and scrutiny takes at all levels of the organisation through the process of analysing performance scorecards. Aligned with the review and scrutiny of performance is the highly important approach to Self-Assessment, which is set out in the Argyll and Bute Improvement Framework (ABIF). Based on EFQM, this framework complements nationally agreed self-assessment processes for services such as Education and Social Work and is specifically tailored to Argyll and Bute Council's needs. Self-assessment will be rolled out at team level across the organisation on a phased basis and the resultant findings will be reported to the appropriate Strategic Committees, thus enabling scrutiny by members. All actions from these self-assessments will be included in the single service plans.

3.7 With an approved framework and prioritisation process established, and clarity over the scrutiny remits of the Audit and Scrutiny Committee and strategic committees, it is important that the Committee considers the next steps to create a scrutiny work programme. The proposed framework has a 'Developing the Scrutiny Work Programme' section which confirms that the Committee, on an annual basis, will seek ideas for scrutiny by inviting all members and senior officers to suggest potential topics. Topics will be assessed by the CIA using the agreed prioritisation process with those assessments informing the draft scrutiny plan for the year. The draft plan, with copies of the assessments, will be provided to members of the Committee for comment and feedback.

3.8 The scale of each assignment will vary depending on the topic however, based on experience and available resource, the CIA is of the view that four scrutiny topics per annum would be appropriate.

3.9 The final scrutiny plan should then be approved by the Committee. From 2019 onwards it would be sensible for this approval to take place at the March sitting of the Committee meaning the annual plan is aligned to the Council's financial year. However, for 2018, it is the recommendation of the CIA that the invitation to members and senior officers is made in March with a view to approving the annual plan at the June 2018 meeting of the Committee. The final plan will be a dynamic plan meaning that, if necessary, it can change to reflect an emergent issue. In that event the change, and justification for it, would be reported to the Committee for their consideration and approval.

3.10 The CIA currently has a budget to recruit a part time (17.5 hours) scrutiny officer at pay scale LGE11 (£32,775 - £38,541 pro rata). The post has been vacant since August 2017. The CIA, appointed in October 2017, took the view not to fill the post until there was further clarity over the Council's approach to scrutiny and a clearer picture of associated resource requirement.

3.11 As the skills and experience required to carry out scrutiny reviews and internal audit reviews are broadly similar the CIA is of the view that there would be greater benefit if the vacant post was advertised as an internal audit role rather than specifically a scrutiny role. The performance of scrutiny work would then be carried out by the internal audit team with the allocation of reviews to staff being based on the CIA's professional judgement and the background and skill sets of the whole internal audit team. This would provide greater flexibility within the internal audit section and also development opportunities for the internal audit team. The CIA will discuss this further with the Head of Strategic Finance and the Head of Improvement & HR with a view to appointing in the summer of 2018 (aligned to the proposed approval of the annual scrutiny plan) with the appointment being at the budgeted scale.

4.0 CONCLUSION

4.1 This report formalises the Council's approach to scrutiny and provides a clear process to ensure potential scrutiny topics are assessed in a manner which is transparent with decisions supported by the consistent application of relevant criteria.

5.0 IMPLICATIONS

5.1	Policy:	Scrutiny Framework approved
5.2	Financial:	The CIA has an allocated budget to deliver an annual scrutiny work programme
5.3	Legal:	None
5.4	HR:	Vacancy to be filled using Council's established recruitment process
5.5	Equalities:	None
5.6	Risk	Formalising approach to scrutiny should contribute to overall risk assurances levels within the Council
5.7	Customer Service	None

LAURENCE SLAVIN
Chief Internal Auditor
20 March 2018

For further information contact: Laurence Slavin, Chief Internal Auditor Tel: 01436 657694, laurence.slavin@argyll-bute.gov.uk

APPENDICES

1. Scrutiny Framework

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Argyll & Bute Council

Scrutiny Framework

March 2018

Table of Contents

Introduction

1. The purpose of this document is to explain the framework for scrutiny at Argyll and Bute Council (the Council). It is for the use of anyone who has any involvement in the scrutiny process including:
   - members of the Audit and Scrutiny Committee
   - all elected members of the Council
   - staff involved in the scrutiny process and those who may be required to provide evidence as part of a scrutiny review
   - members of the public, partners and external organisations who may be invited to provide evidence as part of a scrutiny review.

2. In 2017 a decision was taken that the responsibility for the remit of scrutiny would move to a newly established Audit and Scrutiny Committee.

What is Scrutiny?

3. Overview and scrutiny committees were established in England and Wales under the Local Government Act 2000 to provide the opportunity for members of the Council to examine services provided, ask questions on how decisions have been made and consider whether service improvements can be delivered.

4. In Scotland there is no requirement for scrutiny established by statute and consequently scrutiny committees in Scotland have no prescribed powers. This contrasts with the position in England and Wales where scrutiny committees have formal powers to require council officers and elected members to give evidence, require information from the council and require a response to any recommendation put to the council's management team.

5. Whilst there is useful guidance available there is no definitive view on what the role and objectives of scrutiny are in Scotland. Consequently this provides the Council with the opportunity to frame the delivery of governance in the way it feels is most beneficial. The Council's approach to scrutiny focuses on:

   - reviewing the council's effectiveness in achieving policy objectives
   - assessing the impact of council policies
   - making suggestions for improvement.

6. As the primary focus of scrutiny is on council policy it is appropriate to provide a definition of policy.

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

Audit and Scrutiny Committee

7. The Council is made up of 36 elected members representing the 11 wards of Argyll and Bute. Elected members play a key role in the Council through their involvement in full council meetings and their representation on the Council's strategic and area committees. A degree of scrutiny is carried out at these committees through performance reporting, ongoing monitoring of service delivery and the consideration of the conclusions from the Council's Performance Improvement Framework (PIF) which sets out the Council's approach to continuous improvement and the agreed mechanism for achieving best value across all services. It is therefore important that the Audit and Scrutiny Committee do not replicate any of the existing scrutiny arrangements and focus its resources in an efficient manner which complements those arrangements.

8. In particular, when assessing potential topics for scrutiny, the committee should ensure the topic is not already being considered by an existing committee (area or strategic) and should also consider whether the originator of the topic has highlighted the issue to the most relevant committee before bringing it to the Audit and Scrutiny Committee for consideration. The Audit and Scrutiny Committee should not generally be seen as the first committee to contact in relation to a topic meriting potential review nor should it be seen as a committee to deal with complaints.

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

10. The terms of reference for the scrutiny element of the Audit and Scrutiny Committee are included in Appendix 3 to this framework however its overall remit is to *'perform a scrutiny role through the provision and delivery of a scrutiny work plan focused on improving the performance of the Council.'* The remit of the Audit and Scrutiny Committee would extend to those organisations with whom the Council have entered into a service level agreement with for the delivery of statutory services, this would include the Health & Social Care Partnership and Live Argyll. The Audit and Scrutiny Committee is required to meet at least four times every year.

Principles of Good Scrutiny

11. To ensure scrutiny is effective the Centre for Public Scrutiny has put forward four key principles. They being that scrutiny should:

- provide a 'critical friend' challenge to the council, council officers and agencies
- reflect the voices and concerns of residents and communities
- drive improvement in the delivery of public services
- be delivered by independent minded members.

12. These principles underpin the work of the Council's Audit and Scrutiny Committee.

Scrutiny Support

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

Developing the Scrutiny Work Programme

14. The Audit and Scrutiny Committee , on an annual basis, will seek ideas for scrutiny by inviting all members and senior officers for potential topics. As there is only a finite amount of resource available to perform scrutiny it is important that there is a clear and transparent method adopted for assessing these potential topics to determine those most likely to have a positive impact on council performance. In order to assist with this the Council has developed a three stage prioritisation process.

15. Stage 1 asks five filtering questions to determine whether the topic passes to stage 2 or is rejected at stage 1. Stage 2 is used to determine whether the topic should be considered as a high or medium priority topic. Appendix 2 illustrates the two stage process.

16. Stage 3 of the prioritisation process scores applies a weighted scoring system to those topics that successfully progressed from stages 1 and 2. The topic is assessed against eight criteria with weighted scores allocated to each criteria. An overall score is then reached for the topic and this allows the topics with the highest overall score to be prioritised. The score allocated to each criteria will require an appropriate balance of subjective and objective analysis. Appendix 3 illustrates stage 3 of the prioritisation process. There may be circumstances where there is an emerging issue which cannot be fully assessed using the prioritisation process due to there being a lack of supporting evidence. In this circumstance the prioritisation process will still be completed with the selected answers based on a realistic expectation rather than historic evidence. This provides scope for the Audit and Scrutiny Committee to determine a topic should be scrutinised despite not being fully subject to the agreed process however this will need the approval of the Audit and Scrutiny Committee.

17. The annual scrutiny work programme will be agreed and approved by the Audit and Scrutiny Committee.

Scrutiny Reviews

18. Scrutiny reviews are carried out by the scrutiny officer who reports to the Chief Internal Auditor. A review follows a six stage process as set out below:

- Stage 1 – Scoping
- Stage 2 – Identifying evidence required and key stakeholders
- Stage 3 – Evidence gathering
- Stage 4 – Conclusions and recommendations
- Stage 5 – Submission of final report

- Stage 6 – Follow up

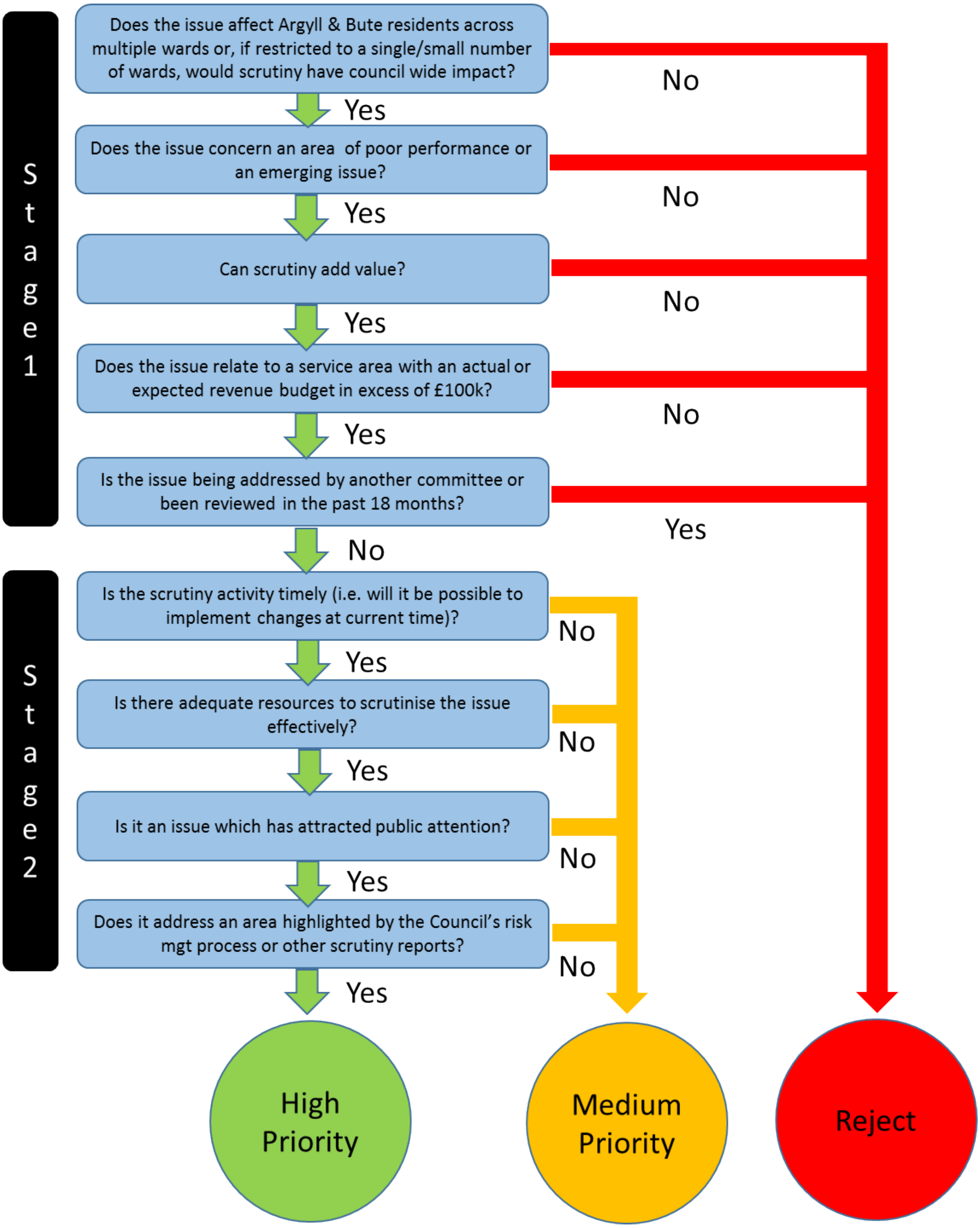
19. Guidance on each of these stages will be developed and maintained by the Chief Internal Auditor.

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

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

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

Appendix 2 – Scrutiny Prioritisation Process Stages 1 and 2



Appendix 3 – Scrutiny Prioritisation Process Stage 3

TOPIC TITLE:	Increasing recycling rates
SUBMITTED BY:	AN Other
DATE OF SUBMISSION:	08 November 2017
STAGE 2 ASSESSMENT OUTCOME:	Medium Priority

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

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ARGYLL AND BUTE COUNCIL **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

RISK MANAGEMENT OVERVIEW

1.0 INTRODUCTION

1.1 In October 2017 a new Chief Internal Auditor (CIA) was appointed and he expressed a preliminary concern that there may be inconsistencies in the risk management approach within the Council, in particular relating to the management of operational risk registers. This was discussed with the Council's Strategic Management Team (SMT) in November 2017 who agreed that the CIA would develop a recommended format for the Council's risk registers which would be applied consistently across the Council with consideration be given to how these are managed.

1.2 The CIA took a report to the SMT in January 2018 which highlighted:

- a proposed template risk register
- a high level process to ensure risk management is considered at SMT, DMT and Head of Service level.
- the CIA's intention to review risk management arrangements in 2018/19 to provide assurance that there is compliance with the agreed process
- the CIA's intention to revise the Council's risk management manual to reflect agreed revisions and other appropriate amendments.

1.3 This report provides members with an update on the actions to further strengthen the Council's approach to risk management and confirms that a more detailed report will be brought to the Audit and Scrutiny Committee in 2018 to provide assurance over the management of risk across the Council.

2.0 RECOMMENDATIONS

2.1 Members are requested to endorse:

- the content of the report
- the revisions being made to the risk management process
- the intention of the CIA to review risk management arrangements as part of the 2018/19 audit plan
- the intention of the CIA to revise the risk management manual to reflect agreed revisions and other appropriate amendments
- that the Chief Executive will report to the Audit and Scrutiny Committee on the Council's Strategic Risks at the June committee.

3.0 DETAIL

3.1 The Council's strategic and operational risk registers are held in Pyramid with risks differentiated between 'supply' risks and 'demand' risks. As per the Council's risk management manual risks in Pyramid should be updated on an ongoing basis with these updates feeding in to performance scorecards. An informal review of Pyramid has confirmed that, whilst there is evidence of periodic update of scores for some risks, some risks have no evidenced update for over one year. It is recognized that this does not necessarily mean the risks have not been reviewed, it could just mean that Pyramid has not been updated to reflect these reviews.

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3.2 Informal discussions with officers has also provided some evidence of inconsistent practices in relation to how registers are reviewed and some confusion about roles and responsibilities for managing risks and updating Pyramid.

3.3 There is evidence, from previous audit reviews, that risk management, as a concept, is well embedded within the Council however the CIA has expressed concern that there may be an inconsistent approach to the management of risk registers, in particular operational risk registers, in terms of them being reviewed periodically and these reviews being evidenced.

3.4 The CIA was asked to propose a new draft template for risk registers (using Microsoft Excel) with it being noted that risks should be aligned to the service challenges identified in the 2018/19 service plans rather than aligned to business outcomes as they had previously been. This draft template is included in appendix 1 to this report. The template is based loosely on the strategic finance team's risks however note that it is provided as an example, it is not a current reflection of the Strategic Finance risk register. Some key issues to note on the suggested template are that:

- risks are no longer categorised as 'supply' or 'demand'
- the risks are aligned to the service plan challenges
- key actions, with timescales, for risks to be 'treated' are documented
- last reviewed date will provide an audit trail linked to minutes
- additional tabs to the spreadsheet provide a framework within which to consider the scores for impact and likelihood.

3.5 It is recognised that there should be some flexibility in terms of the process to be followed at a DMT or HoS level to review and update the registers. For example Strategic Finance may wish to operate with a single operational risk register which is reviewed and updated ar Strategic Finance Management meetings whereas Customer Services and D&I may wish to operate risk registers at HoS level which are then consolidated into a directorate level risk register.

3.6 There should be an overarching principle that the most current versions of operational risk registers should be approved on a quarterly basis at DMT and the strategic risk register should be approved biannually at SMT. The minutes of these meetings will evidence that the review has taken place and the approval of the risk register updates.

3.7 The adoption of changes to the risk management arrangements, in conjunction with the adoption of new 2018/19 service plans, means the Council's documented risk management manual no longer reflects current practice. It is the intention of the CIA to revise the framework to reflect current practice

3.8 As per the Council's Constitution '*The Chief Executive will attend one meeting per annum to report on how the Council is addressing its key strategic risks* *and other matters of interest.'* It has been agreed that the Chief Executive will attend the June sitting of the Audit and Scrutiny Committee and provide an update on the Council's strategic risks.

4.0 CONCLUSION

4.1 Overall there is sufficient evidence that risk management activity is embedded and integrated within the Council however there is scope for improvement in terms of how the risk registers are managed and their periodic review evidenced. A more detailed audit of risk management will be carried out as part of the 2018/19 internal audit plan and this will be reported to the Audit and Scrutiny Committee. The risk management framework needs to be refreshed to reflect current practice.

5.0 IMPLICATIONS

5.1 Policy – Risk management framework to be updated.

5.2 Financial – None. Report is for noting

5.3 Legal – None. Report is for noting

5.4 HR – None. Report is for noting

5.5 Equalities– None. Report is for noting

5.6 Risk– Enhanced management of Council risks

5.7 Customer Service– None. Report is for noting

KIRSTY FLANAGAN
Head of Strategic Finance
20 March 2018

For further information contact: Laurence Slavin, Chief Internal Auditor Tel: 01436 657694, laurence.slavin@argyll-bute.gov.uk

APPENDICES
1. Template for council risk registers
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No	Risk	Service Plan Challenge	Consequences	Gross Risk Imp	Gross Risk Lik	Gross Risk Sc	Current Mitigation	Residual Risk Imp	Residual Risk Lik	Residual Risk Sc	Approach	Key Actions and Deadlines	Last Reviewed	Risk Owner
1	Strategic finance capacity and activity not aligned to council's key strategic priorities	Ensuring medium to longer term financial planning supports Council priorities in a sustainable manner	Revenue expenditure / budgets not properly aligned to council's key priorities. Decision making not supported by robust financial advice.	5	5	25	1. Medium to long term financial strategy 2. Council wide efficiency planning / savings identification 3. Effective management of financial reserves 4. Strong budget setting and monitoring controls/procedures 5. Audit coverage of fundamental systems 6. Service planning 7. Review of fees & charges	4	4	16	Treat	1. Address findings in 2018/19 IA review of financial planning (Oct 2018) 2. Complete annual review of financial strategy (Nov 2018) 3. Address IA action plan from 2017/18 review of fees & charges (Feb 2018)	SF Mgt Team Dec 2017	Head of Strategic Finance
2	Service provision and performance affected by difficulties recruiting/retaining suitably qualified staff, organisational change, and/or staff sickness.	All strategic finance challenges	Failure to develop effective financial mgt across all departments. Variances against budgets increase leading to greater need for intervention Members/managers not able to obtain financial advice when exploring options.	4	4	16	1. Working environment / organisational culture 2. Flexible working 3. Established suite of policies & procedures 4. Growing our Own 5. Provision of training 6. Staff development and appraisals	4	3	12	Treat	1. Ringfence funding for two additional training posts (Mar 2018)	SF Mgt Team Dec 2017	Head of Strategic Finance
3	Staff skills mix not aligned to service requirements	Ensuring service delivery is aligned to stakeholders needs within the available resources	Service delivery not adequately supported by strategic finance resulting in lost opportunities to identify and deliver efficiencies/savings.	4	3	12	1. Financial regulations 2. Appropriate staff training 3. Workload planning focused on aligning available resource to priority activity/services. 4. Service review and monitoring of customer feedback	3	3	9	Treat	1. SF to identify opportunities for internal knowledge sharing to increase resilience (April 2018)	SF Mgt Team Dec 2017	Head of Strategic Finance
4	Failure of external investment institutions affecting availability of funds or return on investment reducing cash flow and resource availability	Managing Council's Treasury Mgt function to ensure we safeguard the Council's money and get best possible return.	1. Reduced availability of funds 2. Reduction in returns on investments 3. Cash flow issues	4	3	12	1. Policy for maximum investment/ borrowing levels limits liability 2. Consideration of credit ratings (including external TM advice) 3. Management of council reserves 4. Medium to long term financial strategy 5. Treasury management strategy 6. Low appetite for treasury risk	3	3	9	Tolerate	N/A	SF Mgt Team Dec 2017	Head of Strategic Finance
5	Capital programme is not effectively managed	Ensuring medium to longer term financial planning supports Council priorities in a sustainable manner	Significant underspends on capital programme means that priorities are not addressed, leading to reduced service capacity and damaged reputation. Loss of investment income because of capital resources tied up in delayed capital programmes.	4	3	12	1. Ongoing monitoring of capital programmes and capital budget monitoring 2. Close alignment between capital programme management and treasury management 3. Limited options/returns for investment	3	3	9	Tolerate	N/A	SF Mgt Team Dec 2017	Head of Strategic Finance
6	Failure to embed Risk Management as integral part of decision making process.	Ensuring medium to longer term financial planning supports Council priorities in a sustainable manner	Strategic and operational decisions within Strategic Finance do not adequately consider the identified risks within the department and the associated service challenges identified in the service plan.	3	4	12	1. Annual review of risk mgt arrangements by internal audit 2. Consideration of operational risk register at strategic finance mgt team meetings	3	4	12	Treat	1. Establish more formal review of SF risk register on quarterly basis via SF mgt team (March 2018)	SF Mgt Team Dec 2017	Chief Internal Auditor
7	Failure to ensure appropriate Audit coverage through risk based assessment and failure to complete annual audit plan	Ensuring audit coverage provides appropriate assurance in respect of governance, risk and control.	1. Weakness in controls and governance go undetected leading to financial loss/inefficiencies 2. Reduced assurance via annual governance statement 3. Reputational damage 4. Increase in external audit fee	4	3	12	1. Independence of Chief Internal Auditor 2. Draft audit plan circulated to SMT and A&S Committee for review and feedback 3. Annual audit plan is risk based and provides coverage across all Council directorates and associated ALEOS 4. Delivery of audit plan monitored by Chief Internal Auditor and reported to A&S Committee	3	2	6	Tolerate	N/A	SF Mgt Team Dec 2017	Chief Internal Auditor
8						0				0				
9						0				0				
10						0				0				
11						0				0				
12						0				0				
13						0				0				

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Factors to Consider When Assessing Impact

Impact of Occurrence	Score	Service	Financial	People / Duty of Care	Project	Reputational	Legal
Catastrophic	5	Serious service failure affecting vulnerabe groups	Severe loss > 50% of budget	Fatality	Project fails to deliver target impacting on Council's performance	Sustained negative national media attention - loss of public confidence	Legal action certain or government intervention or criminal charges
Major	4	Serious service failure but not affecting vulnerable groups	Major loss , 30% - 50% of budget	Extensive injury, major permanent harm	Delay to project (1-2 years)	Sustained negative local media attention and/or significant national media attention	Major civil litigation and/or national public enquiry
Moderate	3	Signficant service failure affecting customers	Significant loss, 10% - 30% of budget	Medical treatment required - semi -permanent harm up to	Delay to project (3 months - 1 year)	Significant negative local media attention	Major civil litigation and/or local public enquiry
Minor	2	Short term service disruption	Minor loss, 1% - 10% of budget	First aid treatment - non-permanent harm	Delay to project (1 months - 3 months)	Short term negative local media attention	Minor civil litigation
None	1	Negligible service disruption	Negilible loss	No obvious harm/injury	Negligble delay	No media interest	No legal action

Factors to Consider When Assessing Likelihood

	Score	Probability of Occurrence	Timescale
Almost	5	>75%	Occur < 6 months
Likely	4	51%-75%	Occur 6 mths - 1 year
Possible	3	31% - 50%	Occur 1-2 years
Unlikely	2	10% - 30%	Occur 2-3 years
Remote	1	<10%	Occur > 3 years

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		Likelihood				
		Remote (1)	Unlikely (2)	Possible (3)	Likely (4)	Almost Certain (5)
Impact	Catastrophic (5)	5	10	15	20	25
	Major (4)	4	8	12	16	20
	Moderate (3)	3	6	9	12	15
	Minor (2)	2	4	6	8	10
	None (1)	1	2	3	4	5

Options for Managing Risks	
Action	**Definition**
Tolerate	A decision is taken to accept the risk. Management and/or the risk owner make an informed decision to accept that existing actions sufficiently reduce the likelihood and impact of a risk and there is no added value in doing more.
Treat	Implement further additional action(s) to reduce the risk by either reducing the likelihood of an event occurring (e.g. preventative action) and/or reducing the potential impact should the risk occur. Further actions should be recorded in the risk register and regularly monitored.
Terminate	A decision is taken to remove the risk entirely. Where the risks outweigh the possible benefits, avoid the risk by doing things differently e.g. revise strategy, revisit objectives or stop the activity.
Transfer	Transfer all or part of the risk through insurance or to a third party e.g. contractor or partner, who is better able to manage the risk.
Exploit	Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.

ARGYLL AND BUTE COUNCIL | **AUDIT & SCRUTINY COMMITTEE**
STRATEGIC FINANCE | **20 MARCH 2018**

AUDIT SCOTLAND REPORT – FINANCIAL OVERVIEW 2016-17

1. INTRODUCTION

1.1 Last year was the first time that Audit Scotland published a separate financial overview report. In view of the very positive feedback they have decided to continue publishing two overview reports each year: one focused on financial matters and the other on councils' performance and outcomes, due to be published in April 2018.

1.2 This report summarises the key points from the Financial Overview 2016-17 report and includes commentary alongside the questions for councillors to consider. The full Audit Scotland report is included as appendix 2 to this report:

2. RECOMMENDATIONS

2.1 Members are asked to note the key points from the Audit Scotland Financial Overview 2016-17 and to consider the comments included in Appendix 1 alongside the suggested questions for councillors.

3. DETAIL

Overview of Audit Scotland Report

3.1 The Audit Scotland report provides a high-level independent analysis of the financial performance of councils during, and their financial position at the end of, 2016-17. It also looks ahead and comments on the financial outlook for councils. The report is intended to inform the public and its representatives. It is particularly aimed at councillors and senior council officers and will be of significant interest to elected members who joined councils for the first time following the May 2017 elections.

3.2 The report is in three parts:

- Part 1 comments on councils' income and budgets for 2016-17.
- Part 2 looks at councils' financial performance during, and position at the end of, 2016-17.
- Part 3 looks at councils' 2017-18 finances and the challenges faced going forward.

3.3 This report summarises the key points from each section. The text in bold and italics is commentary that I have added relevant to Argyll and Bute.

3.4 Audit Scotland has identified a number of example questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise performance. Appendix 1 notes these questions with comments included against each question.

Part 1 – Councils' income and budgets for 2016-17

3.5 2016-17 was a challenging year for councils with a real-terms reduction in revenue funding, a continuation of the council tax freeze, inflationary pressures and the cost of new UK and Scottish Government (SG) policy commitments.

3.6 Councils depend on SG funding, the largest element relating to Grant Aided Expenditure (GAE) which has remained largely unchanged since 2008-09. The proportion of council funding directed towards national policies is increasing, a trend that will continue with SG proposals for fairer funding for equity and excellence in education. This shift increasingly restricts the flexibility councils have in managing their budgets across their full range of services. The SG and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government.

3.7 Councils budget setting processes for 2016-17 were complicated by later confirmation of funding from the SG and the funding arrangements for integrating health and social care. In response to funding reductions, councils approved £524m of savings and used £79m of reserves to set their budgets for 2016-17. ***Argyll and Bute Council didn't use any reserves to balance recurring expenditure, however, did use reserves for a one-off purpose in relation to the Broadband Pathfinder Project.*** Councils were not always clear about the risks associated with savings and their potential impact on levels of service.

3.8 Despite demand pressures in social work, overall budgets reduced, but not by as much in percentage terms as other areas of service. Remaining service areas have seen larger reductions to their budgets.

3.9 Councils have been seeking to maximise their income through increasing charges and by introducing new charges for services. Councils have also sought to collect more of the income that is due to them. Charges for social care which are subject to regulation, represented the largest area of income from charging services in 2015-16. Although Councils generate a relatively small proportion of their overall income from fees and charges, increases can make a difference to council finances over time.

Part 2 – 2016-17 Financial Performance

3.10 All Councils received an unqualified audit opinion on their 2016-17 accounts but the accounts could more clearly explain their financial performance.

3.11 Councils are showing signs of increasing financial stress with 20 councils drawing on their usable revenue and capital reserves in 2016-17, an increase from the 8 councils that did so in 2015-16. ***Argyll and Bute Council was not one of the 20.***

3.12 Councils' actual use of reserves was often quite different from that originally planned, with the reasons not always being clear. In some cases, councils have used reserves to support service delivery and also to invest in change programmes, such as meeting the additional costs of severance. It is critical that councils understand the risks of using reserves in an unplanned way in relation to future savings and long-term financial sustainability.

3.13 There is no prescribed minimum level of usable reserves. Typically councils' policies are to have a minimum uncommitted General Fund balance of between 2% and 4%. Councils need to be clear about the reasons for the level of reserves they hold to mitigate risks and support medium-term financial plans. ***Argyll and Bute Council level of reserves is 2% of budget and the rationale for this is outlined in the reserves report as part of the budget pack each year.***

3.14 Councils should consider rebasing their budgets where they consistently underspend. One such area is underspending on financing costs, where slippage on capital programmes leads to less borrowing and lower interest payments. The ongoing costs with debt reduces the amount councils have available for day to day service delivery. ***As part of the 2018-19 budget, Argyll and Bute Council are rebasing their loans charges budget in order to protect front line services.***

3.15 On average, councils spent almost 10% of their income on interest and debt repayment. Levels of debt and associated costs are set to rise in the future. This is because councils have invested usable reserves in their capital programmes, something referred to as internal borrowing. Internal borrowing is usual treasury management practice for councils during periods when they would make a lower return from investing their usable reserves than it would cost them to borrow money. ***Argyll and Bute Council spent around 11.5% of their income on interest and debt repayments in 2016-17. We are currently under-borrowed and are using internal borrowing, however, the proportion of internal borrowing is reasonable and does not expose the council to increased risk. This is not the same position across all Councils with some relying heavily on internal borrowing.***

Part 3 – Financial Outlook

3.16 The financial outlook for councils remains challenging with further real term reductions in funding and a range of cost and demand pressures on budgets.

3.17 Councils approved £317m of savings and the use of £105m of reserves when setting budgets for 2017-18. Some Councils plans for 2017-18 relied more heavily than others on using reserves to bridge funding gaps. A number of these councils could have relatively low levels of General Fund reserves remaining at the end of the year. ***Argyll and Bute didn't use any reserves to balance the 2017-18 budget and in comparison to other Councils is well positioned in terms of its level of reserves.***

3.18 Robust medium-term financial strategies and savings plans are increasingly critical to the financial sustainability of councils. ***The Policy and Resources Committee approved Argyll and Bute Council's medium to longer term financial strategy at its meeting on 19 October 2017.***

3.19 Uncertainty means that councils need to prepare for a range of possible scenarios both in terms of costs and funding and different savings options available to them. Regular updates on forecasts of funding gaps as savings are approved enable councillors to better understand the impact of the savings decisions they are making. However, currently only about half of councils routinely update their three-year financial forecasts as part of their annual budget-setting process. ***The medium term (3 years) budget outlook report is reviewed, updated and presented to each meeting of the Policy and Resources Committee and includes estimates based on three different scenarios, best case, worst case and mid-range.***

3.20 It is important that savings plans are clear and that the impact on services is understood. Savings should be realistic and achievable. Where funding reductions are passed on to other bodies, such as ALEOs and IJBs, by reducing council contributions to them, it is equally important to assess the impact on service users and communities. Risks associated with income generation initiatives or arising from cuts to services should be explicit and considered by councillors as part of their scrutiny role.

3.21 Given the scale of the challenge facing councils, the sustainability of some services will be increasingly dependent on the ability of councils and their partners to address the underlying demand for them. With health and social care integration, for example, much depends on the extent to which resources can be switched from treatment to prevention. Council transformation programmes need to identify and deliver changes of this nature over the longer term. It is important that councils give careful consideration to their capacity to support such change when making savings as part of budget setting.

4. CONCLUSION

4.1 The Audit Scotland report provides a high level analysis of the financial performance of councils during, and their financial position at the end of, 2016-17 and also looks ahead at the financial outlook for councils. From the various exhibits included within the report, Argyll and Bute Council appear to be well placed to deal with the financial challenges that the council is facing now and in the future.

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 -	None.
5.7	Customer Services -	None.

Kirsty Flanagan
Head of Strategic Finance
20 March 2018

Appendix 1 – Questions for councillors to consider
Appendix 2 - Audit Scotland Financial Overview 2016-17

Appendix 1

Questions for councillors to consider	Comment
Budget setting	
1. Does your council have a medium term financial strategy aligned with corporate objectives?	Yes, the medium to longer term financial strategy was approved by the Policy and Resources Committee on 19 October 2017.
2. How does annual budget setting link to medium term financial planning?	Although the Council have only set a one year budget over the last couple of years, the medium-term position has always been considered. When setting the budget for 2017-18, indicative budgets were set for 2018-19 and 2019-20.
3. How is your council preparing for any further real terms reduction in Scottish Government funding?	The regular budget outlook provides the latest estimates of the likely budget gap and we have a Transformation Board that are taking forward proposals to bridge the budget gap.
4. If your council plans to raise council tax do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?	This is a matter for councillors to consider. The budget outlook includes information if the council chose to increase council tax by 3%.
5. What impact will savings have on the delivery of services? What are the potential risks?	The impact of savings along with the risks are always outlined within the budget pack in order that councillors have sufficient information to assist in their decision making.
Financial and savings plans	
6. What is your council's financial position? What particular challenges does the council face?	The financial position is outlined in the budget outlook reported that is presented to every meeting of the Policy and Resources Committee.
7. Does your council have a savings plan? What are the options to close future funding gaps?	The council does have a savings plan with options to reduce the funding gap over the next three years. The Transformation Board are actively looking at other options to close the gap.
8. What measures in the council's corporate and transformational plans are aimed at addressing the	The Transformation Board take into consideration demand for services when looking for ways to close the funding gap. They

underlying demand for some services?	are considering how services with increasing demand can be delivered differently and more efficiently instead of being stopped or reduced. A different savings target was given to different services reflecting the demand and also the savings previously taken from the services. The Council will also be asked to consider reconstructing the budget from the bottom up as part of the 2019-20 budget process and this will take into consideration service demand.
Reserves	
9. What is the councils reserves policy?	The councils reserves policy is to hold 2% of budget as a contingency. This is reported to councillors on an annual basis as part of the budget setting process and it is explained what the contingency is there for alongside an annual risk assessment.
10. What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?	Over recent years our reserves have been used for transforming services, regenerating the economy and supporting large scale capital projects.
11. What are the different types of reserves your council holds? Do you know what these can be spent on?	The types of reserves are explained in the reserves and balances report that is presented to Policy and Resource committee every 2 months – this explains the usable reserves and the unusable reserves and what they can be used for.
12. What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?	The reserves and balances report that is presented to Policy and Resources Committee every 2 months summarises the planned use of earmarked reserves and also notes whether there has been any drawdown of reserves by way of a supplementary estimate during the year.
13. What are the levels of reserves held by your council's IJB? Are these in line with the IJB's reserve policy?	The IJB reserves policy was approved by the IJB on 29 March 2017. Their reserves policy suggests a prudent level of general reserve be set at 2% of the IJB net revenue budget, this would equate to around £5m. The 2% should be viewed as an optimum level of reserves to be built up over time, recognising

	the tensions between prudent financial planning and budgetary constraints.
Levels of debt and affordability	
14. What share of your council's budget is taken up with interest payments and debt repayment?	This information was included within the financial strategy document, at the time of writing around 12% of income was spent on interest and debt repayments.
15. What proportion of the council's debt is linked to inflation (ie, subject to indexation)? What does that mean for longer term affordability?	As part of the December budget outlook report, there is a note to advise councillors that the impact of a rise in interest rates, likely in the medium term, will have little impact on the Council's interest payments as the vast majority of the Council's loans are at fixed rates.
Budget outturn reports and management commentaries	
16. Do budget monitoring reports clearly explain performance against plans and any changes to plans?	The budget monitoring reports explain performance against budget for significant variances. There is generally not very many significant changes to plans and if there is it is likely to be down to additional funding received for a specific purpose which would be reported.
17. Do management commentaries clearly explain council performance and any changes to plans?	Our management commentary is detailed, at 24 pages long. There is a section dedicated to performance against our priorities which gives a balanced view on things that we have done well and things not so well. There is also a section on financial performance that explains the variance from the planned budget, in 2016-17 much of our underspend was expected and planned for.
Financial scrutiny	
18. What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?	High level scrutiny training was included as part of the councillors induction programme and the Audit and Scrutiny Committee also have had a development session which discussed scrutiny. Following the Improvement Service publication on scrutiny in local government further training is planned for all councillors.

Charging for services	
19. Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?	There is a charging policy in place for Social Care, this was created around 2011 and for all other charges there is a schedule of fees and charges. The charging policy is updated in line with benefits changes each year and all fees and charges are reviewed each year.
20. What information do you need to be able to explain increases in fees and charges to your constituents?	Over the last few years the fees and charges have either been subject to an inflationary increase or they have been part of service choices. Additional information was provided to councillors for those that were part of service choices. The information provided alongside fees and charges is an area that Strategic Finance are looking at with a view to providing further information as part of the 2019-20 budget process.
Exit packages	
21. Are staff severances in line with the council's workforce plan?	The council are finalising their workforce plan, but to date, the severances have been in line with any service redesign as a result of service choices.
22. How does the council ensure that councils have the capacity to deliver transformational change?	The council has a Transformation Board established, with representation from every service to take forward transformational change. In addition they have employed a dedicated officer to transformational change are will look at additional dedicated resource to support this and also speed up the pace of change in some services.
23. Do you know the implications of your council's pension liabilities of staff retiring early?	The unfunded pensions budget is included as part of the budget papers and the council set aside a £3.5m resource as part of the 2017-18 budget to pay for any severance costs as a result of savings.
Capital programmes	
24. How clearly does the council's capital programme link with	There is a golden thread from the LOIP through to the capital programme and this is made explicit in the budget pack

the asset management plan and corporate objectives?	documents.
25. Has non-delivery of the capital programme (ie, slippage) been significant at your council in recent years? Why?	There has not been any particular significant slippage in recent years, however, some slippage is expected and is due to a number of reasons, for example: • Poor contractor performance • Weather conditions • Unforseen works resulting in a project delay.

Local government in Scotland

Financial overview 2016/17

ACCOUNTS COMMISSION

Prepared by Audit Scotland
November 2017

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Links

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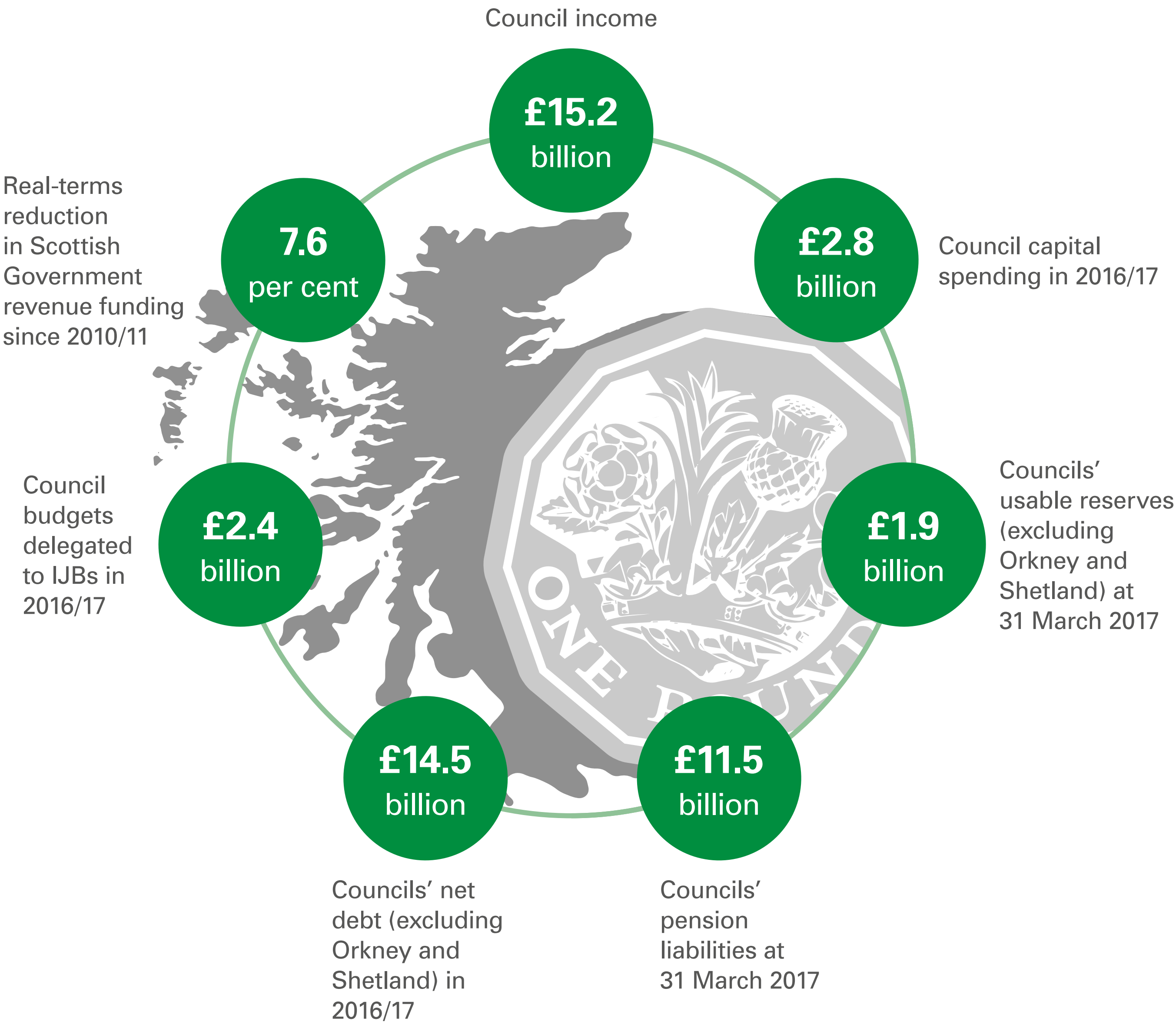
These question mark icons appear throughout this report and represent sample questions for councillors (paragraph 7).

Key facts


Council income
£15.2 billion
£2.8 billion
Council capital spending in 2016/17
£1.9 billion
Councils' usable reserves (excluding Orkney and Shetland) at 31 March 2017
£11.5 billion
Councils' pension liabilities at 31 March 2017
£14.5 billion
Councils' net debt (excluding Orkney and Shetland) in 2016/17
£2.4 billion
Council budgets delegated to IJBs in 2016/17
7.6 per cent
Real-terms reduction in Scottish Government revenue funding since 2010/11

Chair's introduction

Welcome to the Accounts Commission's 2017 financial overview report for local government.

Last year was the first time that we published a separate financial overview report. In view of the very positive feedback we received from our stakeholders, we have decided to continue publishing two overview reports each year: this one focuses on financial matters, and the other on councils' performance and outcomes, which we plan to publish in April 2018.

Generally, councils face increasing challenges which require flexible responses that balance immediate needs, sound long term planning and limited financial resources. This task is a demanding one for elected members – not least for newly elected members – and I would hope that this overview report and its associated material, including the examples of questions we provide to support scrutiny by councillors, is a useful source of information and guidance.

We live in a rapidly changing public sector landscape, where external issues such as the transfer of further powers to Scotland and the decision to withdraw from the European Union add to an already complex domestic environment. Against this general backdrop the Commission is very aware of the importance of understanding the individual context faced by each council in terms of demand for services and resources available to sustain or develop them.

A major element of this operating environment for councils is the continuing pressure on finances. There was a real terms reduction in councils' main source of funding from the Scottish Government for 2016/17. This year has seen a further real terms funding reduction, with that trend forecast to continue into future years.

Councils tell us that they are finding the situation more serious than ever, with savings becoming increasingly difficult to identify and achieve. The Commission recognises this, but also recognises that some councils are in a better position to respond than others.

Effective leadership and financial management is becoming increasingly critical and medium-term financial strategies and well thought out savings plans are key to financial resilience and sustainability.

Elected members need to be clear about the potential impact of planned savings on achieving corporate objectives and the subsequent outcomes for citizens. The implications of community empowerment legislation heighten the importance of engaging effectively with communities around local priorities, and working together on options for the best future use of resources in service provision.

The Commission continues to emphasise the importance of Best Value as a comprehensive framework, based on the principle of continuous improvement that encompasses the key features of a high performing and effective council. It is especially relevant in times of tight finances, and we welcome the work being carried out by the Scottish Government, CoSLA, Solace and others, to refresh the Best Value statutory guidance so that it better reflects the current context for local government.

Finally, we welcome that once again the audits of annual accounts from all 32 councils were signed off with no qualifications. This is testament to the hard work amongst council staff, especially those within the finance function, and the good relationships developed by our auditors. There is of course, always room for improvement in financial management, such as in monitoring and reporting of financial matters to both councillors and the wider public. We will continue our interest in this.

Graham Sharp
Chair of Accounts Commission

Summary

Key messages

1. Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.

2. Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at levels planned for 2017/18.

3. Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.

4. Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.

5. All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.

6. The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

councils are showing signs of increasing financial stress

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during, and their financial position at the end of, 2016/17. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year, complementing a report on councils' performance and outcomes that will be published at the start of the next financial year in April 2018.

2. The report is intended to inform the public and its representatives. It is particularly aimed at councillors and senior council officers, and will be of significant interest to elected members who joined councils for the first time following the May 2017 elections. While the focus of the report is on councils, we also provide some early information about Integration Joint Boards (IJBs), which are also local government bodies, following their first full year of operation in supporting health and social integration. A programme of audit work looking in more detail at health and social care integration and IJBs is under way.[1]

3. The report is in three parts:

- Part 1 (page 10) comments on councils' income and budgets for 2016/17.
- Part 2 (page 20) looks at councils' financial performance during, and position at the end of, 2016/17.
- Part 3 (page 33) looks at councils' 2017/18 finances and the challenges faced going forward.

4. Our primary sources of information are councils' 2016/17 audited accounts (including management commentaries) and their 2016/17 external annual audit reports. We have supplemented this with data submitted by councils to the Scottish Government through local finance returns (LFRs) and Provisional Outturn and Budget Estimates (POBE). LFRs present spending information for councils on a different basis from the spending information that councils record in their annual accounts. We do not audit data contained in LFRs.

5. UK-wide changes to the format of council financial statements in 2016/17 mean that we are no longer able to compare spending on services across councils using the annual accounts. This includes changes that make it difficult to establish the true service income and expenditure totals. We will include further analysis of these areas in our local government overview report in April 2018, using Scottish Government LFR data.

6. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2016/17 prices, adjusted for inflation, so that they are comparable to information from councils' 2016/17 accounts. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

7. Throughout the report, we identify examples of questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The questions are also available on our website in *Supplement 1: Scrutiny tool for councillors*.

8. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders. We have also produced a separate supplement on councils' Housing Revenue Account (HRA) and the Local Government Pension Scheme (LGPS).

9. Throughout this report Orkney and Shetland have been excluded from exhibits that show usable reserves and debt. This is because the levels they hold mean inclusion would make it difficult to see relative positions of other councils. Most councils hold usable reserves of between five and 35 per cent of their annual income, whereas Shetland's reserves were 250 per cent of its annual income and Orkney's 300 per cent of its annual income. These large reserves relate to oil, gas and harbour related activities. As a result, both Orkney and Shetland also have more investments than borrowing unlike other councils.

Part 1

Councils' income and budgets for 2016/17

Key messages

1 2016/17 was a challenging year for councils with a real-terms reduction in revenue funding, a continuation of the council tax freeze, inflationary pressures and the cost of new UK and Scottish Government policy commitments.

2 Councils depend on Scottish Government funding for the majority of their income. The largest element of Scottish Government funding, relating to Grant Aided Expenditure, has remained largely unchanged since 2008/09, with additional funding linked to supporting national policies. The Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government. It is important that it is suited to improving outcomes for local communities and sensitive to priorities such as reducing inequality within and across council areas.

3 In response to funding reductions, councils approved about £524 million of savings and the use of £79 million of their reserves when setting budgets for 2016/17. Councils' savings plans have focused on reducing staff numbers, rationalising surplus property and improving procurement of goods and services. Councils were not always clear in their budget-setting reports about the risks associated with savings and their potential impact on levels of service.

4 Councils' budget-setting processes for 2016/17 were complicated by later confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care.

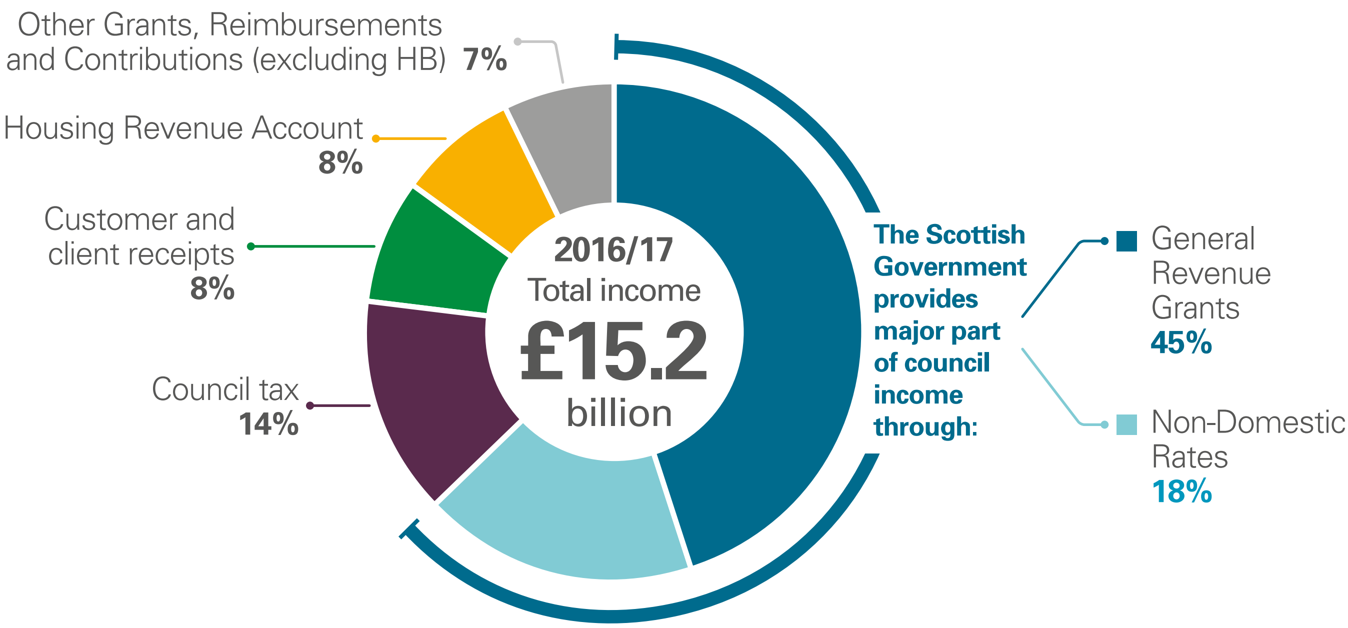
5 Councils set larger capital budgets in 2016/17 than in 2015/16. The Scottish Government capital grant fell and councils planned to fund expenditure through increased borrowing.

2016/17 was a challenging year for councils

Councils faced a major challenge from the significant fall in revenue funding for 2016/17

10. The Scottish Government provides almost two-thirds of councils' income through general revenue grant, non-domestic rates (NDR) and specific grants for things like community justice (Exhibit 1, page 11). In comparison, council tax accounts for 14 per cent of councils' income, and fees and charges about eight per cent of their income.[2]

Exhibit 1
Sources of council revenue income, 2016/17
Councils are dependent on the Scottish Government for the majority of their income.



Notes:
1. Does not include all income collected for services delivered through council arm's-length external organisations (ALEOs) and Integration Joint Boards (IJBs).
2. Income excludes housing benefit.
3. Customer and client receipts are 2015/16 totals at 2016/17 prices.

Source: Annual accounts 2016/17 and Scottish Local Government Finance Statistics 2015-16

11. Scottish Government revenue funding for councils in 2016/17 fell by 5.2 per cent in real terms (Exhibit 2). Councils' revenue funding from the Scottish Government has fallen in real terms by 7.6 per cent since 2010/11. The size of the reduction in 2016/17 presented councils with a major challenge in delivering services and required most to identify significant savings.

Exhibit 2
Scottish Government revenue funding to councils
Revenue funding fell both in cash and real terms in 2016/17 compared to 2015/16.

	2016/17 £'000	Change on 2015/16 Cash %	Real %
NDR	2,769	-0.7 ▼	-2.7 ▼
Revenue Grant	6,939	-4.3 ▼	-6.2 ▼
Total revenue funding	**9,708**	**-3.3 ▼**	**-5.2 ▼**
Additional resource via IJBs	250		
	9,958	**-0.8 ▼**	**-2.8 ▼**

Source: Local Government Finance Circular 1/2017, Scottish Government

12. In 2016/17, the Scottish Government transferred an additional £250 million from the health budget to support health and social care integration. Even taking this into account, total revenue funding for councils fell in 2016/17.

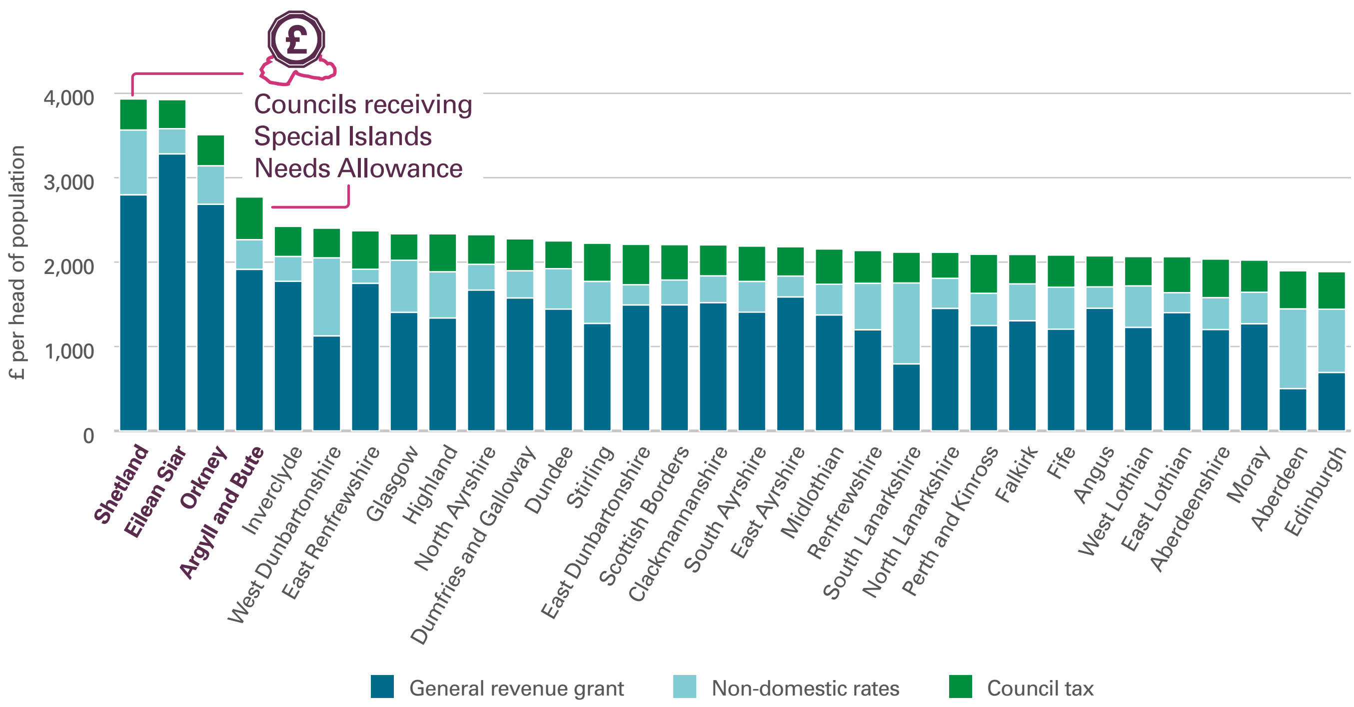
13. Council tax is a key source of income for local government. Councils have typically set council tax rates to reflect local policy choices. Between 2008/09 and 2016/17, councils agreed with the Scottish Government to freeze council tax rates. To compensate them, the Scottish Government provided local government with an additional £70 million in each year of the freeze. In 2008/09, £70 million represented just over three per cent of council tax income and councils each received a share in line with their tax base. Councils that may not have increased their council tax by this amount each year will have benefited from additional funding as a result of the freeze. Councils did, however, lose the option of raising council tax to generate additional revenue. Although the council tax freeze was lifted in 2017/18, councils were constrained to increases of three per cent.

14. The revenue funding that councils received from the Scottish Government and council tax income varied between £2,000 and £2,400 per head of population for most councils in 2016/17 (Exhibit 3). This impacts on the income they have available and on the decisions they need to make about delivering services. The income per head of population in Argyll and Bute, Eilean Siar, Orkney and Shetland is higher than in other councils because they receive extra funding for their island populations, in recognition of the additional costs they face when providing services.

Exhibit 3

Income from General Revenue Grant, Non-Domestic Rates and council tax per head of population, 2016/17

Most councils received between £2,000 and £2,400 per head of population.



Source: Annual accounts 2016/17; and National Records of Scotland mid-year population estimate for 2015

Additional Scottish Government funding has been linked to supporting national policies

15. The Scottish Government funding mechanism is the main determinant of a council's overall funding. It is designed to reflect differences between councils in terms of population and other factors, such as geography and deprivation. The funding mechanism is based on a large number of elements as illustrated in Exhibit 4 (page 14). The Fraser of Allander Institute has provided a useful outline summary of how funds are allocated:

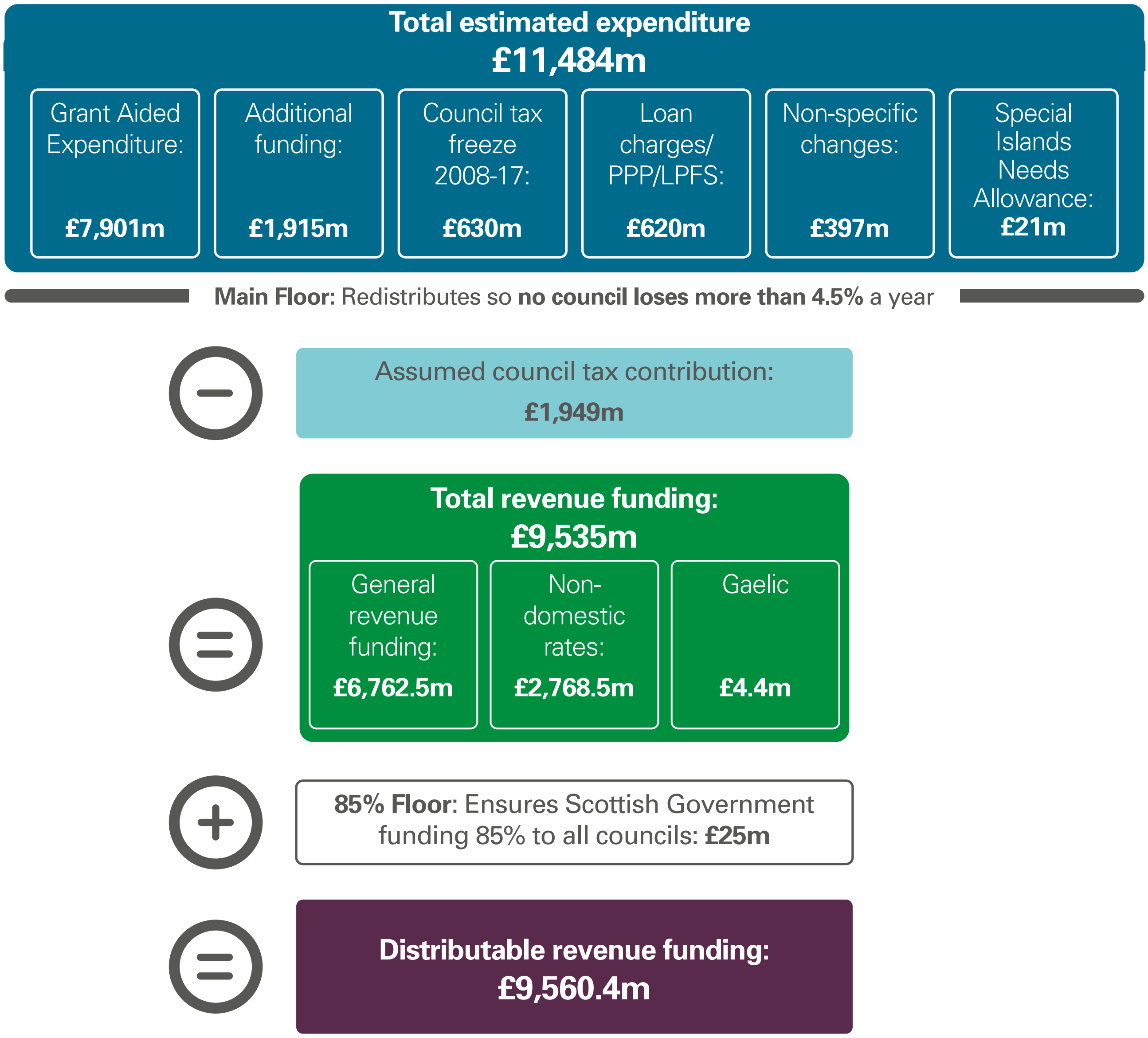
> 'The Scottish Government allocates grants to local authorities taking into account both the relative spending need of each authority, and the revenues raised from council tax and non-domestic rates income.
>
> The grant allocation system first calculates the 'total estimated expenditure' (TEE) that each local authority is likely to need to meet its various commitments. The elements of TEE are:
>
> - an assessment of spending needs, based on the Grant Aided Expenditure (GAE) assessments combined with a Special Islands Needs Allowance (SINA)
> - a series of additional revenue grants – such as the funding used in the past to support the council tax freeze – the allocation of which is determined on a case-by-case basis
> - a series of further non-specific changes to grant allocations, the allocation of which is based on local authorities' shares of GAE + SINA
> - local authorities' commitments in respect of certain historic loan charges
> - the sum of these elements is then adjusted by a 'floor' to ensure that no local authority experiences particularly large swings in support from one year to the next.
>
> Having calculated TEE, an adjustment is then made based upon an estimate of what each local authority is expected to raise from council tax, the revenues that each local authority is forecast to raise from non-domestic rates, and their allocation of ring-fenced Gaelic funding. A further 'floor' calculation is applied to ensure that no local authority receives less than 85 per cent of the Scottish average on a per capita basis.'[3]

16. Within the Scottish Government's estimate of councils' TEE in any year, the largest element is Grant Aided Expenditure (GAE). GAE totals have remained broadly the same since 2008/09, with the exception of funding for police, fire and district courts having been removed. In 2016/17, GAE was £7.9 billion of a total estimated expenditure of £11.5 billion. GAE is distributed between councils based on an estimate of their relative spending needs across 89 elements, with reference to one or more indicators. For example, the GAE for primary education is allocated with reference to its share of primary school aged pupils. A small adjustment is made based on a secondary indicator of the percentage of pupils in small schools. The variations between councils in each of the elements are mostly determined by population profiles, although other factors to reflect rurality and deprivation are also used when appropriate.

Exhibit 4

Local Government funding mechanism, 2016/17

The formula contains many elements.



Notes: On top of distributable revenue funding, councils also received £133 million from other grants and payments such as the Teacher Induction Scheme and Discretionary Housing Payments.
In 2016/17, the 85 per cent floor was applied to funding for Aberdeen City and City of Edinburgh Councils.

Source: Audit Scotland and Fraser of Allander Institute

17. New funding for councils since 2008/09, for example funding to expand early years' childcare, has come as 'additional funding' and 'non-specific changes' and is funding specifically directed at delivering particular national policies. The proportion of council funding directed towards national policies is increasing, a trend that will continue with Scottish Government proposals for fairer funding for equity and excellence in education. This shift increasingly restricts the flexibility councils have in managing their budgets across their full range of services. The Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government. It is important that it is suited to improving outcomes for local communities and sensitive to priorities such as reducing inequality within and across council areas.

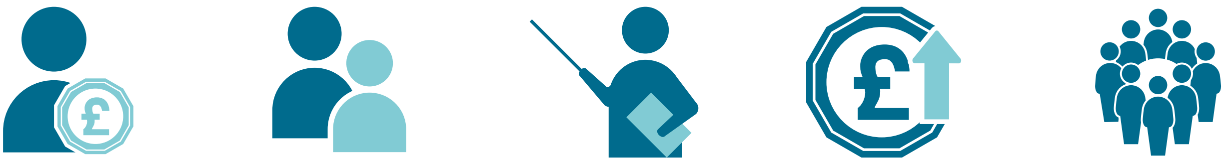
Councils faced increased budgetary pressures in 2016/17

18. Councils faced a growing range of budgetary pressures in 2016/17 from the real-terms reduction in Scottish Government funding, the continuation of the council tax freeze and cost inflation. They also faced additional pressures in meeting new UK and Scottish Government policy commitments. Many of the budgetary pressures that councils faced were associated with staff. As councils' largest area of expenditure, additional staff-related costs have a very significant impact on their budgets (Exhibit 5).

Exhibit 5

Significant budgetary pressures on councils in 2016/17

UK and Scottish Government policy commitments had sizeable cost implications for councils.



The **move to the single state pension at UK level.** This ended the employer NI rebate in relation to staff in contracted-out pension schemes (such as the LGPS and Teachers schemes).

3.4 per cent increase in NI costs affected employees from 1 April 2016.

The cost of introducing the **living wage for social care workers** from 1 October 2016.

Estimated cost of £100 million.

The undertaking to **maintain teacher numbers in Scotland** and the **Teacher Induction Scheme**.

Councils spend around £2.4 billion on teachers. By not cutting teacher numbers they receive a share of £88 million extra funding.

Annual increases in staff costs.

Estimated cost of one per cent pay rise about £70 million. Costs also increase as staff move up pay scales.

The **full year effect of increased pension contributions for teachers** (increased from 14.9 per cent to 17.2 per cent from September 2015).

The estimated impact was around £20 million in 2016/17.

Source: Audit Scotland

19. In addition to the costs of meeting government policies and inflationary pressures, councils also had to deal with ongoing demand pressures. Some demand pressures such as those associated with an ageing population and placements for looked-after children, are often not easy to forecast and budget for. This highlights the need for adequate budget contingency and robust arrangements for identifying and responding to changes in demand for services.

20. Rent arrears can also create budgetary pressures for councils' Housing Revenue Accounts. The Department for Work and Pensions (DWP) began a roll-out of Universal Credit (UC) in Scotland in March 2016. By March 2017, UC had rolled out across five councils.[4] Rent arrears across these councils increased in 2016/17 by an average of 14 per cent, compared with an average of 4 per cent across the remaining councils. Our *Housing Benefit Performance Audit: Annual update 2016/17* highlighted that councils are finding that the roll-out of UC is having a detrimental effect on their collection of housing rental income.

Some service areas saw larger reductions to budgets in 2016/17

21. In responding to the range of pressures they face, councils approved about £524 million of savings and budgeted to use about £79 million of reserves in their budgets for 2016/17. Savings plans continued to focus on their main areas of spend, reducing staff numbers, rationalising surplus property and improving procurement of goods and services. It was not always clear from budget-setting reports how savings aligned with the council’s corporate and financial plans or how they would impact on service delivery.

22. In 2016/17, budgets for education increased, mainly as a result of the policy commitment to maintain teacher numbers and the inflationary pressures around pay and pension costs. Despite demand pressures in social work, overall budgets reduced – but not by as much in percentage terms as in other areas of service. Remaining service areas have seen larger reductions to their budgets. In some cases, increases in fees and charges may have reduced the amount of budgeted expenditure. This pattern of larger reductions to relatively smaller service areas has been recurrent in recent years and is something that has continued into 2017/18. While it is right that resources should be aligned with policy priorities, the impact on other services and their outcomes should be carefully assessed (Exhibit 6, page 17).

Councils have been seeking to maximise the income available to them from charging for services

23. Councils generate about eight per cent of their total income from charging for services (excluding housing rents). This includes income from charges to service users, rental income (excluding council houses) as well as 'other' charges. It is difficult to establish from the data available the full extent of income councils receive. Some income from services provided via arm's-length external organisations (ALEOs) and IJBs is not shown in council totals.[5]

24. Councils have been seeking to maximise their income through increasing charges and by introducing new charges for services, for example introducing charges for garden waste. Councils have also sought to collect more of the income that is due to them. Charges for social care which are subject to regulation, represented the largest area of income from charging services in 2015/16 (Exhibit 7, page 18).

Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?

What information do you need to be able to explain increases in fees and charges to your constituents?

25. The Scottish Parliament's Information Centre (SPICe) has published a detailed briefing on some fees and charges. The Accounts Commission also considered fees and charges for services in its 2013 report, *Charging for services: are you getting it right?*

26. Although councils generate a relatively small proportion of their overall income from fees and charges, increases can make a difference to council finances over time. However, councils face difficult decisions in balancing their need to maximise income while also ensuring their charging policy is consistent with corporate objectives, such as providing access to services and addressing inequality. Increasing prices can be unpopular with the public, but effective leadership, sensitive management, good communications and community engagement can assist with this.

Exhibit 6

Trend in council expenditure on main services, in real terms

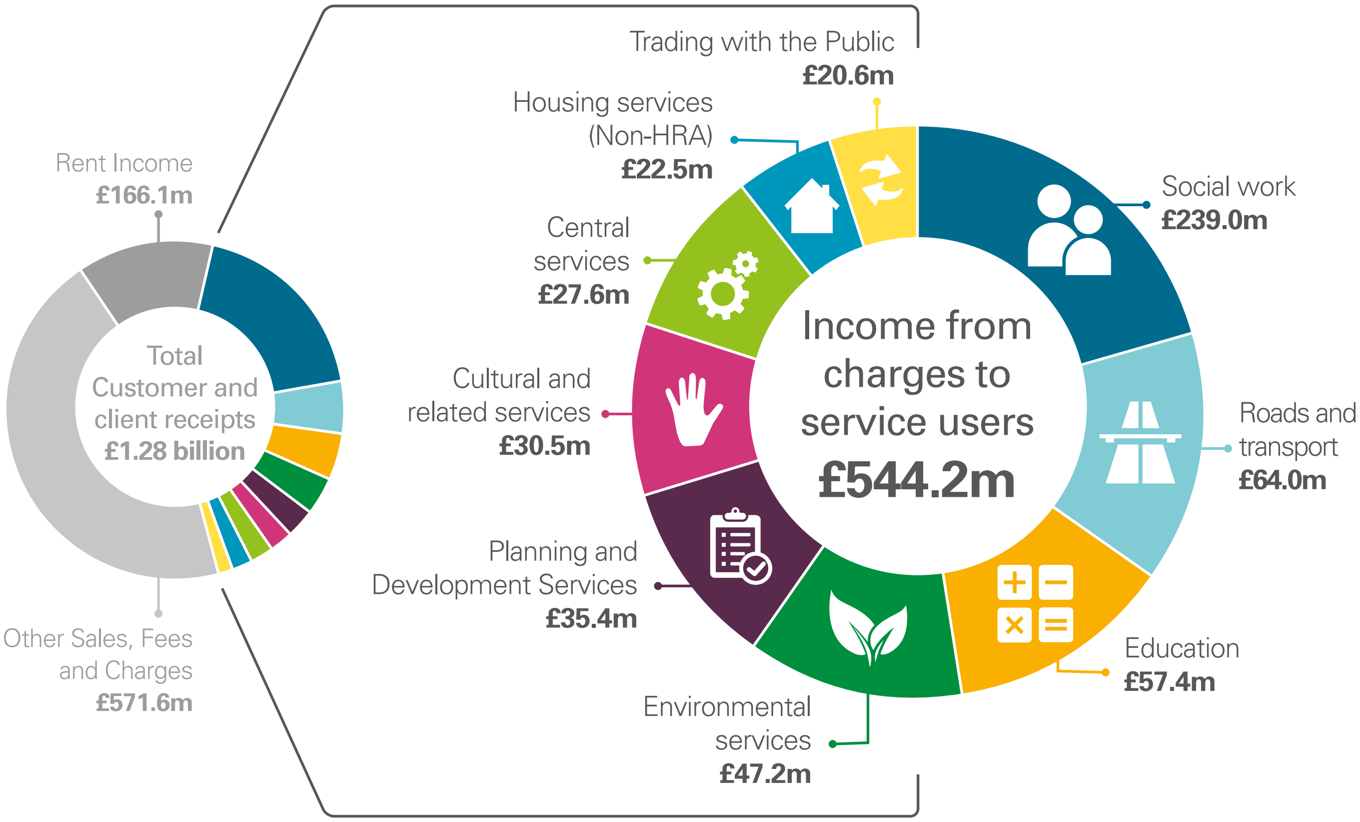
There was significant variation in budget changes across council services.

	2013/14 £million	2014/15 £million	2015/16 £million	16/17 Budget £million	Change over period
Education	4,771	4,736	4,830	4,826	1%
Cultural and related services	639	661	610	560	-12%
Social work	3,158	3,194	3,233	3,086	-2%
Roads and transport	454	431	427	419	-8%
Environmental services	686	684	698	668	-3%
Planning and development services	291	286	248	251	-14%
Other services	839	802	778	687	-18%
Total (excludes trading services and interest payments)	**10,840**	**10,793**	**10,823**	**10,496**	-3%

Note: 'Other services' combines Central Services and non-HRA housing.

Source: Scottish Local Government Finance Statistics 2015-16; and Scottish Government Provisional Outturn Budget Estimate returns 2016

Exhibit 7
Charges to service users
Charges to service users account for over £500 million of councils income.



Note: Does not include all income collected for services delivered through council ALEOs and IJBs.
Source: Scottish Local Government Finance Statistics 2015-16

Integration Joint Boards added further complexity to budget setting

27. For the majority of councils, 2016/17 was the first operational year for Integration Joint Boards (IJBs). IJBs were established as a result of the Public Bodies (Joint Working) (Scotland) Act 2014. They are partnerships between NHS boards and councils and are responsible for the delivery of adult health and social care, and in some council areas, for other services, such as children's services. The partnerships are the subject of 'integration schemes' which are written agreements about how they will operate, including responsibilities for any budget underspends and overspends.

28. Councils delegated £2.4 billion of social care expenditure to IJB budgets for 2016/17 and NHS boards contributed £5.6 billion. The introduction of IJBs has complicated budget-setting, due to differences in both the approach and timing of budget-setting between councils and NHS boards. The establishment and development of IJBs has been a complex exercise and will take time to mature. Their operation will be the focus of further performance audit work we have planned in 2018.

Councils set larger capital programmes for 2016/17, with plans to increase borrowing

29. In addition to their day-to-day revenue spending on goods and services, councils also incur capital expenditure on the assets that support those services, including schools, houses and equipment such as vehicles. In 2015/16, councils spent about £2.4 billion on capital projects. Budgets for 2016/17 were much higher at over £3.3 billion.

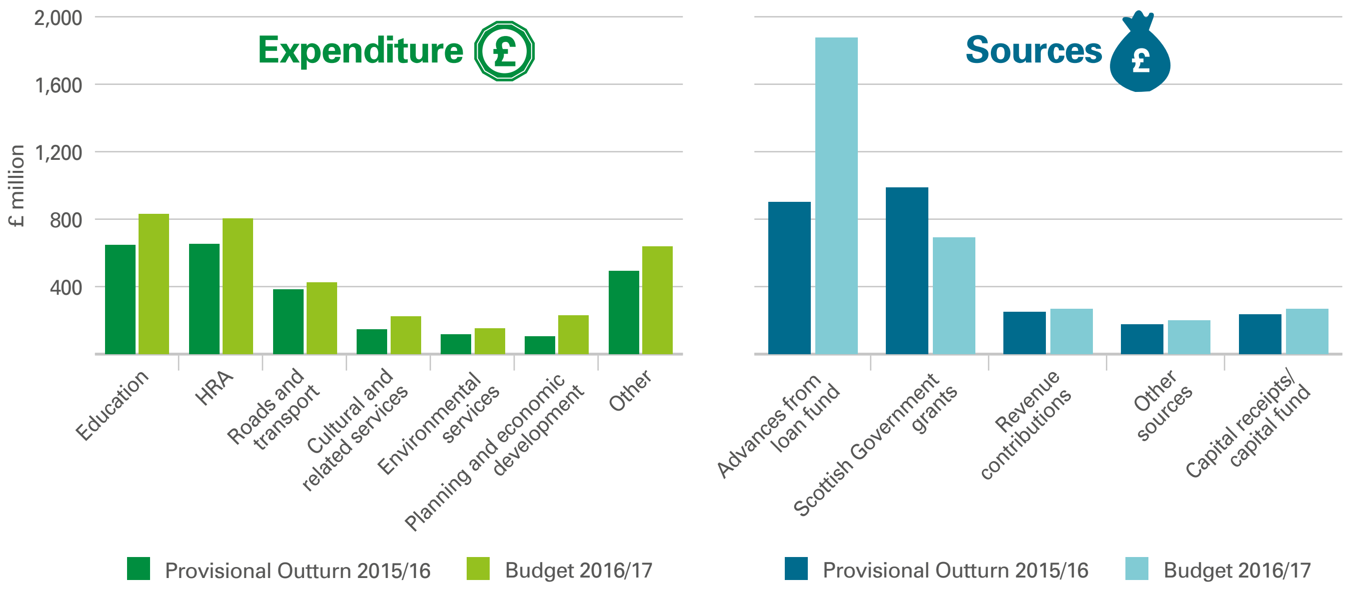
30. Councils finance their capital expenditure from a number of sources, including Scottish Government capital grants and borrowing. Scottish Government grants fell from £834 million in 2015/16 to £591 million in 2016/17, returning to a more usual level following re-profiling in earlier years. Exhibit 8 shows where councils were planning to spend their capital and how they planned to finance it.

31. Councils are required to consider the affordability of their capital programmes. This includes the cost of any borrowing along with the impact on day-to-day running costs. However, they are free to determine what they consider prudent and with interest rates remaining low in 2016/17, councils assessed increased borrowing to be affordable. The delivery of capital programmes and the affordability of debt are considered further in Part 2 and Part 3.

Exhibit 8

Capital programmes and sources of finance, 2015/16 and 2016/17

Councils planned to borrow more in 2016/17 to meet the cost of larger capital programmes.



Notes:
1. Excludes regional transport partnerships and Joint Valuation Boards.
2. Other budgeted use of capital includes Social Work, Central Services, Trading Services, etc.
3. Other sources of capital finance for the General Fund are grants (excluding those received from the Sottish Government).
4. For HRA this includes capital from other sources, such as developer contributions.

Source: Scottish Government Capital Provisional Outturn Budget Estimate 2015-16

Part 2

2016/17 financial performance

Key messages

1 All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance.

2 Councils are showing signs of increasing financial stress with 20 councils drawing on their usable reserves in 2016/17.

3 Councils' actual use of reserves was often quite different from that originally planned. The reasons why are not always clear.

4 Auditors found that budget-setting needed to be more robust and that financial management could be improved in several councils.

5 Levels of net debt increased by £836 million in 2016/17. On average councils spent almost ten per cent of their revenue budgets servicing this debt. Some councils are concerned about the ongoing affordability of servicing their debt as resources decrease.

6 Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures.

Twenty councils drew on reserves in 2016/17 – actual use of reserves was often quite different from original plans

All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance to readers

32. In 2016/17, for the sixth consecutive year, auditors issued a 'true and fair' unqualified audit opinion on the accounts of all 32 councils. An unqualified opinion means auditors have judged that all council's financial records and statements are fairly and appropriately presented, that the council's financial statements are sound and free from material misstatements or errors.

33. For the last three years, councils have had to produce a management commentary to accompany their annual accounts. These commentaries play an important role in public accountability and helping interested parties to better understand the accounts of each council and its financial performance and position. As such, they should include explanations of amounts included in the accounts as well as:

- a description of the council's strategy and business model
- a review of the council's business
- a review of principal risks and uncertainties facing the council
- an outline of the main trends and factors likely to affect the future development, financial performance and financial position of the council.

34. Each management commentary should concisely present the financial 'story' of a council in an understandable format for a wide audience. Auditors express an opinion on whether the management commentary is consistent with the audited financial statements and is in line with Scottish Government guidance.

35. Management commentaries for 2016/17 vary in how clearly councils and IJBs explain their financial and general performance. Overall there remains scope for improvement. It is the Accounts Commission's view that councillors have an important role in ensuring that the management commentary effectively tells a clear story of financial performance and can be understood and scrutinised by a wide audience. The story at the end of the year should be produced from regular reports provided to councillors throughout the year.

Do management commentaries clearly explain council performance and any changes to plans?

Councils are showing increasing signs of financial stress

Twenty councils drew on their usable reserves in 2016/17

36. In 2016/17, 20 councils drew on their usable revenue and capital reserves. Nineteen councils drew on their revenue reserves in 2016/17, an increase from the eight councils that did so in 2015/16. Council revenue reserves fell by £32 million in 2016/17. (Exhibit 9, page 22). Overall council usable reserves (capital and revenue) fell by about £33 million.

37. The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified the rapid decline of usable reserves as one of the symptoms exhibited by councils under financial stress.[6] Councils with good financial management demonstrate well-planned and managed use of reserves, in accordance with carefully thought out council policies.

38. In some cases, councils have used reserves to support service delivery. Councils have used reserves to invest in their change programmes, such as meeting the additional costs of staff severance. In 2016/17, councils continued to focus on reducing staffing levels. They reduced their workforces by almost 2,200 staff (almost one per cent of the total workforce), at a cost of £78 million (Exhibit 10, page 23). Councils' policies around voluntary severance and redundancy typically require payback of the costs over two to three years.

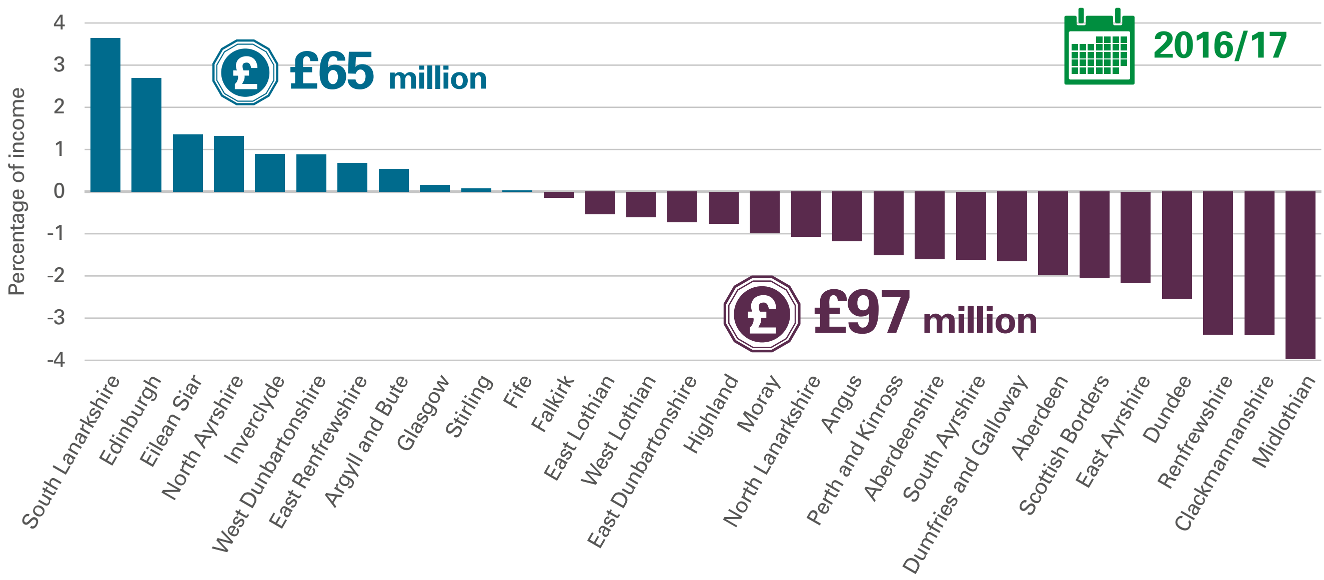
Are staff severances in line with the council's workforce plan?

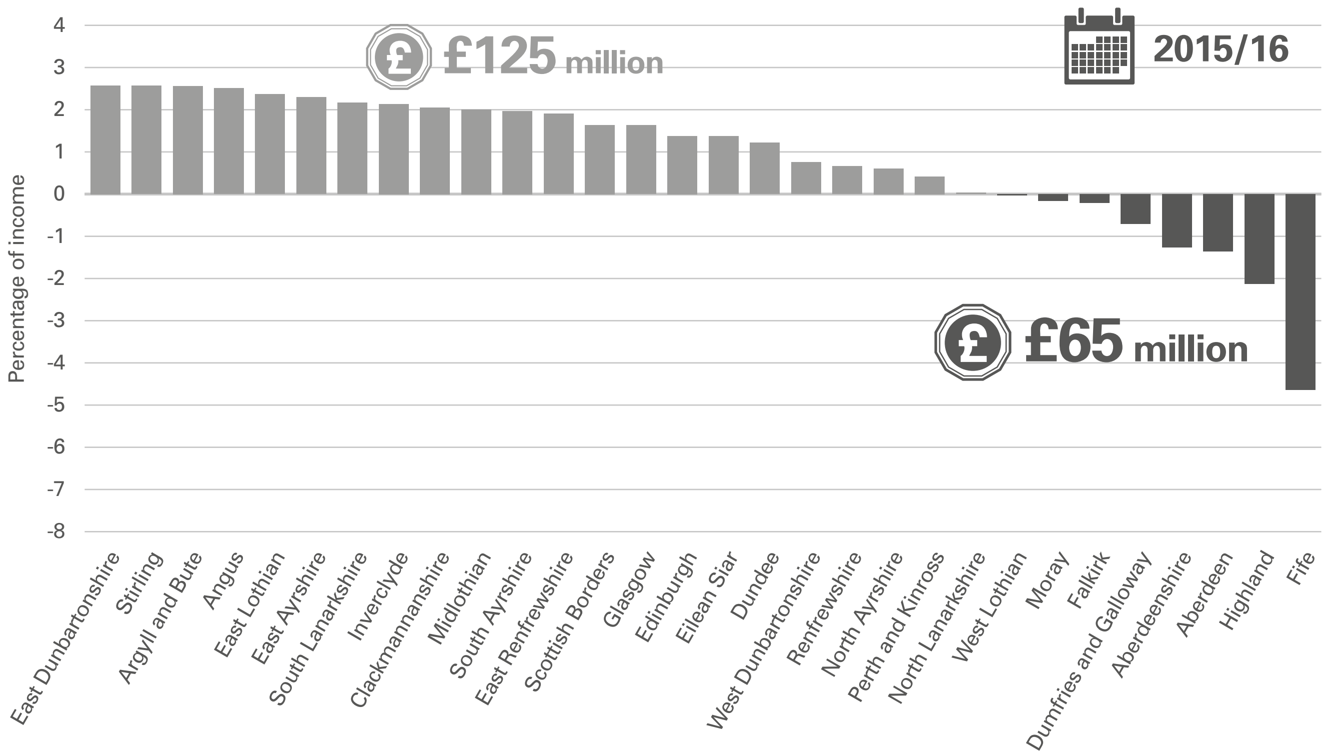
39. In future, severance schemes could become less attractive for staff under Scottish Government proposals to limit payments. Conversely, severance packages for staff with retirement dates after April 2020 will become more expensive for councils following changes to pension protection.

Exhibit 9

Changes in revenue reserves (excluding HRA), 2015/16 and 2016/17

Many more councils drew on revenue reserves in 2016/17 compared with 2015/16.





Notes:
1. Due to issues with the scale on this exhibit Orkney and Shetland are excluded (paragraph 9).
2. In 2016/17, Renfrewshire moved money from revenue to capital reserves.

Source: Audited accounts 2015/16 and 2016/17

Exhibit 10

Exit packages, 2011/12 to 2016/17

The number and average cost of exit packages both fell in 2016/17.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Total number of packages	4,070	2,407	2,373	1,933	2,660	2,195	**15,642**
Total cost of packages Cash terms £000	148,750	109,068	92,640	74,935	97,231	78,125	**600,750**
Total cost of packages Real terms £000	160,868	115,528	96,535	76,955	99,172	78,125	**627,184**
Average cost per package Real terms £	39,525	47,997	40,681	39,811	37,227	35,592	**40,096**

Note: Real terms comparisons are based on 2016/17 prices.

Source: Annual accounts 2016/17

Councils use of reserves and service expenditure was often quite different from that originally planned

40. In 2016/17, as many councils used more reserves than they had originally planned as used less (Exhibit 11, page 24). It is not always clear from management commentaries why the actual use of reserves differed from that planned.

41. There can be a range of reasons why councils need to draw more heavily on their reserves than planned. It can be the result of poor budget-setting and/or budgetary control. For example, councils may need to use reserves to balance budgets where savings have not been achieved. The failure to deliver savings might be due to councils underestimating the time required for change programmes to deliver benefits. As budgets come under greater pressure from funding reductions, cost pressures and increasing demand, it is critical that councils understand the risks of using reserves in an unplanned way in relation to future savings and long-term financial sustainability.

42. Auditors identified that some councils failed to deliver their savings plans in 2016/17. Auditors also highlighted that some budgets did not properly reflect patterns of previous actual expenditure and that councils should consider rebasing their budgets where they consistently underspend. One such area is underspending on financing costs, where slippage on capital programmes leads to less borrowing and lower interest payments. Built-in budget contingencies partly explain budget underspends but councils need to explain this more clearly.

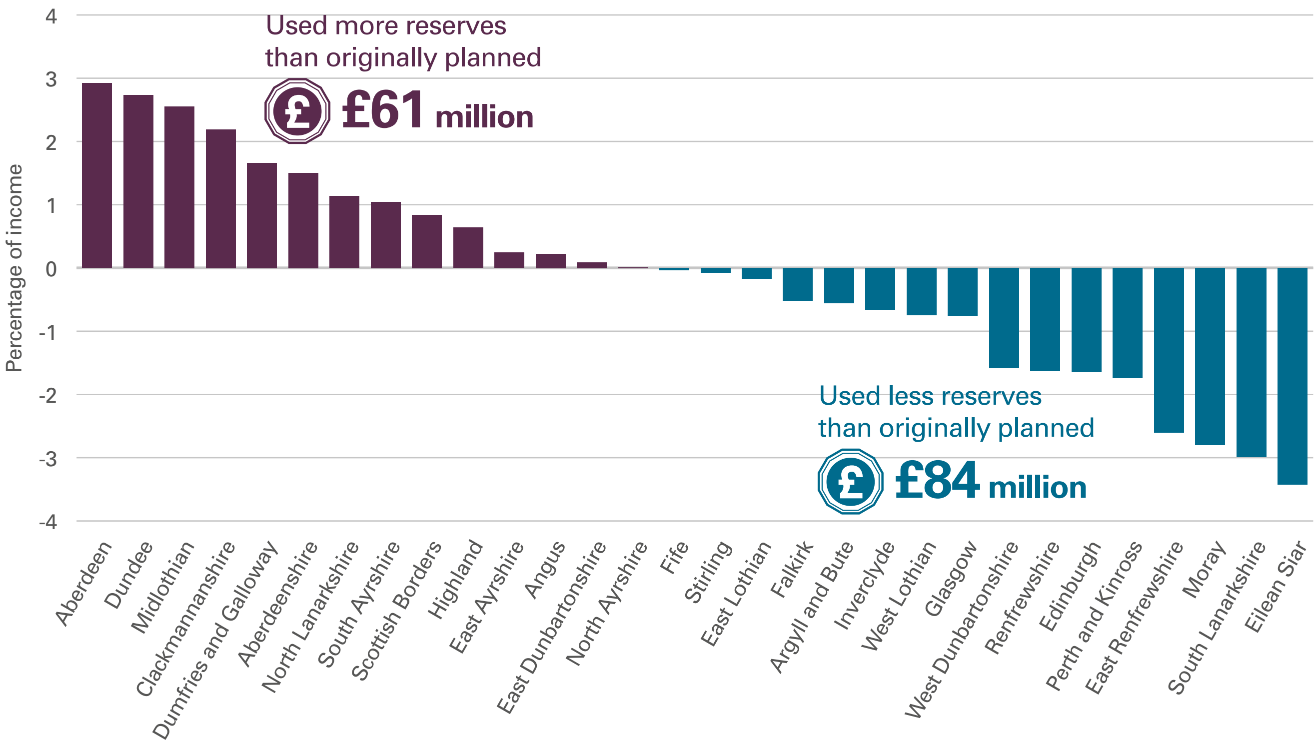
How does the council ensure that council staff have the capacity to delivery transformational change?

What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?

Exhibit 11

Difference between planned and actual use of General Fund reserves as a proportion of income, 2016/17

The difference between planned and actual use of reserves for some councils was more than two per cent of their total income from general revenue grants and taxation.



Note: Due to issues with the scale on this exhibit Orkney and Shetland are excluded (paragraph 9).

Source: Audited accounts 2016/17 and auditor returns

43. Reasons often cited by councils for under and overspends against final budgets are included in Exhibit 12 (page 25).

44. Management commentaries in councils' accounts tend to only identify the main reasons for over or underspends against final budgets and not why plans or budgets changed during the year. This represents an area of weakness in financial reporting that councils need to address to support more effective financial scrutiny. If significant changes are made to original budgets the reasons should be clearly reported to councillors throughout the year, as well as featuring in the management commentary accompanying the accounts at the end of the year.

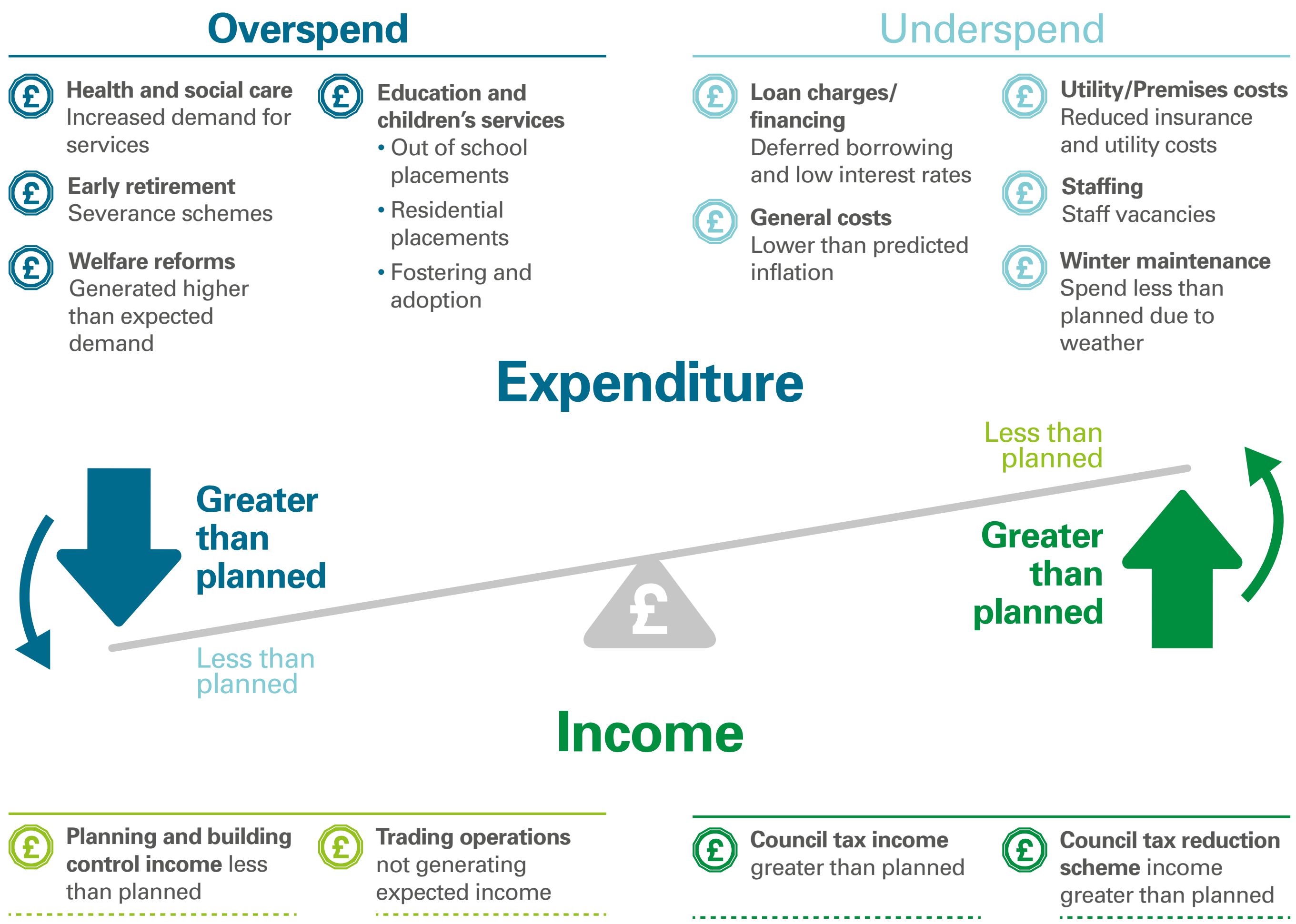
?

Do budget monitoring reports clearly explain performance against plans and any changes to plans?

Exhibit 12

Commonly reported reasons for budget variances, 2016/17

Demand pressures primarily drove overspends – with financing costs a key driver of underspends.



Source: Audit Scotland review of management commentaries

Levels of usable reserves vary widely and it is important that councils have clear reserves policies

45. The levels of usable reserves held by councils vary widely, as do policies on the minimum level of reserves they should hold. The General Fund reserve is the main revenue reserve available to support general council services. By the end of 2016/17, General Fund reserves, excluding Orkney and Shetland, totaled £1.1 billion. However, councils hold a number of other reserves and total usable reserves held amounted to £1.9 billion (excluding Orkney and Shetland, paragraph 9), (Exhibit 13, page 26).

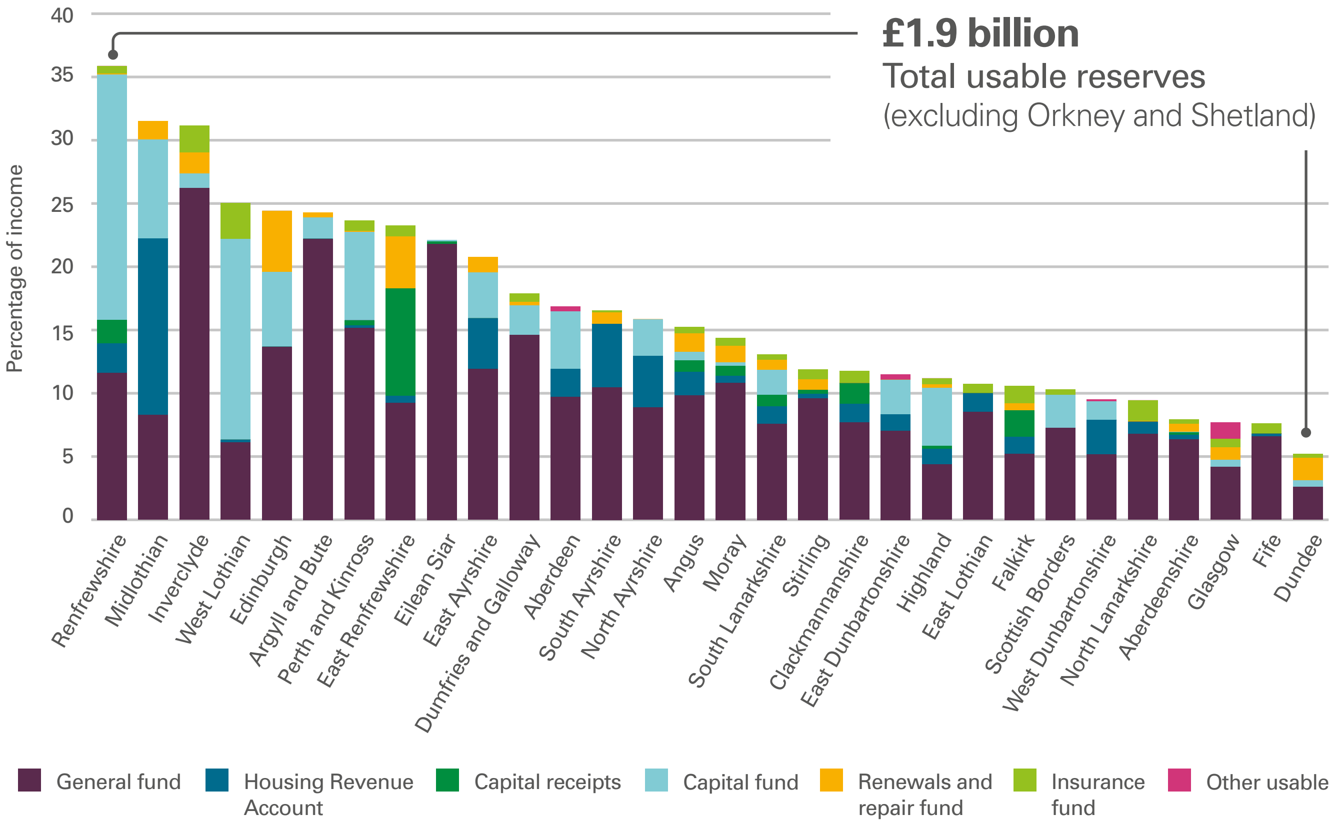
46. There is no prescribed minimal level of usable reserves. Typically councils' policies are to have a minimum uncommitted General Fund balance of between two and four per cent. Councils need to be clear about the reasons for the levels of reserves they hold to mitigate risks and support medium-term financial plans.

What is your councils reserves policy?

Exhibit 13

Council usable reserves at 31 March 2017

There are wide variations in the level of reserves as a proportion of income from general revenue grant, taxation and housing rents.



Note: Orkney and Shetland councils have reserves far in excess of those held by other councils and are excluded. We explain why this is the case in paragraph 9.

Source: Annual accounts 2016/17

47. At the end of their first full operational year, IJBs held usable reserves of £96 million, representing about 1.2 per cent of their total income of £8 billion in 2016/17. Reserves vary across IJBs. Not all integration schemes permit IJBs to hold reserves. Only North Ayrshire Council recorded an overspend. This was largely due to spending on social care services (Exhibit 14, page 27).

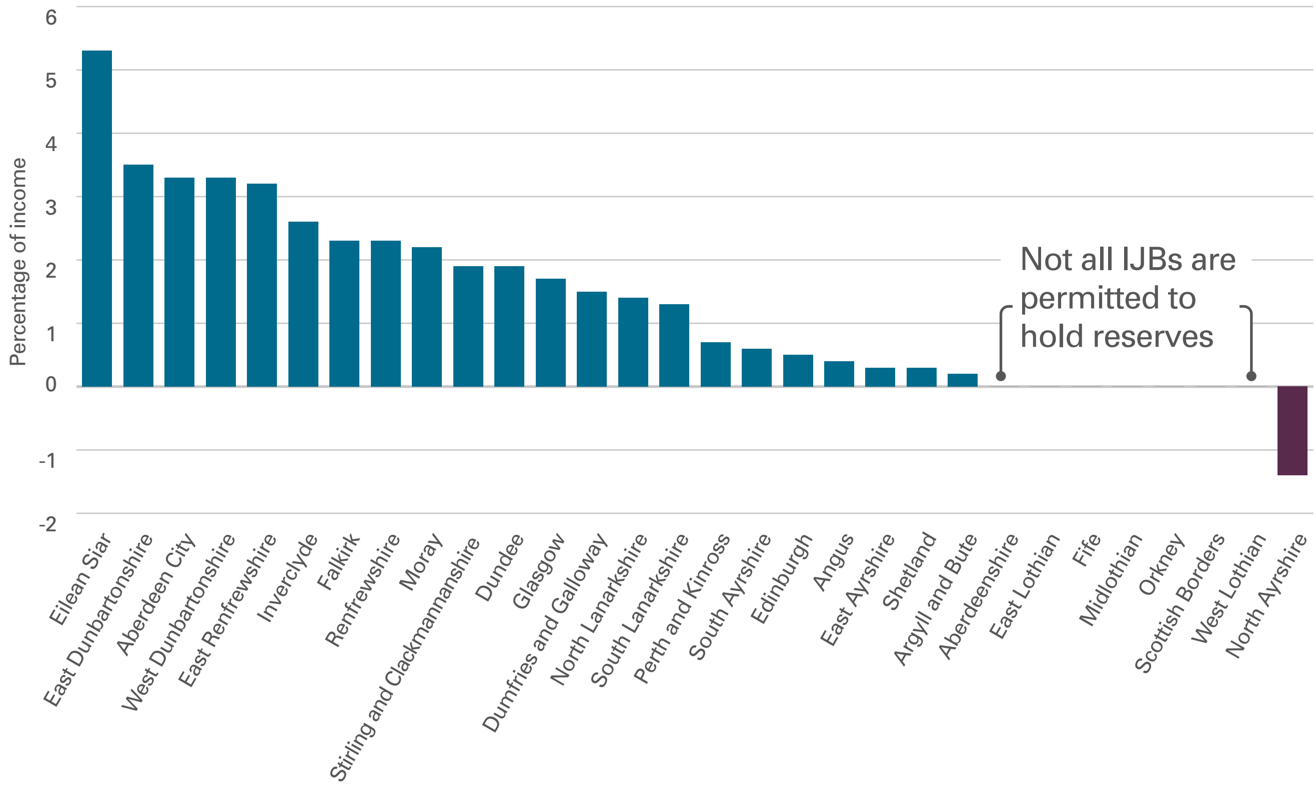
48. It is not clear from the accounts of IJBs to what extent reserves have been built up in a planned way, have arisen as a result of underspends on IJB activities or have been earmarked for transformation activity. There is a lot of pressure on the budgets of IJBs and reserves at the end of 2016/17 are not forecast to continue in future years. Further analysis of IJB accounts will help inform specific audit work on IJBs being carried out in 2018.

What are the different types of reserves your council holds? Do you know what these can be spent on?

Exhibit 14

IJB usable reserves as a proportion of 2016/17 income

Reserves vary across IJBs.



Note: Stirling Council and Clackmannanshire Council are members of the same IJB.

Source: Annual accounts 2016/17

Levels of debt have increased and some councils are concerned about future affordability

49. Following two years of reducing debt, councils' net debt increased in 2016/17 from £13.7 billion to £14.5 billion (excluding Orkney and Shetland). The increase in borrowing was lower than that originally planned when capital programmes were approved. This was primarily due to slippage in delivering capital programmes.

50. As with reserves, levels of debt vary widely across councils (Exhibit 15, page 28). 2016/17 saw an increase in the HRA borrowing requirement of about £140 million, with the 26 councils who provide social housing being actively involved in new council housing development. Collectively they plan to deliver about 13,000 homes by 2020/21. The cost of servicing additional HRA debt will be met from rental income.

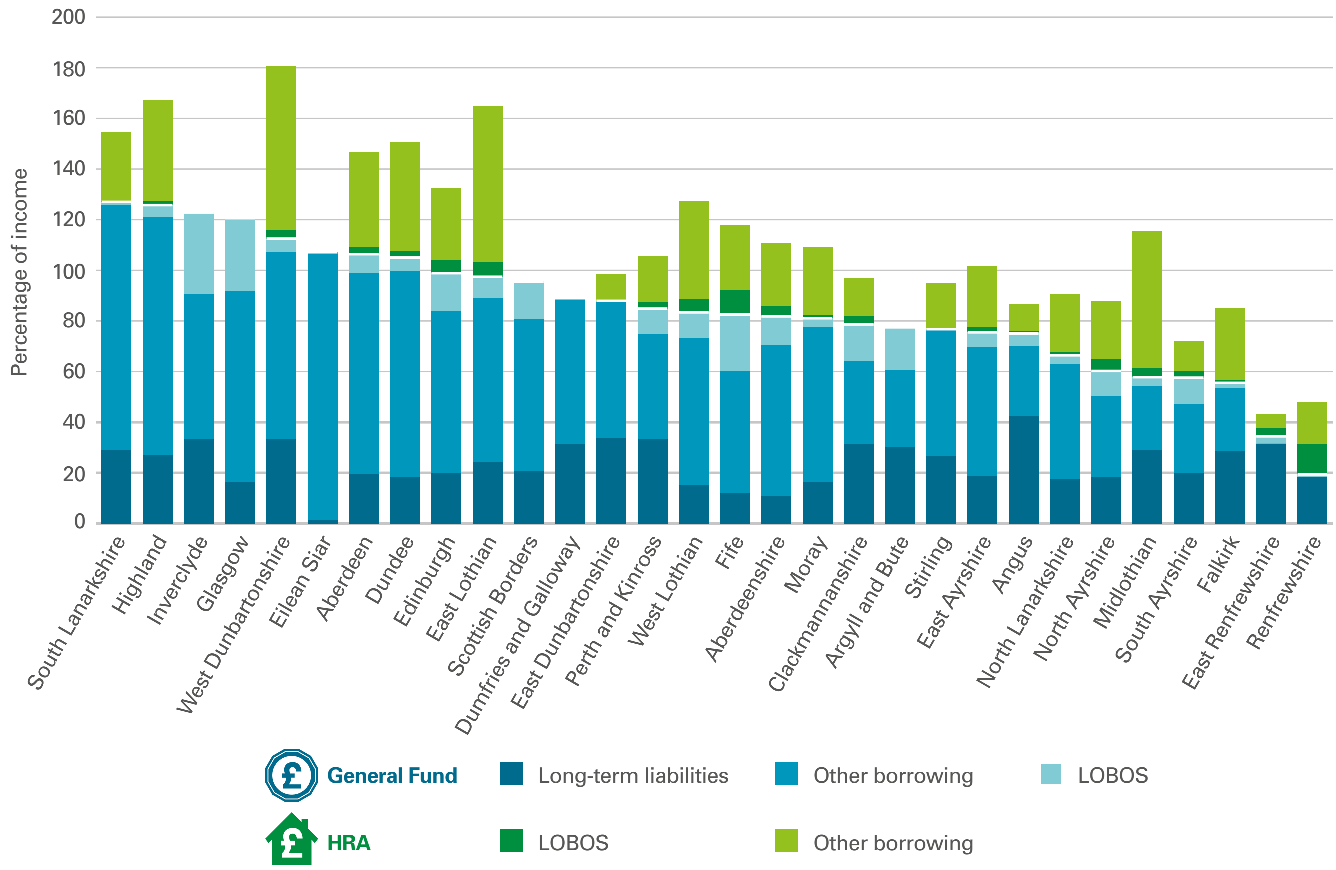
51. The ongoing costs associated with debt reduces the amount councils have available for day-to-day service expenditure. It is therefore important that assets are effectively supporting service delivery and strategic priorities. Higher levels of debt often result in higher costs for councils but actual interest and repayment costs will depend on the type of debt councils hold and the period over which it has to be repaid.

What are the levels of reserves held by your council's IJB? Are these in line with the IJB's reserve policy?

Exhibit 15

Council net external debt at 31 March 2017

Levels of debt held vary across councils as a proportion of income from general revenue grant, taxation and housing rents.



Note: Council debt has been allocated to General Fund and HRA in proportion to capital financing requirements.

Source: Annual accounts 2016/17

52. Despite debt increasing, the ongoing cost of servicing it, through the interest and repayment costs, reduced slightly in 2016/17. This in part reflects the lower interest rates available on new borrowing. It also reflects councils choosing to make lower voluntary debt repayments. On average, councils spent almost ten per cent of their income on interest and debt repayment (Exhibit 16, page 29).

53. Councils are required by regulation to consider the revenue impact of borrowing, ie its ongoing affordability. A large part of council debt has fixed interest rates which gives councils certainty about costs. However, this type of debt makes councils' assessment of longer term affordability more complex, requiring more detailed assumptions of future inflation and interest rates:

What share of your council's budget is taken up with interest payments and debt repayment?

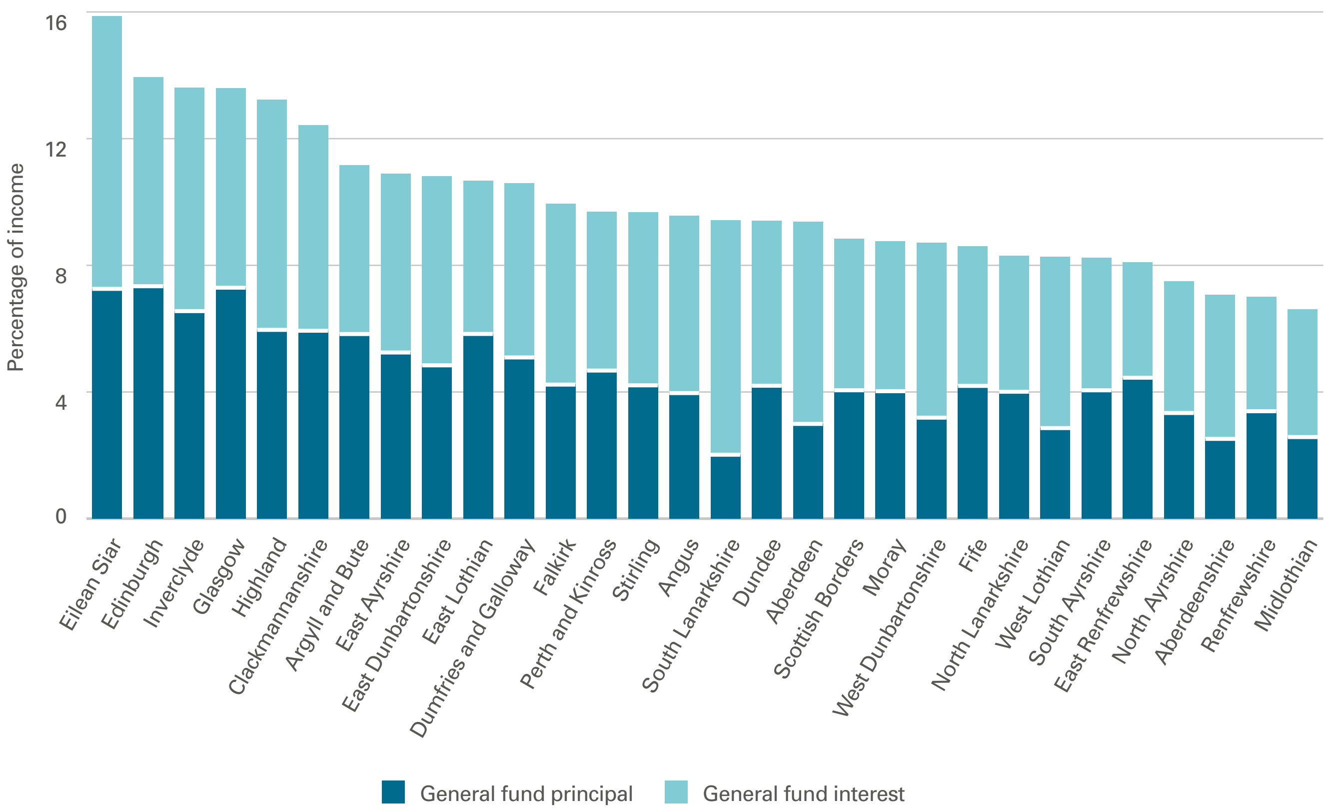
- 'Lender option borrower option' loans (LOBOs) include options for the lender to increase interest rates. LOBOs account for about 11 per cent of council debt.
- PPP/PFI and indexed linked bonds include charges that increase with inflation. Projects financed using the Scottish Government's Non-Profit Distributing (NPD) programme (which replaced the previous long standing PPP/PFI programmes) also include an element of indexation but typically at lower levels. The value for money of newer NPD projects will be examined in detail in a joint report by the Auditor General and the Accounts Commission in 2019/20.

What proportion of your council's debt is linked to inflation (ie, subject to indexation)? What does that mean for longer term affordability?

Exhibit 16

Revenue cost of General Fund borrowing, 2016/17

Costs associated with debt vary across councils as a proportion of income from general revenue grants and taxation.



Source: Annual accounts 2016/17

54. Levels of debt and associated costs are set to rise in future. This is because councils have invested usable reserves in their capital programmes, something referred to as 'internal borrowing'. At the end of 2016/17 the amount of 'internal borrowing' was about £0.5 billion. Internal borrowing is usual treasury management practice for councils during periods when they would make a lower return from investing their usable reserves than it would cost them to borrow money. However, as councils increasingly rely on reserves to fund services they will need to replace internal borrowing with external borrowing, increasing their costs.

Councils continue to report significant slippage in delivering capital programmes

55. Councils spent £2.8 billion on capital projects in 2016/17, 84 per cent of their planned expenditure of £3.3 billion. Twenty-four out of 32 councils underspent against their capital budgets in both 2015/16 and 2016/17.

56. The reasons for slippage in delivering capital programmes are unclear. Management commentaries for the councils recording the largest slippage give reasons such as changes to project start dates, and one council identified weaknesses in the forward planning process. However, the consistent levels of capital slippage across the country suggest that councils are setting unrealistic budgets.

Has non delivery of the capital programme (ie, slippage) been significant at your council in recent years? Why?

57. In our 2013 report *Major capital investments in councils* we noted 'that for most major projects completed within the previous three years, councils' early estimates of the expected costs and timetable were inaccurate, and recommended that better information was made publicly available'.[7] Our follow-up report in 2016 suggested councils had made limited progress on this recommendation.[8] Data for 2016/17 shows that councils still need to improve in this area.

Net pension liabilities increased for councils despite large increases in pension fund assets

58. Overall, net pension liabilities on council balance sheets were approximately £11.5 billion at the end of 2016/17, an increase of 51 per cent on the previous year. This increase was mainly due to a change in actuarial assumptions used to value future liabilities. It was a good year for Local Government Pension Scheme (LGPS) investments, which increased by almost 22 per cent.

59. Not all council pension liabilities are the responsibility of the LGPS fund. Where councils have awarded added-year pension benefits as part of severance arrangements, for both teachers and other staff, they have to meet the ongoing cost of pensions themselves. This also helps explain why the increase in council liabilities outstripped investment returns. These liabilities are not matched with any pension fund assets.

Do you know the implications of your council's pension liabilities of staff retiring early?

60. Public service pension scheme benefits have been reduced on a number of occasions to make the schemes more affordable. However, pension contributions have been a significant cost pressure for councils in recent years. The need for any increase in employer contributions will be determined through the results of the 2017 triennial funding valuation. The LGPS 2015 includes a cost-sharing mechanism that will limit any future increase for employers. A supplement on the Local Government Pension Scheme is available on our website.

Provisions and contingent liabilities can be difficult to quantify and should be kept under review

61. Where councils have a known obligation and they can quantify the cost, they are required to make a provision in their accounts. Councils held provisions of £132 million at the end of 2016/17 covering areas such as equal pay compensation claims, teachers' maternity pay, holiday pay, insurance claims and landfill site reinstatement.[9]

62. Councils are also required to disclose potential liabilities that are still contingent on future events or which cannot be quantified reliably. Fourteen councils are disclosing contingent liabilities for equal pay claims that they are defending. Other contingent liabilities identified by a number of councils include those relating to holiday pay claims and potential claims arising as a result of changes to the legislation around historic child abuse.

Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures

63. Councils have had to make difficult decisions in recent years in the light of falling resources and increasing demand for services. Councils that have a track record of effective leadership, self-evaluation, robustly addressing the financial challenges, and are implementing effective medium to long-term strategies and plans, will be in a better place than those that have avoided difficult decisions or not applied sufficient pace to making changes. That is not to say that the challenges faced by councils have necessarily been uniform. Differences in the resources available to them, the demand for services and the costs councils face as a result of their size and remoteness can also impact on their financial position (Exhibit 17, page 32).

64. The effectiveness of council leadership will be tested further in the years ahead given the increasing demand for services and likely funding scenarios that the public sector faces. Decisions made as part of budget-setting for 2017/18 together with the financial outlook are considered in Part 1 (page 10).

Exhibit 17
Main determinants of a council's financial position
There are number of factors that affect a councils financial position.

Source: Audit Scotland

Part 3

Financial outlook

Key messages

1 The financial outlook for councils remains challenging with further real-terms reductions in funding and a range of cost and demand pressures on budgets.

2 In total councils approved £317 million of savings and the use of £105 million of reserves when setting budgets for 2017/18.

3 Some councils relying heavily on the use of reserves to fund services will need to take remedial action or they will run out of General Fund reserves within two to three years.

4 Robust medium-term financial strategies and savings plans are increasingly critical to the financial sustainability of councils.

5 Strong leadership is increasingly important and it is essential that councillors work effectively with officers, their partners and other stakeholders to identify and deliver necessary savings. It is important that councils engage with local communities when planning and delivering services and identifying savings.

the financial outlook for councils remains challenging

Council funding continues to fall as cost pressures increase

Scottish Government funding fell again in real terms for 2017/18

65. Councils received a further real-terms reduction of 2.3 per cent in their funding from the Scottish Government for 2017/18, reflecting the overall trend and direction of travel (Exhibit 18, page 34).

66. Councils' funding continues to include money targeted at delivering national policy commitments that restricts the overall flexibility in their budget setting. In 2017/18, this included £120 million provided for the school attainment fund and £88 million for maintaining pupil teacher ratios and for the teachers' induction scheme.

?

How is your council preparing for any further real terms reduction in Scottish Government funding?

Exhibit 18
Scottish Government revenue funding to councils
Local government funding fell in real terms in 2017/18 compared to 2016/17.

	2017-18 £000	Change on 2016-17 %
Cash terms		
NDR	2,666	-3.7 ▼
Revenue Grant	6,974	0.5
Total revenue funding	**9,639**	**-0.7** ▼
Additional resource via IJBs	357	
	9,996	**0.4** ▼
Real terms – 2016/17 prices		
NDR	2,623	-5.3 ▼
Revenue Grant	6,862	-1.1 ▼
Total revenue funding	**9,485**	**-2.3** ▼
Additional resource via IJBs	351	
	9,836	**-1.2** ▼

Source: Scottish Government Finance Circular 1/2017

Reductions in Scottish Government funding were only partly offset by the end of the council tax freeze

67. The council tax freeze ended in 2017/18. Twenty-four councils chose to increase council tax, with 21 approving the maximum three per cent permitted. Fourteen councils chose to remove the ten per cent discount on second homes, another option for increasing revenue. For some councils, additional income from second homes is not significant.

68. There were reforms to council tax banding multipliers for 2017/18 that resulted in a further £110 million of council tax due across the 32 councils. This will be available in full as additional income to be spent in the local authority area it is collected. Exhibit 19 (page 35) shows the additional income councils are due from council tax in 2017/18.

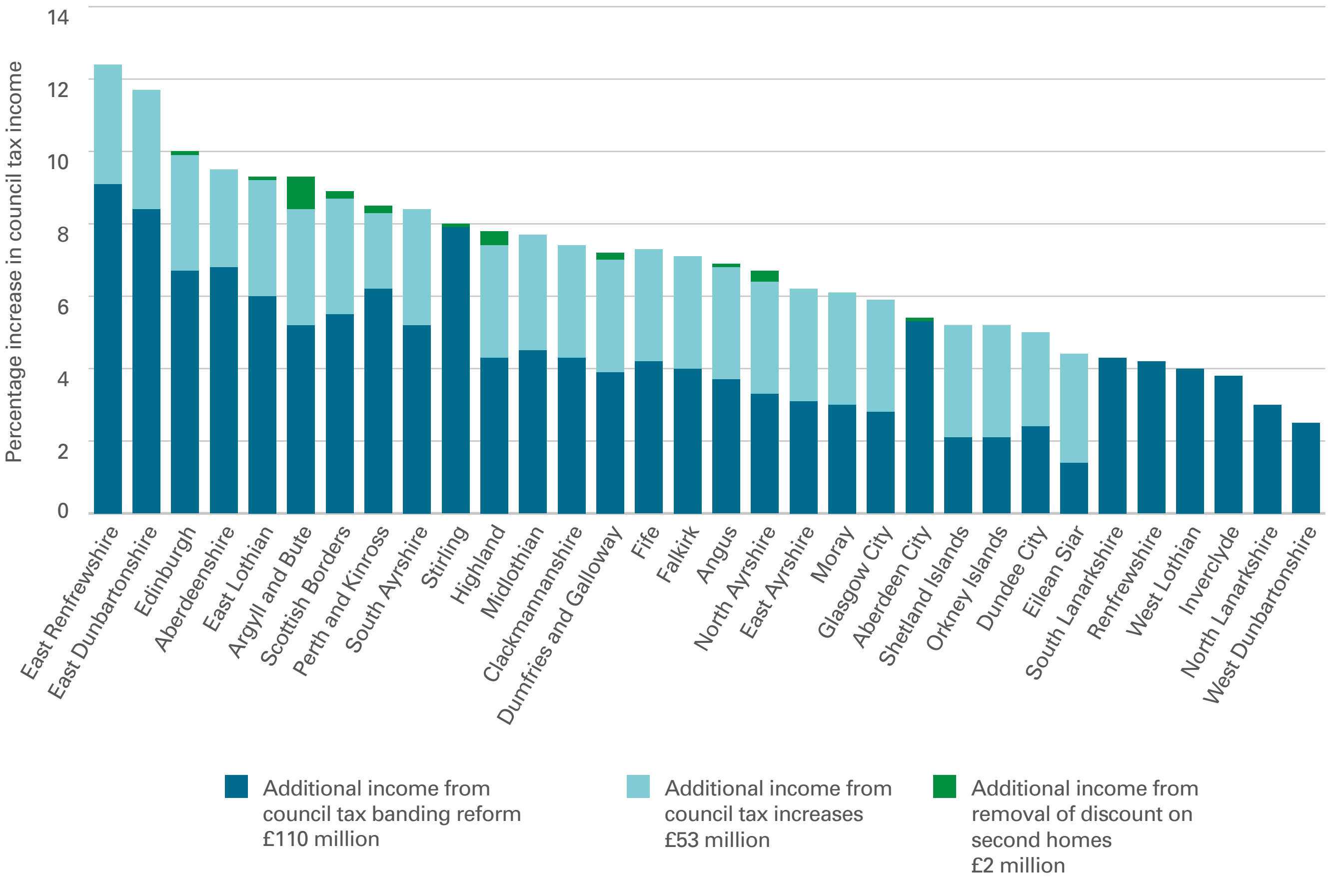
?

If your council plans to raise council tax, do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?

Exhibit 19

Increase in council tax by council, 2017/18

Council tax in 2017/18 has risen as a result of reforms and the end of the council tax freeze.



Note: Council tax due before any discounts are applied.

Source: Scottish Government Finance Circular 1/2017, Council tax banding information and SPICe

Delivering savings is critical for councils' financial sustainability

Councils approved savings of £317 million and the use of £105 million of reserves when setting budgets for 2017/18

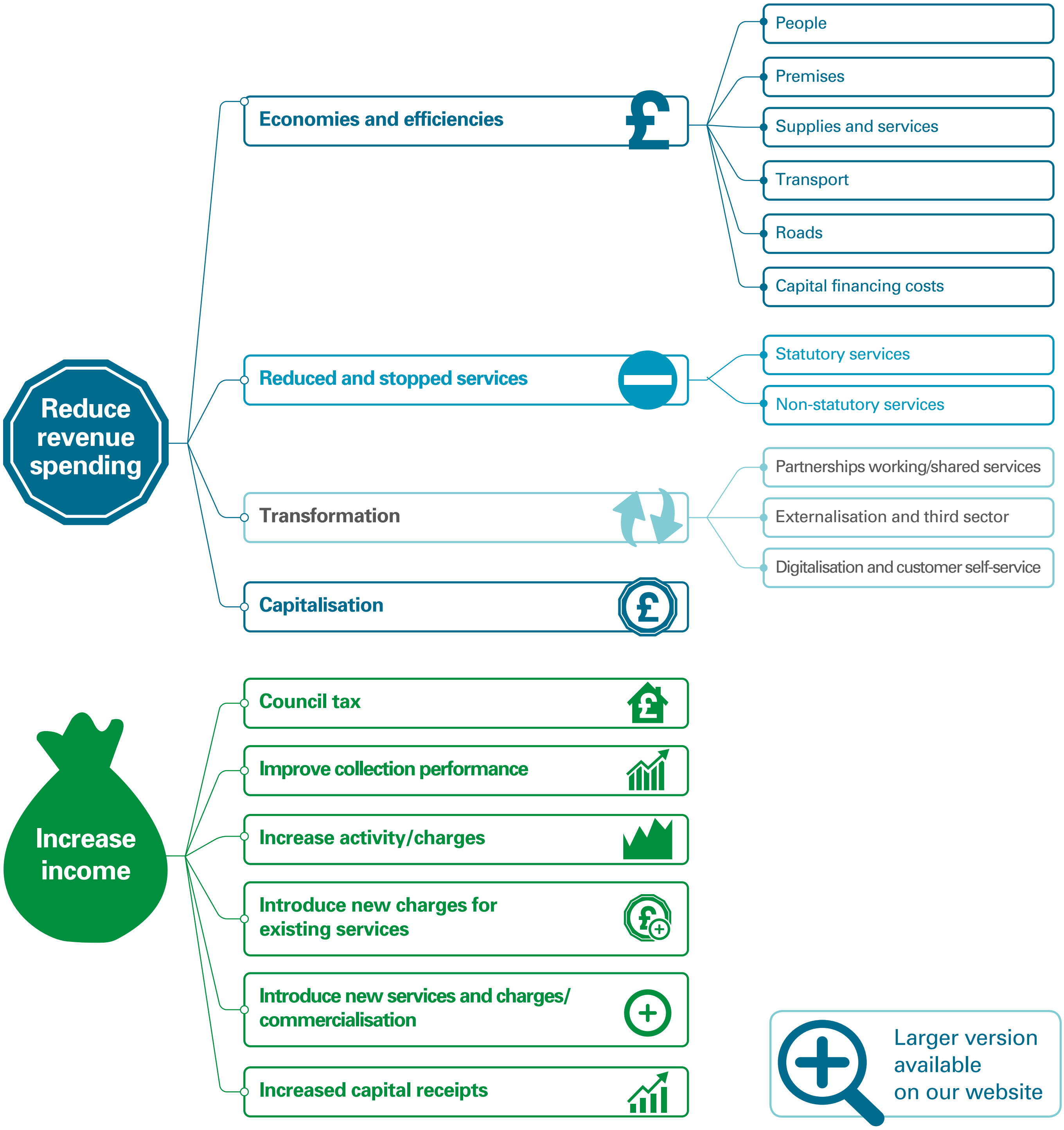
69. When setting budgets for 2017/18, councils had to take into account a number of new cost pressures, including:

- the introduction of the apprenticeship levy of 0.5 per cent of pay bills above £3 million
- the requirement to meet the first full year effect of the living wage
- meeting HMRC guidelines on paying the national minimum wage for care workers when sleeping over
- non-domestic rates (NDR) revaluation.

70. In balancing funding reductions and cost pressures, councils' 2017/18 budgets included approved savings of £317 million and the use of £105 million of General Fund reserves. Common measures taken by councils to close their funding gaps in 2017/18 are set out in Exhibit 20. Not all initiatives to reduce expenditure are savings, some simply deferred expenditure by moving it from revenue to capital.

Does your council have a savings plan? What are the options to close future funding gaps?

Exhibit 20
Measures taken by councils to close their funding gaps in 2017/18



Larger version available on our website

Source: Audit Scotland, analysis of budget setting reports 2017/18

What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?

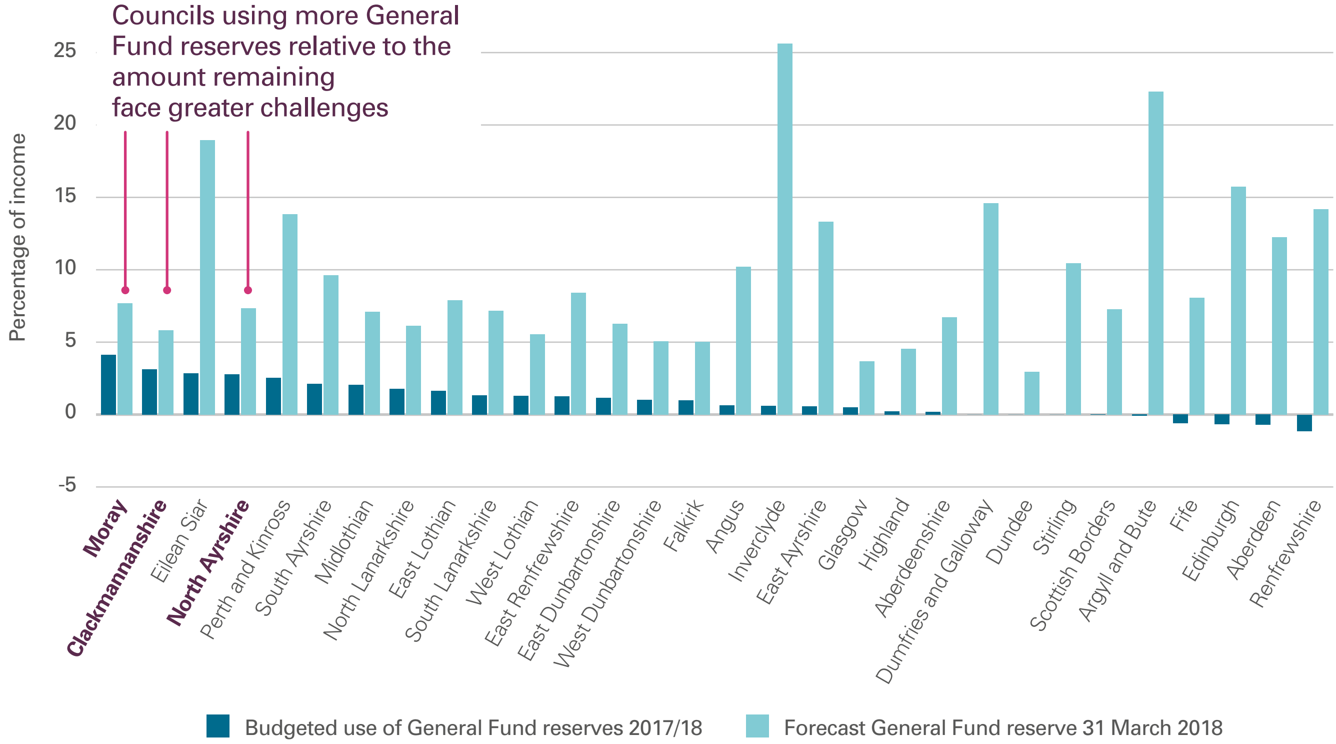
Some councils will need to take remedial action or they will run out of General Fund reserves within two to three years

71. Some councils' plans for 2017/18 have relied more heavily than others on using reserves to bridge funding gaps. A number of these councils could have relatively low levels of General Fund reserves remaining at the end of the year (Exhibit 21).

Exhibit 21

Budgeted use and remaining levels of General Fund reserves, 2017/18

Two-thirds of councils budgeted to use reserves in 2017/18.



Source: Annual accounts and auditor funding gap returns 2017

72. Councils using reserves to support services in 2017/18 will be faced with having to identify larger savings in 2018/19 or again using reserves. However, using General Fund reserves at the current rate is not an option for some councils – Clackmannanshire, Moray and North Ayrshire councils would run out of General Fund reserves within two to three years if they continued to use them at the level planned for 2017/18.

What is your council's financial position? What particular challenges does it face?

73. Forecasts made by councils when setting their budgets for 2017/18 indicated the overall local government funding gap would increase to about £350 million in 2018/19 and to about £650 million in 2019/20.[10]

74. Since setting 2017/18 budgets, councils will have changed their plans for the current year and updated their forecast funding gaps for 2018/19 and beyond. A number of factors have created further potential pressures and uncertainties, for example:

- ongoing demand pressures from people living longer and population growth
- ongoing cost pressures from general inflation

- increased staffing costs from staff moving up pay scales, proposals to end the public sector pay cap and potential increases in employers' pension contributions following the LGPS triennial funding valuation
- income and rent collection potentially becoming more difficult and costly as a result of increased charges and the continued roll-out of Universal Credit
- interest rate rises
- the potential impact from changes to NDR (as outlined in Exhibit 22)
- potential impacts from the process of withdrawal from the European Union.

Exhibit 22

Barclay review of non-domestic rates (NDR) 2017

The Barclay review recommended removing NDR relief for councils' ALEOs.

Councils collect NDR and pay this into a central pool, which is redistributed back to councils by the Scottish Government.

The Government established the Barclay review group in 2016 to make recommendations that would 'enhance and reform' NDR in Scotland. The review aimed to:

- better support business growth and long-term investment
- reflect changing marketplaces
- retain the same level of income (recommendations would be 'revenue neutral').

The review concluded that some form of NDR was still appropriate. The recommendations in the report focused on measures to support economic growth, improve how the system is administered and increase fairness in the system.

In seeking increased fairness, the review recommended that councils' NDR relief for ALEOs should be removed. The review recommended that legislation be changed to remove relief for ALEOs and, in the interim, that the Scottish Government should adjust its funding to recoup an estimated £45 million of ALEO funding from councils. The review recommended this is applied from April 2018.

The Scottish Government has accepted many of the points of the Barclay review, but the recommendation around ALEOs is still being considered. The Accounts Commission will examine ALEOs in more detail in a report to be published in May 2018.

Source: Report of the Barclay Review of Non-Domestic Rates, August 2017

75. Uncertainty means that councils need to prepare for a range of possible scenarios both in terms of costs and funding and different savings options available to them. For example, if councils were to apply a further three per cent increase in council tax in 2018/19 this would raise about £68 million in additional income. In contrast, applying a one per cent increase to staff salaries would cost about £70 million. Even a small proportional increase above this as a result of lifting the public sector pay cap would have further significant costs. Exhibit 23 shows the overall impact of various income and expenditure scenarios on the size of the total funding gap across councils for 2018/19.

Exhibit 23

Council funding gaps scenarios, 2018/19

In the absence of further savings, councils would use around £343 million in 2018/19 if expenditure were to increase by 0.5 per cent and income decrease by 1.5 per cent.

Forecast change to expenditure

Funding gap – £million

Forecast change to income	0%	0.5% ▲	1% ▲	1.5% ▲	2% ▲	2.5% ▲	3.5% ▲
2.5% ▲	£192	£132	£72	£12	-£48	-£107	-£229
2% ▲	£133	£73	£13	-£47	-£107	-£167	-£288
1.5% ▲	£73	£13	-£46	-£106	-£166	-£226	-£348
1% ▲	£14	-£46	-£106	-£166	-£226	-£285	-£407
0.5% ▲	-£45	-£105	-£165	-£225	-£285	-£345	-£466
0%	-£105	-£165	-£225	-£284	-£344	-£404	-£526
-0.5% ▼	-£164	-£224	-£284	-£344	-£404	-£463	-£585
-1% ▼	-£223	-£283	-£343	-£403	-£463	-£523	-£644
-1.5% ▼	-£283	-£343	-£403	-£462	-£522	-£582	-£704
-2% ▼	-£3[illegible]	[illegible]	[illegible]	-£522	-£582	-£641	-£763
-2.5% ▼	-£4[illegible]	[illegible]	[illegible]	-£581	-£641	-£701	-£822

1.5% reduction in income
+
0.5% increase in expenditure
=
increase funding gap to **£343m** in 2018/19

Source: Audit Scotland funding gap returns

Savings plans should be scrutinised and the impact assessed

76. CIPFA's report on building financial resilience and managing financial stress in local authorities highlighted the importance of planning for savings over at least a three-year period, and the need for robust challenging of plans as part of the scrutiny process.[11] In previous reports, the Accounts Commission has highlighted the need for councils to adopt this practice.

77. Regular updates on forecasts of funding gaps as savings are approved enable councillors to better understand the impact of the savings decisions they are making. However, currently only about half of councils routinely update their three-year financial forecasts as part of their annual budget-setting process.

78. To achieve effective financial management, long-term planning is essential. It is important that councils continue to consider likely funding scenarios and what this means for council services in the longer term as well as the medium term. For councils with lower levels of reserves, financial plans need to be increasingly detailed and robust. This will mean more work for officers and members in clearly identifying savings and assuring themselves that they have the capacity to deliver their intended plans.

79. It is important that savings plans are clear and that the impact on services is understood. Savings should be realistic and achievable. Where funding reductions are passed on to other bodies, such as ALEOs and IJBs, by reducing council contributions to them, it is equally important to assess the impact on service users and communities. Risks associated with income generation initiatives or arising from cuts to services should be explicit and considered by councillors as part of their scrutiny role.

80. Medium-term financial strategies should ensure that both revenue and capital budgets are aligned with corporate plans and that the revenue impact of capital expenditure is understood. Savings from service redesign and other initiatives need to be monitored effectively to ensure that plans and strategies continue to be relevant and accurate.

Does your council have a medium term financial strategy aligned with corporate objectives?

How does annual budget setting link to medium term financial planning?

What impact will savings have on the delivery of services? What are the potential risks?

Longer-term affordability of capital programmes should be kept under review

81. Council capital programmes for 2017/18 are broadly in line with those for 2016/17, with General Fund budgets at about £2.6 billion and HRA budgets at about £800 million.

82. Councils are required to consider the affordability of their capital programmes and any new borrowing before approving them each year. Assessments will include consideration of:

- existing debt levels and servicing costs and how these may increase
- capital reserves available
- impact on running costs, eg reduced overall running costs arising from invest to save initiatives
- additional income streams that can be used to service borrowing

How clearly does the council's capital programme link with the asset management plan and corporate objectives?

- additional funding available, eg Scottish Government funding for NPD projects, additional capital grants in respect of the City Deals (a recent initiative backed by UK and Scottish governments).

83. As revenue resources reduce, and the cost of some debt increases, it is becoming increasingly important for councils to keep the longer-term affordability of their borrowing under review. The need for robust business cases setting out how new capital expenditure will support corporate objectives is key. Capital finance and treasury management are areas covered by regulation and where councils also take professional advice. A key treasury management issue facing councils is the risk around interest rate rises, which makes decisions about the timing of borrowing important. If councils borrow in advance of their need they will incur additional interest costs in the short term. However, if the interest rates go up before councils borrow then they will be faced with paying higher interest rates for the term of any new borrowing. Recently a number of councils have been turning to short-term borrowing to keep their interest costs down but this strategy is not without risk and it is important that councils are clear about these in their plans and reports.

Effective leadership is increasingly important in maintaining financial sustainability

84. The Accounts Commission recognises that the financial challenges facing councils will inevitably mean councillors need to make difficult choices and take decisions that may not sit neatly with the manifestos they were elected on in May 2017. This requires effective political leadership and effective communications. It is essential that councillors work effectively with officers, council partners and other stakeholders to identify and deliver necessary savings. It is important that councils engage with local communities when planning and delivering services and identifying savings. We published a report *Roles and working relationships in councils – Are you still getting it right?* (November 2016) to support councillors in their difficult and challenging role.

What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?

Addressing the underlying demand for services through transformation is key to longer-term sustainability

85. Given the scale of the challenge facing councils, we are of the view that the sustainability of some services will be increasingly dependent on the ability of councils and their partners to address the underlying demand for them. With health and social care integration, for example, much depends on the extent to which resources can be switched from treatment to prevention. Council transformation programmes need to identify and deliver changes of this nature over the longer term. It is important that councils give careful consideration to their capacity to support such change when making savings as part of budget setting.

86. The extent to which council transformation plans are delivering real changes to the way services are being delivered will be explored further in the second of our local government overview reports planned for publication in April 2018.

What measures in the council's corporate and transformational plans are aimed at addressing the underlying demand for services?

Endnotes

1 We published the first of three planned audits on health and social care integration in 2015: *Health and social care integration*, December 2015. Our next national audit in this area will be carried out in 2018/19. Annual audit plans and reports for each IJB are also published on Audit Scotland's website.

2 This excludes income received from arm's-length external organisation (ALEOs) providing services such as leisure services on behalf of the council.

3 *Fiscal issues facing Local Government in Scotland*, Fraser of Allander Institute, March 2017.

4 East Lothian Council, Highland Council (Inverness Jobcentre only), East Dunbartonshire, Midlothian Council and Inverclyde Council (no council stock – therefore no arrears).

5 ALEOs are separate bodies councils create to deliver services that they previously delivered in house.

6 *Building financial resilience: managing financial stress in local authorities*, CIPFA, June 2017.

7 *Major capital investment in councils*, Accounts Commission, March 2013.

8 *Major capital investment in councils: follow-up*, Accounts Commission, January 2016.

9 For more detail on councils' implementation of equal pay, see the Accounts Commission's *Equal pay in Scottish councils* report.

10 This forecast is based on the average of available forecasts.

11 *Building financial resilience: managing financial stress in local authorities*, CIPFA, June 2017.

Local government in Scotland

Financial overview 2016/17

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ARGYLL AND BUTE COUNCIL **AUDIT & SCRUTINY COMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

1. INTRODUCTION

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Strategy to be approved by Council for the forthcoming financial year. This approval was obtained at the full Council meeting held on 22 February 2018. This report is to provide the Treasury Management Strategy Statement and Investment Strategy to the Audit and Scrutiny Committee for scrutiny.

1.2 If the Audit and Scrutiny Committee identify any recommendations in relation to the strategy these will be presented to full Council on 26 April, for approval.

1.3 The Council uses Link Asset Services (previously known as Capita) as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. RECOMMENDATION

2.1 Members are requested to:

a) Endorse the approved Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within.

b) Note the use of Option 1 (statutory method) for the repayment of loan fund advances in respect of existing capital expenditure and new advances up to 31 March 2021 at an interest rate of 4.423%, with the exception of spend to save schemes where Option 4 (funding/income profile method) will be used.

c) Note the ability to continue to use countries with a sovereign rating of AA- and above, as recommended by Link Asset Services.

3 DETAIL

3.1 The Council uses Link Asset Services (previously known as Capita) as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

3.2 Section 2 of the attached document outlines the Council's Capital Prudential and Treasury Indicators and Members are asked to approve the indicators.

3.3 Section 2.5 notes that in 2016 new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

3.4 A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve Option 1 and Option 4 from the options for the repayment of loans fund advances. Detail and implications on each option are outlined within the table below.

Option	Description	Implications
Option 1 – Statutory Method	Loans fund advances will be repaid in equal instalments of principal by the annuity method. The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile	This is the current method for repaying advances and is the most predictable for setting budgets.
Option 2 – Depreciation Method	annual repayment of loans fund advances will follow standard depreciation accounting procedures	The repayments are matched to the depreciation charges which means that if the asset was impaired the Council would need to repay an equivalent amount of the outstanding debt, rather than continuing with the scheduled repayments.
Option 3 – Asset life method	Loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method	Similar to the depreciation method if the asset life was shortened then the payments would need to be accelerated
Option 4 – Funding/Income profile method	loans fund advances will be repaid by reference to an associated income stream	Under this methodology the repayment of debt is matched to the income

		stream from the asset which is suited to spend to save scheme and assets which generate income which is being used to repay the debt outstanding.

3.5 Section 3 of the document outlines the current actual external debt against the capital financing requirement highlighting any over or under borrowing. There is information on the interest rates projections and the borrowing strategy.

3.6 Section 4 of the document outlines the annual investment strategy. The Council's investment priorities will be security first, liquidity second and then return. It explains MiFID II that became effective on 3 January 2018 and explains the creditworthiness policy and the use of Link Asset Services in this respect as well as the Country and Sector limits.

3.7 There are a number of appendices in Section 5. Some of this information has been provided by our Treasury advisors, Link Asset Services.

4. IMPLICATIONS

4.1 Policy – Sets the policy for borrowing and investment decisions.

4.2 Financial - There are no direct financial implications arising from the recommendations in this report. An effective Treasury Management Strategy does however forms a significant part of the Council's financial arrangements and its financial well-being.

4.3 Legal - None.

4.4 HR - None.

4.5 Equalities - None.

4.6 Risk - This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

4.7 Customer Service - None.

Kirsty Flanagan
Head of Strategic Finance
20 March 2018

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

APPENDICES
Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2018-19

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Treasury Management Strategy Statement

and Annual Investment Strategy 2018-2019

INDEX

1 INTRODUCTION

1.1 Background

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

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

CIPFA defines treasury management as:

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

1.2 Reporting requirements

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

An annual Treasury Management Strategy Statement (this report) – this is the first and most important report which is submitted to full Council before the start of the financial year. It covers:
- The capital plans (including prudential indicators)
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An investment strategy (the parameters on how investments are be to managed).

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

An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:

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

The aim of this report is to ensure that all elected Members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

- the capital plans and the prudential indicators.

Treasury management issues

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

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

1.4 Training

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

1.5 Treasury management advisors

The Council uses Link Asset Services (perviously known as Capita) as its external treasury management advisors.

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

The Council also recognises their responsibility for treasury management decisions and will ensure that undue reliance is not placed upon our external service providers.

2 CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2020/21

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the 2018/19 budget setting.

The table below summarises the capital expenditure plans as outlined within the proposed capital plan 2018-20.

Capital Expenditure £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Community Services	0	17,860	5,403	1,927	0
Argyll and Bute HSCP	0	901	354	0	0
Customer Services	13,613	5,884	1,309	1,687	0
Development and Infrastructure Services	12,248	33,747	10,122	9,590	14,884
Live Argyll	0	1,207	98	0	0
Unallocated Capital	1,200	0	0	0	13,000
Total	**27,061**	**59,599**	**17,286**	**13,204**	**27,884**

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

Capital Expenditure £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total Capital Expenditure	27,061	59,599	17,286	13,204	27,884
Financed by:					
Capital Receipts	1,830	6,182	3,100	250	0
Capital Grants	11,375	13,938	12,024	14,564	18,000
Capital Reserves					
Revenue	229	12,329	2,721	6,274	0
Net Financing need for the year	**13,627**	**27,150**	**-559**	**-7,884**	**9,884**

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

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

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

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £74m of such schemes within the CFR.

The CFR projections are noted in the table below.

£'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement					
Opening CFR	253,896	253,483	318,341	307,709	289,725
Closing CFR	253,483	318,341	307,709	289,725	289,383
Movement in CFR	**-413**	**64,858**	**-10,632**	**-17,984**	**-342**
Movement in CFR represented by					
Net financing need for the year (above)	13,627	77,150	-559	-7,884	9,884
Less scheduled debt Amortisation	14,040	12,292	10,073	10,100	10,226
Movement in CFR	**-413**	**64,858**	**-10,632**	**-17,984**	**-342**

2.3 Core funds and expected investment balances

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

Year End Resources £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Expected Investments	**63,722**	**60,000**	**50,000**	**40,000**	**30,000**

2.4 Limits to Borrowing Indicators

Operational Boundary: The operational boundary is the expected maximum borrowing position of the Council during the year, taking into account the timing of various funding streams and the recharge of principal repayments from the revenue account. Periods where the actual position varies from the boundary are acceptable subject to the authorised limit not being breached.

Operational Boundry £'m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	179	203	194	173	172
Other long term liabilities	80	130	128	126	124
Total	**259**	**333**	**322**	**299**	**296**

Authorised Limit: The authorised limit represents a limit beyond which external debt is prohibited. This limit is set by Council. It reflects the level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised Limit £'m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	184	208	199	178	177
Other long term liabilities	83	133	131	129	127
Total	**267**	**341**	**330**	**307**	**304**

2.5 Statutory repayment of loans fund advances

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

A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:

For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method**, with all loans fund advances being repaid in equal instalments of principal/ by the annuity method.

For loans fund advances made after 1 April 2016, the policy for the repayment of loans advances will be either the:

1. **Statutory method** – loans fund advances will be repaid in equal instalments of principal by the annuity method (up to 31 March 2021).

The Council is permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile; or

2. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (after 31 March 2021).

The annuity rate applied to the loans fund repayments was based on historic interest rates and is currently 4.423%. However, under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application. The result of this review suggests that a revised annuity rate of 4.423% is still applicable.

2.6 Affordability prudential indicators

These prudential indicators assess the affordability of the capital investment plans and provide an indication of the impact of capital investment plans on the Council's overall finances. The cost impact of borrowing decisions are reflected in the Council's loan charges.

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term liabilities net of investment income) against the net revenue stream. The estimates of the financing costs include current commitments and those arising from the capital programme.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratio	7.66%	7.93%	6.79%	6.36%	6.36%

b. Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the capital programme recommended in the budget compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are only published annually at this time.

£	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Council tax - band D	27.13	54.09	-1.12	-15.69	19.68

2.7 Treasury Indicator for Debt

The purpose of this indicator is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if this is set to be too restrictive it will impair the opportunities to reduce costs/ improve performance. The indicator is “Maturity structure of borrowing”. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicator and limits.

Maturity structure of fixed interest rate borrowing 2018/19		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	80%
20 years to 30 years	0%	80%
30 years to 40 years	0%	80%
40 years to 50 years	0%	80%
Maturity structure of variable interest rate borrowing 2018/19		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	30%
20 years to 30 years	0%	30%
30 years to 40 years	0%	30%
40 years to 50 years	0%	30%

The interest rate exposure in respect of the Council’s external debt will be monitored on an ongoing basis by keeping the proportion of variable interest rate debt at an appropriate level given the total amount of external debt and the interest rate environment within which the Council is operating. When interest rates are increasing the Council will look to move to fixed rate borrowing and if interest rates are likely to fall then the level of variable rate borrowing will be increased to minimise future interest payments.

3 TREASURY MANAGEMENT STRATEGY

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

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2017, with forward projections, are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting any over or under borrowing.

£'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt					
Debt as 1st April	170,502	179,823	192,223	183,223	168,223
Change in Debt (In Year)	9,321	12,400	-9,000	-15,000	2,000
Other long-term liabilities (OLTL) at 1st April	74,059	72,182	120,247	118,239	116,122
Change in OLTL (In Year)	-1,877	48,065	-2,008	-2,117	-2,268
Actual gross debt at 31st March	**252,005**	**312,470**	**301,462**	**284,345**	**284,077**
The Capital Financing Requirement	**253,483**	**318,341**	**307,709**	**289,725**	**289,383**
Under / (Over) borrowing	**1,478**	**5,871**	**6,247**	**5,380**	**5,306**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not taken for revenue purposes.

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

3.2 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services view on its prospects for interest rates.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Link Asset Services have also provided commentary in relation to interest rates and this is included within Appendix 2.

3.3 Investment and borrowing rates

Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

Borrowing interest rates increased sharply after the result of the general election in June and also after the September Monetary Policy Committee (MPC) meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when we may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

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

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. Any decisions will be reported to the appropriate committee at the next available opportunity. In normal circumstances the main sensistivies of the forecast are likely to be the two scenarios noted below. The Head of Strategic Finance, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of scenarios.

- If it was felt that there was a significant risk of a sharp FALL in long and short term rates then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast then the portfolio position will be re-appraised. Most likely, fixed rate funding would be taken whilst interest rates are lower than they would be projected to be in the next few years.

3.5 Policy on borrowing in advance of need

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

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

3.6 Debt rescheduling

At this time, and due to the early repayment penalities imposed by PWLB, there are limited opportunities for debt rescheduling. However, this position will be kept under regular review.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the appropriate Committee at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the Scottish Government's Investment (Scotland) Regulations, (and accompanying Finance Circular), and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes, ("the CIPFA TM Code"). **The Council's investment priorities will be security first, liquidity second and then return.**

In accordance with guidance from the Scottish Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector and the Council will enage with its advisors to maintain a monitor on the market.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 4 and Appendix 5. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Investment Counter-Parties MiFID II

The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to "financial instruments" (shared, bonds, units in collective investment schemes and derivative), and the venues where those instruments are traded. The new MiFID II became effective on 3 January 2018.

Under the new regime, Local Authorities were automatically deemed "retail" clients by default. Argyll and Bute exercised their option to "opt-up" to "professional" client status and had to meet qualitative and quantitative test criteria for individual organisations.

Opting up has meant that the Council is still able to access a full range of investment products and services (some organisations only work with professional clients).

4.3 Creditworthiness policy

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

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparies are supplemented with further credit overlays to provide a colour coded system based on recommended durational bands for use of the counter-party.

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings, from all three agencies and using a risk weighted scoring system, does not give undue consideration to just one agency's rating.

The Link Asset Service creditworthiness services is used on an advisory basis, with the decision on creditworthiness ultimately resting with the Treasury Team.

Further information on credit worthiness policy and assessment is provided within Appendix 6.

4.4 Country and sector limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.5 Investment strategy

Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

4.6 Investment treasury indicator and limit

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

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

Maximum principal sums invested > 364 & 365 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 364 & 365 days	20	20	20

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

4.7 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded.

4.8 End of year Investment Report

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

4.9 Policy on the Use of External Service Providers

The Council uses Link Asset Services as its external management advisors. The Council recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed opon external service providers.

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

5 APPENDICES

Appendix 1 – Treasury Management Policy Statement

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

This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

The policy in respect of borrowing and investments is to minimise the cost of borrowing and maximise investment returns commensurate with the mitigation of risk.

Appendix 2 – Interest Rate Forecasts and Commentary Provided by Link Asset Services (at 16.01.18)

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer-term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Appendix 3 – Economic Background Provided by Link Asset Services (at 16.01.18)

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and may soon start in the UK, on reversing those measures i.e. by raising central rates and reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.2% (+2.0% y/y) and quarter 2 was +0.3% (+1.7% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting MPC. (Inflation actually came in at 3.0% in September and is expected to rise slightly in the coming months.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

It therefore looks likely that the MPC will increase Bank Rate to 0.5% in November but, if not, in February 2018. The big question after that will be whether this will be a one off increase, followed by a long delay before the next increase, or the start of a slow, but regular, series of increases in Bank Rate during 2018 and onwards. Towards the end of October, short sterling rates are indicating that financial markets do not expect a second increase until November 2018 with a third increase in August 2019 i.e. a slow pace of increases. However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would have added reason to embark on an ongoing series of slow but gradual increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 - 34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **many consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate once they start. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in September inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has started forward guidance on its intentions to start slowing down the amount of monthly QE purchases of debt but has not yet set a timeframe for this or the pace.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.2%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50

- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Appendix 4 - Treasury Management Practice (TMP1) Permitted Investments

Commentary provided by Link Asset Services.

This Council approves the following forms of investment instrument for use as permitted investments as set out in table 1.

Treasury risks

All the investment instruments in tables 1 and 2 are subject to the following risks: -

- **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

- **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1 / 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

- **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

- **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instrument have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown): - (Capita Asset Services note – please specify any such instruments should you use them)

- **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

- **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.3 and 4.4.

- **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

- **Market risk:** this authority purchases Certificates of Deposit (CD's), as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional circumstances, they can be quickly sold at the current market value, (which may vary from the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.

- **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 4.5.

- **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. All types of investment instruments

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 and 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The authority has given the following types of investment an unlimited category: -

- **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

- **High credit worthiness banks and building societies.** See paragraph 4.3 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £10m of the total portfolio can be placed with any one institution or group at any one time.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

Deposits

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

- **Term deposits with high credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that no more than £10m of the total portfolio can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

- **Call accounts with high credit worthiness banks and building societies.** The objectives are as for 1b. but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

- **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

- **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1b. but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.
- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

- **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

- **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

- **Ultra short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

- **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

- **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills..

- **Treasury bills.** These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

- **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

- **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail.** This is similar to a gilt due to the explicit Government guarantee.

- **Sovereign bond issues (other than the UK govt) denominated in Sterling**. As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

- **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

OTHER

Property fund. This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Table 1: permitted investments in house – Common Good

This table is for use by the in house treasury management team.

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	term	no	100	2 years
Term deposits – local authorities	--	term	no	100	2 years
Call accounts – banks and building societies	Green	instant	no	100	Call
Term deposits – banks and building societies	Green	term	no	100	2 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits.	Green	term	no	50	2 years
Collateralised deposit (see note 1)	UK sovereign rating	term	no	50	1 year

Note 1. As collateralised deposits are backed by e.g. AAA rated local authority LOBOs, this investment instrument is effectively a AAA rated investment

1.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	term	no		1 Year
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	UK Sovereign Rating	term	no		1 Year
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Green	term	yes		1 Year

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1. Government Liquidity Funds	AAA	instant	No see note 1	100	1 Year
2a. Money Market Funds CNAV	AAA	instant	No see note 1	100	1 Year
2b. Money Market Funds LVNAV	AAA	T+1 to T+5	No see note 1	100	1 Year
2c. Money Market Funds VNAV	AAA	T+1 to T+5	No see note 1	100	1 Year
3. Ultra short dated bond funds with a credit score of 1.25	AAA	T+1 to T+5	yes	100	1 Year
4. Ultra short dated bond funds with a credit score of 1.5	AAA	T+1 to T+5	yes	100	1 Year
5. Bond Funds	AAA	T+2 or longer	yes	100	1 Year
6. Gilt Funds	AAA	T+2 or longer	yes	100	1 Year

Note 1. The objective of MMFs is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

1.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	80	1 Year

1.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	Green	Sale T+0	yes	50	2 Years
Commercial paper other	Green	Sale T+0	yes	20	2 Years
Floating rate notes	Green	Sale T+0	yes	20	2 Years
Corporate Bonds other	Green	Sale T+3	yes	20	2 Years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

1.6 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	--	T+4	yes	100	5 Years

Table 2: permitted investments for use by external fund managers – Common Good

2.1 Deposits

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	term	no	100	2 Years
Call accounts – banks and building societies	Green	instant	no	100	Call
Term deposits – banks and building societies	Green	term	no	100	2 Years
Collateralised deposit	UK sovereign rating	term	no	50	1 Year

2.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	Term or instant	no	100	1 Year
Banks part nationalised by high credit rated (sovereign rating) countries – non UK**	UK sovereign rating	Term or instant	no	100	1 Year

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

2.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1. Government Liquidity Funds	AAA	instant	No see note 1	**100**	**1 Year**
2a. Money Market Funds CNAV	AAA	instant	No see note 1	**100**	**1 Year**
2b. Money Market Funds LVNAV	AAA	T+1 to T+5	No see note 1	**100**	**1 Year**
2c. Money Market Funds VNAV	AAA	T+1 to T+5	No see note 1	**100**	**1 Year**
3. Ultra short dated bond funds with a credit score of 1.25	AAA	T+1 to T+5	yes	**100**	**1 Year**
4. Ultra short dated bond funds with a credit score of 1.5	AAA	T+1 to T+5	yes	**100**	**1 Year**
5. Bond Funds	AAA	T+1 to T+5	yes	**100**	**1 Year**
6. Gilt Funds	AAA	T+1 to T+5	yes	**100**	**1 Year**

Note 1. The objective of these funds is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

2.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	100	1 Year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	100	1 Year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	100	1 Year
Sovereign bond issues (other than the UK govt)	AAA	Sale T+1	yes	80	1 Year
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	80	1 Year

2.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building	Green	Sale T+1	yes	**50**	
Commercial paper other	Green	Sale T+1	yes	50	
Corporate Bonds other	Green	Sale T+3	yes	20	
Floating Rate Notes	Green	Sale T+1	yes	20	

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix 5 – Treasury Management Practice (TMP2) Credit and Counterparty Risk Management

The following table is for use by the Treasury Team and is a list of current counterparties. However, the use of counterparties depends on credit ratings and the Council may stop using certain counterparties and may stop using certain counterparties and/or decide to use alternative counterparties within its permitted investments. If for unavoidable short term operation reasons, limits are breached this will be communicated to management immediately.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita Asset Services, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Strategic Finance, and if required new counterparties which meet the criteria will be added to the list.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Cash type instruments				
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£unlimited, maximum 1 year.	£unlimited, maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
	bodies will be restricted to the overall credit rating criteria.			
c. Money Market Funds (MMFs) **(Low to very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£10m per fund	100%
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£10m	100%
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poor’sDay to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poor’s. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£10m maximum 1 year.	100% maximum 1 year.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£10m per counterparty maximum 1 year.	20% maximum 1 year.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
period & credit rating)				
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. . Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	£5m and maximum 1 year.	£20% and maximum 1 year.
Other types of investments				
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	£10m	20%.
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£10m and maximum 5 years.	10% and maximum 5 years.

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Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
c. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	50%	20%
d. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	5%	100%
e. Loans to third parties as part of the Council's Empty Homes Strategy	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£1.5m and a maximum of 10 years.	N/A
f. Loans to third parties as part of the Council's SHF Front Funding Facility	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 3 years.	N/A

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
g. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 30 years.	N/A
h. Hub Co sub debt	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be highly illiquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£10m	N/A

Appendix 6 – Creditworthiness policy

Service and Information provided by Link Asset Services

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

Credit watches and credit outlooks from credit rating agencies

Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings

Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit rates, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration of investments.

All credit ratings are monitored from a weekly list which can be updated daily by Link Asset Services. The Council is alerted to the changes to ratings of all three agencies through the use of Link Asset Services credit worthiness service.

If a downgrade rsults in the counterparty/investment scheme no longer meeting the Council's minimum criteria, immediate consideration will be given to whether funds should be withdrawn from this counterparty and the timescale for doing this.

In addition to the use of the credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via Link Asset Service's Passport website that the Council can access. Extreme market movements may result in a downgrade of an institution or removal from the Councils lending list.

Based on the Link Asset Services approach, the Council will therefore use counterparties within the following durational bands:

Yellow	5 years*
Dark pink	5 years for Ultra short dated bond funds with a credit score of 1.25
Light pink	5 years for Ultra short dated bond funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

*The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

No more than £10m can be invested with any single counterparty. The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing deposits with the Council's bankers is currently £2m.

The Council can invest an unlimited amount of money I the Debt Management Agency Deposit Facility (operated by the Debt Management Office which is part of HM Treasury). The longest period for a term deposit with the DMADF is 6 months.

Appendix 7 – Approved Countries for Investments (at 16.01.18)

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar

Appendix 8 – Treasury Management Scheme of Delegation

The Council

- Overall responsibility for Treasury Management Strategy.
- Adoption of Treasury Policy Statements.
- Receive an Annual Report and other reports on the Treasury Management Operation and on the exercise of delegated treasury management powers.

The Policy and Resources Committee

- Responsibility for the overall investment of money under the control of the Council.
- Keeping under review the level of borrowing.
- Approval of Annual Strategy Statement.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Treasury Policy Statements.
- Implementation and monitoring of Treasury Management Policies and Practices.

The Audit and Scrutiny Committee

- Review the overall internal and management control framework related to the treasury function.
- Review internal and external audit reports related to treasury management.
- Review provision in the internal and external audit plans to ensure there is adequate audit coverage of treasury management.
- Monitor progress with implementing recommendations in internal and external audit reports.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 9 – The Treasury Management Role of the Section 95 Officer

The Head of Strategic Finance:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Suubmitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Reviewing and considering risk management in terms of treasury activities.

The nominated Elected Member (Policy Lead for Strategic Finance and Capital):

- Acting as spokesperson for treasury management.
- Taking a lead for elected Members in overseeing the operation of the treasury function.
- Review the treasury management policy, strategy and reports.
- Support and challenge the development of treasury management.

ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINYCOMMITTEE**

STRATEGIC FINANCE **20 MARCH 2018**

UNAUDITED ANNUAL ACCOUNTS 2017-18

1. EXECUTIVE SUMMARY

1.1 This report advises the Audit and Scrutiny Committee on the plans in place for financial year end 31 March 2018 and the preparation of the Council's Unaudited Annual Accounts for 2017-18.

1.2 The major change to the timetable is the integration of Live Argyll first financial statements into the Council's Group Accounts and ensuring that intergroup balances are agreed by 15 May 2018.

1.3 The Appendices to the report show the timetable for the closure of the general ledger and the plan and timetable for preparation of the final accounts.

1.4 The Committee is asked to note that plans are in place to prepare the Councils Annual Accounts, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2018 in line with the Scottish Government's requirements.

ARGYLL AND BUTE COUNCIL	AUDIT AND SCRUTINYCOMMITTEE
STRATEGIC FINANCE	20 MARCH 2018

UNAUDITED ANNUAL ACCOUNTS 2016-17

2. INTRODUCTION

2.1 This report advises the Audit and Scrutiny Committee on the plans in place for financial year end 31 March 2018 and the preparation of the Council's Unaudited Annual Accounts for 2017-18.

2.2 Processes have been established to ensure that the Annual Accounts are prepared in accordance with International Financial Reporting Standards (IFRS) on an on-going basis. There are no major changes in accounting practice for 2017-18.

3. RECOMMENDATIONS

3.1 To note that plans are in place to prepare the Councils Annual Accounts, consistent with the Accounting Code of Practice and submit them to Council prior to 30 June 2018 in line with the Scottish Government's requirements.

4. DETAIL

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

4.2 A set of instructions for the end of the financial year have been drafted. These cover year-end close down of the Council's financial systems and the preparation of a set of accounts in line with professional and legislative requirements. These are included within appendices 1 to 3.

4.3 The major change in the timetable is that figures from the Council's newly formed leisure trust, Live Argyll, require to be available for consolidation into the Council's Group Accounts. Procedures have been put in place to ensure that inter-group balances are agreed and all associated journals processed by the Council's General Ledger Closedown date of 15 May 2018. Live Argyll is required to produce a set of financial statements by 1 June 2018 for consolidation into the Council's Group Accounts.

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

- Capital expenditure, capital charges and treasury management revenue accounts completed by 18 April.
- Revenue expenditure, creditors, debtors, accruals and prepayments completed by 27 April.

- Council Tax and NDR entries completed by 15 May.
- Review and adjustments to ledger and central department cost allocations completed by 15 May.
- Agreement of inter-group balances with Live Argyll and associated journals processed by 15 May.
- Preparation of Unaudited Annual Accounts including report by Head of Strategic Finance by 8 June.
- Unaudited Annual Accounts considered by a meeting of the Audit and Scrutiny Committee on 19 June.
- Unaudited Annual Accounts considered by a meeting of the Full Council on 28 June.
- Submission of Unaudited Annual Accounts to Accounts Commission by the statutory deadline of 30 June.

4.8 Previously external Audit has been satisfied with the quality of working papers and general arrangements for preparation of the Annual Accounts. The plan should result in Financial Statements prepared by the required deadline of 30 June 2018 and with supporting documentation of a standard to enable completion of the audit by the required deadline of 30 September 2018.

5. CONCLUSION

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

6. IMPLICATIONS

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

Kirsty Flanagan
Head of Strategic Finance

Gary Mulvaney, Council Depute Leader and Policy Lead for Strategic Finance and Capital Regeneration Programme

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

Appendix 1 – Year End Instructions and General Ledger Closedown Timetable
Appendix 2 - Final Accounts Preparation Plan and Timetable

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Appendix 1

Year End Instructions & General Ledger Closedown Timetable

Financial Year

2017/2018

YEAR-END INSTRUCTIONS – GENERAL LEDGER CLOSEDOWN 2017/2018 FINANCIAL YEAR

1 GENERAL

1.1 Appendix 1 gives the detailed year end timetable for the closedown of the general ledger. Achievement of the deadlines highlighted in red and pink are critical to achieving a ledger closedown of **15 May 2018. It is vital that any slippage from these deadlines is identified as soon as possible and brought to the attention of the Principal Accountant – Corporate Support so that remedial action may be taken.**

1.2 Appendix 3 gives the closedown timetable for the Health and Social Care Partnership which will enable figures to be agreed with the Argyll and Bute Integrated Joint Board (IJB) in respect of the Social Work Service. The deadline for reporting an agreed figure back to Health for inclusion in their year-end figures is **Friday 20 April 2018.**

1.3 Year-end instructions specific to Development and Infrastructure Services will be issued from their Departmental Strategic Finance Team.

2 LIVE ARGYLL

2.1 In general, unless otherwise stated below, the timescales set out within these instructions for the Council also apply to Live Argyll.

2.2 Specifically note that any transfers of actual income/expenditure or budget between the Trust and the Council must be processed in line with the deadlines set out for the Council journals, i.e. 4 May, or 12 April if they contain VAT.

2.3 As internal recharges are not processed for Live Argyll, the debtors deadline of 23 March needs to be adhered to for transactions of this nature otherwise they will require to be accrued.

2.4 There will be no need for orange/green year end batch headers for Live Argyll as Diane McMillan will collate all invoices and email them to creditors therefore eliminating the need for this. In doing so, no invoices relating to 2018/19 will be sent to creditors prior to w/c 16 April 2018 therefore everything received prior to this date will be automatically allocated to 2017/18.

3 REVENUE PAYMENTS AND ACCRUALS

3.1 Creditor Invoices

Invoices relating to the 2017/2018 financial year should be sent to the Campbeltown Creditors section by 5pm on Tuesday 10 April for processing through the payables ledger by 12 April. All old year invoices must be batched separately and have an orange "2017/2018" cover sheet attached on top. Supplies of the cover sheet will be sent out to departments early in March. Any 2017/2018 invoice batches received after 10 April will be returned to the relevant department to be included within their accruals template.

All new year invoices should be batched separately and have a green "2018/2019" cover sheet attached on top. Only urgent/essential payments for the new financial year will be processed prior to Friday 13 April. These payments should be clearly marked as "Urgent". The orange and green cover sheets should be used for all batches between the periods **19 March to 12 April**.

Departments should note that payments processed by the Creditors Section between 1 April and 12 April will be processed to the March period in the general ledger.

Please note that the deadlines for capital invoices are different to the above (See Section 4 below).

To enable figures to be agreed with the Argyll and Bute Integrated Joint Board (IJB) in respect of the Social Work Service, Health and Social Care Partnership invoices should be sent to the Campbeltown Creditors Section by 5pm on 29 March. Yellow coloured batch headers will be issued for these invoices.

3.2 Accruals

All old year invoices received by departments but which have failed to make the 10 April deadline will require to be accrued. In addition, any service or goods received prior to 1 April but not yet invoiced must also be accrued. These items must be input into the accruals template which will be emailed to the Departmental Strategic Finance Teams at the beginning of March.

Accrual templates and supporting documentation from Departmental Strategic Finance teams must be returned to the Strategic Finance Consolidated Team, Kilmory by 5pm on Tuesday 24 April at the latest. This allows extra time for the Departmental Strategic Finance Teams to collate and check the departmental accruals. It would be appreciated if accruals templates be returned to the Consolidated Team (Kilmory) at the earliest opportunity. In order to comply with Audit requirements, all accruals greater than **£5,000** must have supporting documentation. Back-up is not required to be provided to the Consolidated Team for accruals lower than £5,000 although auditors may require to understand the basis of the accrual and may test randomly. Acceptable supporting documentation should come in the form of:

- Copy invoice which clearly provides proof of delivery of goods or services on or before 31 March 2018.
- Delivery note dated on or before 31 March 2018.
- Other documentation which provides evidence that the goods or services were provided on or before 31 March 2018.

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

The Consolidated team will have the accrual templates uploaded by 27 April. If Departments receive invoices of a material value after their accrual deadline of 24 April, please advise your Strategic Finance Departmental contact, who will make a determination in conjunction with Corporate Support as to whether an additional accrual should be processed.

3.3 Invoices relating to 2017/2018 awaiting Credit Notes

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

3.4 PECOS e-Procurement System

The Pecos system has four key stages – order, receipt of order, invoice and payment. No invoices will be processed on the 29 March to allow creditors to do a "pay all" and commence reconciliation of payables. All users should ensure **all mismatches are cleared by 28 March** and that **all orders** received within the old financial year are **receipted** on the system by **4.00pm on 29 March**. A Pecos report will be run by the Procurement Team on 1 April. This will be issued to the Consolidated Team on 3 April where the data will be manipulated to include the department responsible. This will then be returned to the PECOS Team for issue out to departments on 3 April. From this report all orders that have a status of Fully Receipted and No Invoice will be automatically copied onto a separate Pecos Accrual Template for each department by Strategic Finance – no action is required by the service. The remaining entries should be checked by services and accrued if necessary. Services will need to ensure that there is sufficient justification in a comments column that will be included on the Pecos report. If the order is for over **£5,000** then back-up in addition to the Pecos system report will be required. These accruals will be entered onto the main departmental accruals template which will be sent to the Consolidated team by 5pm on Tuesday 24 April.

PECOS interfaces will continue to be run from 3 April 2017, after the Pecos year-end report has been run. IT will run a script to exclude Pecos from the Total feeder until the last payables run of the old year has been completed.

Given the on-going problems with PECOS the accrual report should be viewed as the starting point for the PECOS accrual process, each department will need to review this listing in some detail to ensure the correct items are accrued. It is hoped that departments will take the opportunity to review pre year-end PECOS reports and rectify as many of the housekeeping issues as possible. Doing this will help reduce the amount of time spent after the 31 March on PECOS accruals.

Extra care should be taken with mismatches over the Year End period. A mismatched invoice may cause the invoice not to be paid in the old year therefore an accrual will be required. When an invoice is received in Pecos the system changes the status (to Fully Invoiced) but if this invoice is mismatched it will not be processed to Accounts Payable. If the order status is fully invoiced it will not appear on the Pecos accrual report therefore all mismatches should be checked and added to the manual accrual template if required.

4 SUNDRY DEBTORS AND INCOME

4.1 Sundry Debtors

The Debtors Section of Customer and Support Services, Campbeltown, must receive debtors account input forms, relating to 2017/2018, by 23 March. If you have local input of debtor accounts, all accounts for financial year 2017/2018 must be input by 29 March. All such accounts must have a service date of 31 March or prior. Any accounts for the old year that are entered on or after 1 April should have the correct service date entered, even if prior to 31 March. These accounts will have to be included within the income accruals template.

New year sundry debtors should be clearly marked 2018/2019 and these will be entered into the sundry debtor system in the new financial year.

4.2 Cash Receipting System

The cash receipting reports for the 29 March to 3 April will all be processed into 2017/2018 financial ledger. All income received from Wednesday 4 April onwards, will be processed in the 2018/2019 financial ledger.

Staff should check the income processed from cash receipting into Oracle during the first few days of April, to decide if any income accruals are required.

4.3 Banking of Income

All offices/facilities that collect money and receipt it via the Area Offices should ensure that all money relating to financial year 2017/2018 is taken to the Area Office by 4pm on Thursday 29 March.

For offices/facilities that use the bank, again, all money relating to financial year 2017/2018 should be banked before close of business on 29 March.

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

4.4 E-Income Journals and Manual Income Journals

Staff who complete E-Income Journals (for cash received other than cash processed through the cash receipting system) should do so on 29 March. Completed E- income journals should be e-mailed on 29 March to the Cash Section (Customer and Support Services). All other manual income journals should be posted on 29 March to arrive at the Cash Section (Customer and Support Services) no later than Wednesday 4 April.

Separate E-income journals should be completed for income received from 1 April onwards – this will be processed in financial year 2018/2019. E-income journals and manual income journals should state clearly which financial year the income on that journal relates to.

4.5 Imprests

The Creditors Section (Customer and Support Services) will issue imprest certificates/returns to imprest holders by Tuesday 1 March. **Certificates for all establishments, including schools, should be returned to the Creditors Section (Customer and Support Services), Campbeltown as soon as possible after 31 March but no later than Friday 20 April.**

5 CAPITAL

5.1 Capital Expenditure and Capital Journals

All capital invoices relating to 2017/2018 should be sent to the Campbeltown Creditors section as soon as possible, **but no later than 5pm on Tuesday 3 April.**

All old year capital invoices received by departments but which have failed to make the 3 April deadline will require to be accrued. In addition, capital expenditure incurred prior to 1 April but not yet invoiced / certificated must also be accrued.

These items must be input into the capital accruals template which will be emailed to the departmental capital programme contacts at the beginning of March. The template should be sent to the Strategic Finance Corporate Support Team (Whitegates, Lochgilphead) by 5pm on Friday 6 April. All capital accruals must have supporting documentation which proves that the expenditure was incurred prior to 1 April.

Please note that the deadlines for capital expenditure are earlier than revenue expenditure to allow sufficient time for the Corporate Support Team to update the fixed asset register.

5.2 Capital Financed from Current Revenue (CFCR)

Where expenditure has been incurred on capital items/assets but funded through the revenue budget, this needs to be identified and a journal to transfer the expenditure to capital put through. A template will be e-mailed to the departmental capital programme contacts, asking for information on any CFCR expenditure incurred during 2017-18.

The template should be returned to the Strategic Finance Corporate Support Team (Whitegates, Lochgilphead) by 5pm on Friday 6 April.

6 JOURNALS

6.1 Departments will be allowed to process their own journals up to 4 May. Only material adjustments will be processed by the Strategic Finance Teams after this date and with the agreement of the Principal Accountant – Corporate Support.

To reflect a normal period end at the end of March, departments will be able to process normal period end journals through the March period in the ledger until 12 April. After that, all journals processed by departments must be processed through the "adjust" period and not through "March". Care should be taken over which period is selected as March, Adjust and April will all be open.

Journals containing VAT which relate to 2017-18 should **not be processed at all by any staff after 12 April** without consulting with Sandra Coles (Corporate Support Strategic Finance Team). Sandra will be preparing the VAT return for March once the payables ledger is closed on 12 April and if there are any VAT adjustments made to the old year after this date they will be missed through the VAT return.

Any journals containing capital codes should follow the earlier deadlines set out in Section 5.1 above i.e. 5pm on Friday 6 April.

7 INTERNAL RECHARGES

7.1 Old Year Internal Recharges

Over £1,000

Internal recharges will be processed by the Strategic Finance Consolidated Team.

On 1 March, the Consolidated Team will contact the receiving department of any Internal Recharges that are still outstanding on the system dated 31 January or earlier. These should be returned to the Consolidated Team by 21 March for processing.

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

The final date for producing internal recharges for 2017/2018 is Thursday 29 March. These should be sent to receiving departments for coding immediately.

Receiving departments should send all internal recharges to the Strategic Finance - Consolidated Team, Kilmory as early as possible, but no later than 1pm on Friday 6 April. These will be processed and coded into March on Friday 6 April.

Any remaining accounts still outstanding will be cleared from the system on 6 April to the cost codes detailed below. A list of charges that have been cleared will be provided to the receiving department.

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

Community Services	E2000010000.29901
Strategic Finance	C1283010000.29901
Customer Services	80000000000.29901
Development and Infrastructure Services	70000000000.29901
Health & Social Care Partnership	50000030000.29901

Under £1,000

The journal prepared by each department for any Internal recharges less than £1,000 for the March period should be sent to the Strategic Finance - Consolidated Team by 12 noon on 5 April and will be uploaded into the ledger on Friday 6 April.

7.2 Mail and Print Room Recharges

The monthly mail and print room charges for the March period should be sent to the Consolidated Team by 12 noon on 5 April and will be uploaded into the ledger on Friday 6 April.

7.3 Clearance of Internal Recharges Clearance Account No 29901

Departmental journals should be raised to clear the 29901 accounts. However, it is expected that departments will make all attempts to clear outstanding invoices before any transfer to the 29901 accounts can take place. It is the responsibility of each department to ensure recharges coded to 29901 are cleared prior to Friday 13 April.

8 STORES/WORK IN PROGRESS

8.1 General

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

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

8.2 Stock Count

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

Stock certificates must be completed by Development and Infrastructure Services and Community Services and sent to their Departmental Principal Accountant by Thursday 12 April. These certificates should be accompanied by detailed working papers including;

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

The Principal Accountants should pass all reviewed certificates and the above stock working papers to the Corporate Support Team for inclusion in the year-end working paper files for the external auditors by Wednesday 18 April. Where possible electronic working papers should be provided.

8.3 Work in Progress – Roads and Lighting Operational Holding Account

Development and Infrastructure Services are required to prepare a valued list of work in progress for the Roads and Lighting Operational Holding Account by 2 May and this should be passed over to the Principal Accountant – Development and Infrastructure Services for review.

Detailed listings at works order level of work in progress for the Roads and Lighting Operational Holding Account should be sent (preferably in electronic format) to the Corporate Support Team to back up the work in progress figure processed through the ledger. This should be received by close of business on the 4 May.

9 CONTROL AND SUSPENSE ACCOUNTS

9.1 Control Accounts

A responsible person has been identified for each control account in the general ledger. Reports will be issued on 3 April giving the current balance on each control account along with a "Carry Forward of Control Account Balance" form. The balance in the control account either requires to be cleared to zero or carried forward to the next financial year. If a carry forward is required, justification and a reconciliation must be attached to the carry forward form. All clearance and adjusting journals must be completed and input into the ledger by Wednesday 3 May. The "Carry Forward of Control Account Balance" form should be sent to the Strategic Finance Consolidated Team (Kilmory) by Monday 30 April. The Customer Services Strategic Finance Team has until Tuesday 15 May to clear the "raw cash" control account balances in conjunction with processing of year-end council tax and NDR journals.

9.2 Suspense Accounts

A responsible person has been identified for each suspense account in the general ledger. Reports will be issued on 3 April giving the balance on each suspense account. This balance requires to be cleared. Under no circumstances should transferring to another suspense account clear the balance. All clearance journals for suspense accounts other than payroll suspense must be completed and input into the ledger by Friday 27 April.

Entries from the monthly Pay07 payroll run which hit the payroll suspense should be cleared by 6 April and cleared by 25 April for the Pay10 teachers' payroll run. This will enable the payroll accruals to be prepared and processed through the ledger.

10 PAYROLL

10.1 General

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

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

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

10.2 Payruns

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

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

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

10.3 Travel Claims

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

- PAY 07 Mth 1 - must be submitted by 23 March 2018 & authorised by 29 March 2018.
- PAY 07 Mth 12 - must be submitted by 20 February 2018 & authorised by 28 February 2018.
- PAY 10 Mth 1 - must be submitted by 12 April & authorised by 17 April 2018.

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

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

Care should be taken to note the dates for receipt of travel and expense claims at the creditors section in order to ensure that as much travel and expenses as possible for the period up to 31 March 2018 is incorporated within the pay run that will be accrued. It is essential, for accrual purposes, that all business mileage incurred up to and including 31 March is incorporated into one claim and any business mileage incurred on or after 1 April is entered onto a separate claim.

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

It is imperative that leased car users enter their final milometer reading onto their 2017/2018 claim. Details of Essential and Leased car users business mileage must be communicated to the Inland Revenue and is used to calculate their tax, so it is very important that the figures given are accurate and relate to the correct financial year.

11 AMENDMENTS TO HIERARCHIES / COST CENTRES DURING YEAR END PERIOD

11.1 Any cost centre/account codes that have been used in the period year 2017/2018 that have to be disabled for the year 2018/2019 will not be processed until after the Support Service model has been run through the ledger and the analytical review has been completed.

The control sheets should still be sent to the Strategic Finance Consolidated Team (Whitegates) and will be held here until the changes are made. The period that this affects is 31 March 2018 – 31 May 2018.

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
1. Capital Expenditure	***1***	Final preparation of year end capital payments	19/03/18 to 03/04/18	Departments	
	2	Dep'ts Cut off date for capital payments to Creditors Section	03/04/2018	Departments	
	3	Processing of final external capital payments	04/04/18 to 06/04/18	Creditors Section	
	4	Final payment run processed capital	06/04/2018	Creditors Section	
	5	Year end journals of transfers to/from revenue accounts	19/03/18 to 03/04/18	Corporate Support - Accountant	
	6	Property Fee Charges Processed	19/03/18 to 03/04/18	Corporate Support - Accountant	
	7	Roads interfaces checked daily for capital expenditure	19/03/18 to 06/04/18	Corporate Support - Accountant	
	8	Dept's complete capital accruals template/CFCR template/journals/ and send to Strategic Finance - Corporate Support (Whitegates)	04/04/18 to 06/04/17	Departments	
	9	Dept's cut off date for capital accruals template/CFCR template/journals to Strategic Finance - Corporate Support (Whitegates)	06/04/2018	Departments	
	10	Processing of final external capital payments/accruals/CFCR (Uploading by Consolidated Team)	09/04/2018	Corporate Support - Accountant	
	11	Capital expenditure processing complete	09/04/2018	Corporate Support - Accountant	
2. Capital Expenditure - Fixed Asset Processing	***1***	Capital expenditure final download from ledger	10/04/2018	Corporate Support - Accountant	
	2	Allocation of balance sheet codes to mass allocation journal	11/04/18 to 13/04/18	Corporate Support - Accountant	
	3	Mass allocation processed	13/04/2018	Corporate Support - Accountant	
	4	Capital expenditure complete	13/04/2018	Corporate Support - Accountant	
Depreciation/Property Plant and Equipment Processing	***5***	**Revaluation of Properties by Estates**	**23/04/2018**	**Estates**	
	6	Update asset register for additions/disposals/transfers	18/04/18 to 23/04/18	Corporate Support - Accountant	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
	7	Update Asset Register for Revaluations	24/04/18 to 27/04/18	Corporate Support - Accountant	
	8	Process balance sheet depreciation/revaluation journals	27/04/2018	Corporate Support - Accountant	
	9	Reconcile asset register to ledger	30/04/2018 to 02/05/18	Corporate Support - Accountant	
	10	Run depreciation/impairment charges	02/05/2018	Corporate Support - Accountant	
	11	Capital Accounting Entries Complete	02/05/2018	Corporate Support - Accountant	
Non-Current Assets Available for Sale	*12*	Obtain supporting evidence for assets classified for sale	12/03/18 to 16/03/18	Corporate Support - Accountant	
	13	De-classify assets no longer meeting AH for S criteria	19/03/2018	Corporate Support - Accountant	
	14	Re-classify any items newly meeting AH for S Criteria	19/03/2018	Corporate Support - Accountant	
	15	Up-date asset register with reclassifications	19/03/2018	Corporate Support - Accountant	
3. Loan Charges	*1*	Complete interest on revenue balances	05/03/2018	Corporate Support - Sandra Coles	
	2	Complete PSTM Reconciliations	09/04/18 to 10/04/18	Corporate Support - Sandra Coles	
	3	Accrual of Borrowing Interest and Expenses	11/04/18 to 12/04/18	Corporate Support - Sandra Coles	
	4	Accrual of Investment Interest and Expenses	11/04/18 to 12/04/18	Corporate Support - Sandra Coles	
	5	Strategic Finance expense allocation	12/04/2018	Corporate Support - Sandra Coles	
	6	Agree loans fund advances b/f	01/03/2018	Corporate Support - Sandra Coles	
	7	Provision of capital repayment figures for house loans	31/03/17 to 11/04/17	Consolidated Team - Duncan MacBrayne	
	8	Calculate weighted capital expenditure in year	13/04/18 to 16/04/18	Corporate Support - Peter Cupples	
	9	Calculate average interest and expense rate	13/04/18 to 16/04/18	Corporate Support - Peter Cupples	
	10	Input annuity rate loan charges model and calculate loan charges	17/04/2018	Corporate Support - Peter Cupples	
	11	Process loans charges/SMGFB journal	18/04/2018	Corporate Support - Sandra Coles	
	12	Loans fund revenue account (ensure nil)	18/04/2018	Corporate Support - Sandra Coles	
	13	Loans Charges Complete	18/04/2018	Corporate Support - Peter Cupples	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
4. IFRS Pensions Accounting - Year End Accounting Entries	*1*	IFRS Pensions Report Received from Actuaries (Hymans Robertson)	01/05/2018	Corporate Support - Moira Miller	
	2	Check reasonability of data in report	01/05/2018	Corporate Support - Moira Miller	
	3	Calculate pensions entries in ledger	01/05/2018	Corporate Support - Moira Miller	
	4	Process pensions entries in ledger	01/05/2018	Corporate Support - Moira Miller	
	5	Check no bottom line impact on general fund	01/05/2018	Corporate Support - Moira Miller	
	6	IFRS Pension Entries Complete	01/05/2018	Corporate Support - Moira Miller	
5 .Creditor Payments	*1*	Deadline for Health and Social Care Partnership Invoices to Creditors	29/03/2018	David Forshaw	
	2	Departments processing old year invoices	03/04/18 to 10/04/18	Departments	
	3	Departments cut off date for passing invoices to Finance (Campbeltown)	10/04/2018	Departments	
	4	Processing of final revenue payments 2017/18	11/04/18 to 12/04/18	Creditors Section	
	5	Final payment run processed	12/04/2018	Creditors Section	
	6	Production and processing of final feeders to road costing	12/04/2018	Creditors Section	
	7	**Closure of March 2018 Period (5pm)**	**12/04/2018**	**Consolidated Team - Astrid Ronald**	
	8	Reconciliation of Core Payables Liability	13/04/2018	Consolidated Team - Astrid Ronald	
	9	VAT return completed	13/04/18 to 27/04/18	Corporate Support - Sandra Coles	
	10	Creditor Payments and VAT completed	27/04/2018		
6. Health and Social Care Integration	*1*	**Agree final outturn position with Chief Financial Officer of Integrated Joint Board**	**20/04/2018**	**David Forshaw**	
7. Revenue Accruals/Prepaid Expenditure	*1*	Accrued/Prepaid expenditure templates issued to departments	01/03/2018	Consolidated Team - Astrid Ronald	
	2	Departments complete accrued/prepaid expenditure template - this to be collated and checked by Departmental Strategic Finance Teams	11/04/18 to 20/04/18	Departments / Departmental Strategic Finance Teams	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
	3	Deadline for return of accrued/prepaid expenditure template	24/04/2018	Departmental Finance Teams	
	4	Consolidated team process accrued/prepaid expenditure	25/04/18 to 27/04/18	Consolidated Team	
	5	Deadline for Upload of Accrual Templates to General Ledger.	27/04/2018	Consolidated Team	
PECOS Accruals	*6*	Mismatches to be cleared from PECOS system. **Procurement to check that all mismatches are cleared by close of business.**	28/03/2018	Departments/Mary McKerral	
	7	Final Year end invoices processed through PECOS.	28/03/2018	Departments	
	8	Orders received prior to 31 March, receipted on PECOS System (up to 4.00pm)	29/03/2018	Departments	
	9	Final PECOS interface with payables ledger for 17-18	29/03/2018	Creditors Section	
	10	PECOS Accrual Report run.	01/04/2018	Procurement - Mary McKerral	
	11	PECOS Accrual Report issued to Consolidated Team to manipulate to include department and return to PECOS team to issue to Departments.	03/04/2018	Procurement - Mary McKerral / Consolidated Team - Astrid Ronald	
	12	PECOS interfaces to Payables to continue processing into New Year. IT will exclude from Total Feeder until final payables run for old year.	03/04/18 to 12/04/18	Procurement/Creditors	
	13	Departments to include unpaid receipted orders on main accrual template	04/04/18 to 22/04/18	Departments / Departmental Strategic Finance Teams	
Holiday Pay Accrual - Teachers	*14*	Collection of teacher data	09/04/2018	Corporate Support - Accountant	
	15	Calculation of teachers holiday pay accrual	10/04/2018	Corporate Support - Accountant	
	16	Process journal and SMR reversing entry	10/04/2018	Corporate Support - Accountant	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
Holiday Pay Accrual - Other Staff	*17*	Completion of holiday pay accrual template based on previous years sample and methodology	11/04/2018	Corporate Support - Accountant	
	18	Process journal and SMR reversing entry	11/04/2018	Corporate Support - Accountant	
Payroll - Pay 07 MONTHLY (Month 1)	*19*	Deadline for Travel/Expensel Claims - Pay 07 Month 1	23/03/2018	Departments	
	20	Deadline for Timesheets to Payroll - Pay 07 Month 1	03/04/2018	Departments	
	21	Processing Pay 07 Month 1	03/04/18 to 05/04/18	Payroll Section	
	22	Clearance of Pay 07 Month 1 suspense items	06/04/2018	Payroll Section	
	23	Accrual Pay 07 Month 1	17/04/18 to 19/04/18	Consolidated Team - Ailsa Laing/Duncan MacBrayne	
Payroll - Pay 10 TEACHERS (Month 1)	*24*	Deadline for Travel/Expense Claims - Pay 10 Teachers Month 1	12/04/2018	Departments	
	25	Deadline for Timesheets to payroll Pay 10 Teachers Month 1	17/04/2018	Departments	
	26	Processing Pay 10 Teachers Month 1	17/04/18 to 20/04/18	Payroll Section	
	27	Clearance of Pay 10 Month 1 suspense items	23/04/18 to 25/04/18	Payroll Section	
	28	Accrual Pay 10 Teachers Month 1	26/04/18 to 30/04/18	Consolidated Team - Ailsa Laing/Duncan MacBrayne	
Payroll - Pay 10 TEACHERS (Month 2)	*29*	Deadline for Travel/Expenses Claims - Pay 10 Teachers Month 2	10/05/2018	Departments	
	30	Deadline for Timesheets to Payroll Pay 10 Teachers Month 2	14/05/2018	Departments	
	31	Processing Pay 10 Teachers Month 2	14/05/18 to 16/05/18	Payroll Section	
8. Cash and Income - Accrued/Deferred Income *- Sundry Debtor Accounts*	*1*	Department cut off date to send debtor accounts to Debtors Section	23/03/2018	Departments	
	2	Input of old year debtor accounts (Central and Local)	23/03/18 to 29/03/18	Debtors Section -Jennifer Gorman	
	3	Year end reports produced	29/03/2018	Debtors Section -Jennifer Gorman	
	4	Sundry Debtor account reconciliations	03/04/18 to 18/04/18	Debtors Section -Jennifer Gorman	
	5	Calculation of Bad Debt Provision	12/04/18 to 18/04/18	Debtors Section -Jennifer Gorman	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
	6	Process journal adjusting ledger for change in BDP	18/04/2018	Debtors Section -Jennifer Gorman	
	7	Sundry Debtor accounts complete	18/04/2018	Debtors Section -Jennifer Gorman	
Housing Benefit Overpayments	*8*	Calculation of Housing Benefit Overpayment Debtor	03/04/18 to 05/04/15	Housing Benefits Section - Maggie Campbell	
	9	Calculate associated bad debt provision	06/04/18 to 09/04/18	Housing Benefits Section - Maggie Campbell	
	10	Process journals for housing benefit overpayments	10/04/2018	Housing Benefits Section - Maggie Campbell	
	11	Housing Benefit Overpayments Complete	10/04/2018	Housing Benefits Section - Maggie Campbell	
Banking	*12*	All monies/cheques should be banked	29/03/2018	Departments	
	13	Monies/cheques received after final banking relating to 17/18 to be added to accruals template	03/04/18 to 04/04/18	Departments	
E-Income Journals	*14*	Deadline for E- Income Journals to Cash Section. Kintyre House, Campbeltown.	29/03/2018	Departments	
	15	Cash Section to process year-end E-income	03/04/18 to 04/04/18	Departments	
Bank Reconciliations	*16*	Request bank certificates for all accounts	01/03/2018	Corporate Support - Sandra Coles	
	17	Bank reconciliation on expenditure account	05/04/18 to 27/04/18	Creditors Section	
	18	Bank reconciliation on Council Tax and NDR	05/04/18 to 27/04/18	Revenues - Alison Millar	
	19	Bank reconciliation on Income Account	05/04/18 to 27/04/18	Revenues - Alison McGeachy	
	20	Bank reconciliation on Housing Benefit Account	05/04/18 to 27/04/18	Benefits - Sharon Leitch	
	21	Bank reconciliation on Land Contamination Bank Account	05/04/18 to 27/04/18	Corporate Support - Sandra Coles	
Imprests	*22*	Imprest certificates/returns issued to imprest holders	01/03/2018	Creditors Section	
	23	Establishments complete certificates/returns	03/04/18 to 20/04/18	Departments	
	24	Deadline for return of Certificates to Cash Section	20/04/2018	Departments	
	25	Reconciliation of all Imprest balances (including schools)	23/04/18 to 26/04/18	Creditors Section	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
	26	Process final imprest adjustments in ledger	26/04/2018	Creditors Section	
	27	Income Accrual / Deferred Income Templates issued to departments	01/03/2018	Consolidated Team - Astrid Ronald	
Other Income Accruals / Deferred Income	*28*	Departments complete other income accrual/ deferred income templates	03/04/18 to 20/04/18	Departments	
	29	Dept's cut-off date for return of income accruals / deferred income template to Strategic Finance Teams	20/04/2018	Departments	
	30	Consolidated team process income accruals / deferred income	23/04/18 to 27/04/18	Consolidated Team	
9. Internal Recharges	*1*	Final date for producing 2017/2018 Internal recharges	29/03/2018	Departments	
	2	Deadline for coded recharges to be sent to Corporate Support	06/04/2018	Departments	
	3	Internal Recharges uploaded into the ledger	06/04/2018	Consolidated Team - Elaine Maxwell	
	4	Outstanding Accounts cleared from Internal Recharge system	06/04/2018	Consolidated Team - Elaine Maxwell	
	5	Departments to clear 29901 accounts	09/04/18 to 13/04/18	Departments	
10. Stores and Work in Progress - *Stores*	*1*	Departmental SF Teams issue instructions to Stores	01/03/2018	Departmental Support - Team	
	2	Departments prepare for stock count	02/03/18 to 28/03/18	Departments	
	3	Stock count	29/03/2018	Departments	
	4	Stock certificates to be completed and sent to Principal Accountant, both Development and Infrastructure Services and Community Services	03/04/18 to 12/04/18	Departments	
	5	Principal Accountants to review certificates and process final journal	13/04/18 to 18/04/18	Departmental Support - Team	
Work in Progress	*6*	Department prepares a valued list of Works in Progress	03/04/18 to 02/05/18	Departments	
	7	Pass to Principal Accountant for Review and Journal Processing	03/05/18 to 04/05/18	Departmental Support - Team	
	8	Consolidation Adjustments (if any)	07/05/2018	Corporate Support - Moira Miller	

Appendix 1 - General Ledger Closedown Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Lead Responsibility	Actual 2017-18 Completed Dates
	9	Finalise Lead Schedule and Working Papers	07/05/2018	Corporate Support - Moira Miller	
11. Control and Suspense Accounts - *Control Accounts*	*1*	Report issued to Control Account Holder	03/04/2018	Consolidated Team - Astrid Ronald	
	2	Clear balance or complete Carry Forward of Control Account Balance form	04/04/18 to 30/04/18	Control Account Budget Holders	
	3	Transfer of control account balances to Balance Sheet	01/05/18 to 04/05/18	Consolidated Team - Astrid Ronald	
Suspense Accounts	*4*	Report issued to Suspense Account Holder	03/04/2018	Consolidated Team - Astrid Ronald	
	5	Balance should be cleared (excluding payroll suspense which should be cleared by 06 April for Pay07 entries and 25 April for Pay10)	04/04/18 to 27/04/18	Departments	
11. Journals and Feeders	*1*	Opening of April and Adjust Periods	29/03/2018	Consolidated Team - Astrid Ronald	
	2	Departments prepare and input journals	03/04/18 to 04/05/18	Departments	
	3	Dept's cut off date for journals	04/05/2018	Departments	
	4	Processing of Central Finance journals	04/05/2018	Consolidated Team	
	5	Final feeders from roads costing to general	04/04/18 to 04/05/18	Departmental Support - Joyce Cowan	
	6	Preparation and input of any final journals identified	08/05/18 to 11/05/18	Consolidated Team/Corporate Support Support	
	7	Central support / departmental admin recharging	14/05/18 to 15/05/18	Corporate Support- Accountant	
	8	Input of Live Argyll Journals and agreement of final Balance Sheet Position	27/03/18 to 15/05/18	Departmental Support - Anne MacDougall	
	9	Input of Council Tax & NDR Journals / Clearance of Raw Cash Accounts	27/03/18 to 15/05/18	Departmental Support - Elizabeth Moller	
	10	**Closure of 2017/2018 ledger**	**15/05/2018**	**Corporate Support - Moira Miller**	

YEAR END 2017/2018

Appendix 2 - Schedule for Payroll, Overtime and Travel accruals

PAYRUN	MTH NO	PROCESSING DATE	PAY DATE	PERIOD ENDING	PAYROLL COSTS % ACCRUED/PREPAID	OVERTIME COSTS % ACCRUED	TIMESHEETS TO PAYROLL BY:	**TRAVEL CLAIMS TO CREDITORS BY:	TRAVEL & SUBSISTENCE % ACCRUED	Additional Notes
Pay 07 Monthly	01	5th April	14th April	15th April	16/31sts accrued	100% accrued	3rd April	23rd March	100% accrued	Old Year Claims Only
Pay 10 Teachers	01	20th April	26th April	30th April	100% part time hours for this period - See note *	N/A	17th April	12th April	100% accrued	Old Year Claims Only
Pay 10 Teachers	02	16th May	24th May	31st May	See note *	N/A	14th May	10th May	N/A	N/A

Notes

* Pay 10 Teachers Month 01: Part time Teachers hours and enhancements relating to March will be 100% accrued.
** This relates to manual travel claims, not those through "my view" for which separate deadlines have been set by payroll.
* Pay 10 - Month 02 accrual will be done by the Strategic Finance - Community Services Departmental Team. Due to timing of Month 01 period end date, it's unlikely there will be many March hours requiring accrual.

Note: Easter Public Holidays are on the 30th March and 2nd April 2018

Appendix 3 - Health and Social Care Partnership Closedown Timetable

Work Area	Task No.	Task Description	2017/18 Dates	Lead Responsibility	Monitored / Actioned By	Comments
1. Capital Expenditure	1	Same as corporate schedule				
2. Capital Expenditure - Fixed Asset Processing	1	Equipment store stock take to be completed	29/03/2018	Equipment Store Manager	Mary	Mary to liaise with equipment store manager
	2	Cut off date for submission of stock certificate and detailed working papers to IS Finance Team	06/04/2018	Equipment Store Manager	Mary	Mary to liaise with equipment store manager
	3	Cut off date for checking, signing and submission of stock certificates to Corporate Accounting	11/04/2018	Principal Accountant - Integration Services	Mary and David	check and agree stock certificate
	4	Calculate net movement in the value of equipment owned by the SW Equipment Store and provide to Principal Accountant - Integration Services	18/04/2018	Corporate	Moira Miller	
3. Creditors Payments	1	Cut off date for submission of 2017/18 supplier invoices to creditors	29/03/2018	Department	David	E-mail to areas to remind them about deadline
	2	Cut off date for processing of 2017/18 SW supplier invoices through payables	06/04/2018	Creditors Section	Creditors	Malcolm to let David know when all blue batches are processed
	3	Final payment run processed involving SW invoices	09/04/2018	Creditors Section	Creditors	Malcom to let David know when payrun is posted to general ledger
4. Revenue Accruals	1	Accrued/Prepaid expenditure templates issued to department	01/03/2018	Consolidated Team	Astrid	
	2	IS Finance Team issue accrual/prepayment calculation templates to department	01/03/2018	IS Finance Team	David	Issue with instructions and key dates
	3	Department completes accrued/prepaid expenditure template	03/04/2018 to 12/04/2018	Department	Finance Contacts	Provide support to admin and budget holders as necessary, monitor progress
	4	Accrued/prepaid expenditure template submitted to IS Finance Team for checking and consolidation	17/04/2018	Department	Sharon and Mary	Make sure that all of their service's templates have been returned
	5	Cut off date for checking and consolidation of accrued/prepaid expenditure templates for SW	19/04/2018	IS Finance Team	David and Sharon	Review templates and backup
5. PECOS	1	Issue SW PECOS reports to finance contacts for review and follow-up on queries with budget holders.	09/03/2018	IS Finance Team	David	Issue with other year end documents and guidance
	2	Mismatches to be cleared from PECOS system	28/03/2018	Department	Alistair, Karen and Alison	Monitor progress of requisitioners
	3	Unpaid PECOS orders report to be issued to IS Finance Team for inclusion on accruals template	03/04/2018	Consolidated Team	Astrid	
	4	PECOS accruals to be added to central template	04/04/2018	IS Finance Team	Alistair	
6. Debtors	1	Cut off date for processing debtors invoices in 2017/18	28/03/2018	Department	David	Include in year end instructions and issue reminder e-mail. Alistair and Alison to prepare year end recharges to NHS
	2	Cut off date for preparing residential and non-residential care debtors accruals	18/04/2018	IS Finance Team	Moira and Alison	
	3	Calculate adjustment to bad debt provision	17/04/2018	Corporate Team	Corporate	Backup to be provided to David for review and action in 2017/18 to reduce o/s debt
7. Payroll	1	Payroll journal processed in to the general ledger	17/04/2018	Payroll / Consolidated Team	Astrid	Astrid to let David know when completed
	2	Payroll accrual prepared	19/04/2018	IS Finance Team	Mary	Simple prorata approach to be used and adjustments to be prepared
8. CareFirst	1	Cut off for processing of charges to be charged to 2017/18	28/03/2018	Department	David	Instruction in year end guidance and e-mail reminder
	2	Final payables interface generated from CareFirst	29/03/2018	IS Finance Team	Karen	
	3	Snapshot of outstanding transactions taken from CareFirst	29/03/2018	IS Finance Team	Karen	Run year end reports for homecare, residential care, direct payment and adoption
	4	Recommence processing of invoices via CareFirst - all to be charged to April 2018/19 with year end adjustments processed via accrued/prepaid expenditure templates	03/04/2018	Department / Creditors	David	Instruction in year end guidance and e-mail reminder
9. Long Term Debt - Charging Orders	1	Prepare charging order journal entries and agree with Corporate Team	12/04/2018	IS Finance Team	Sharon	To be checked and agreed with David and Moira Miller
10. Consolidation	1	Take snapshot of general ledger following payrun including last of the SW supplier invoices being processed into 2017/18	12/04/2018	IS Finance Team	David	
	2	Create consolidation template to produce outturn	11/04/2018	IS Finance Team	David	Mary and Sharon to review workings
	3	Report outturn position	20/04/2018	IS Finance Team	David	Pass figure to Caroline Whyte to Agree with Kirsty Flanagan.

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Appendix 2

Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
1. Year end monitoring and analytical review	***1***	Completion and return of earmarking requests	20/04/18 to 11/05/18		Principal Accountants
	2	Preparation of year-end monitoring reports and analytical review	14/05/18 to 15/05/18		David Forshaw
	3	Distribution of year-end monitoring reports to Departments	16/05/2018		David Forshaw
	4	Perform year-end monitoring and analytical review procedures	17/05/18 to 25/05/18		Principal Accountants
	5	Deadline for return of completed monitoring and analytical review templates	25/05/2018		Principal Accountants
	6	Preparation of Year-end Revenue Budget Monitoring Corporate Overview and Committee Report, Reserves Report	28/05/18 to 30/05/18		David Forshaw
	7	**Deadline for Reports to SMT**	**30/05/2018**		**David Forshaw**
2. Comprehensive Income and Expenditure Statement	***1***	Run Retained Earnings Proof	16/05/18 to 18/05/18		Corporate Support - Moira Miller
	2	Run Comprehensive Income & Expenditure download (cost centres, cost centres and account codes)	16/05/18 to 18/05/18		Corporate Support - Moira Miller
	3	Final Outturn CI&E based on management structure	16/05/18 to 18/05/18		Corporate Support - Moira Miller
	4	Final Outturn CI&E based on SeRCOP	16/05/18 to 18/05/18		Corporate Support - Moira Miller
	5	Complete Comprehensive Income & Expenditure Statement and additional NCS analysis based on SeRCOP (Note 6.3)	21/05/2018		Corporate Support - Moira Miller
	6	**Comprehensive Income & Expenditure Statement completed**	**21/05/2018**		**Corporate Support - Moira Miller**
3. Expenditure and Funding Analysis	***1***	Calculate adjustments between funding and accounting basis on management structure	22/05/2018		Corporate Support - Moira Miller
	2	Complete Note 30 - Note to the Expenditure and Funding Analysis	22/05/2018		Corporate Support - Moira Miller
	3	Complete main Expenditure and Funding Analysis Statement	22/05/2018		Corporate Support - Moira Miller
4. Comprehensive Income and Expenditure Statement Notes	***1***	Complete General Fund Earmarking Note (Note 5)	16/05/2018		David Forshaw
	2	Complete Segmental Reporting Note for Accounts (Note 6) - Analysis of Expenditure and Income by Nature (Note 6.1) and Analysis of Income based on Management Structure (Note 6.2)	23/05/2018		Corporate Support - Moira Miller
	3	Complete Other Operating Income and Expenditure Note (Note 7)	24/05/2018		Corporate Support - Moira Miller
	4	Complete Agency Income Note (Note 8)	24/05/2018		Corporate Support - Ruth Love

Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
	5	Community Care and Health (Scotland) Act 2002 (Note 9)	16/05/18 to 22/05/18		David Forshaw
	6	Complete Waste Management PPP note (Note 11)	16/05/18 to 22/05/18		Departmental Support - Morag Cupples
	7	Complete Fees Payable to External Auditors note (Note 10)	01/05/2018		Corporate Support - Moira Miller
	8	Complete Grant Income note (Note 12)	16/05/18 to 22/05/18		Corporate Support - Ruth Love
Related Parties (Note 13)	*9*	Arrange for related party letters to be sent to members and senior officers	01/03/2018		Corporate Support - Ruth Love
	10	Scottish Government (Note 13.1) - check narrative.	16/05/2018		Corporate Support - Moira Miller
	11	Complete Members related party transactions exceeding £10k table (Note 13.2)	16/05/18 to 22/05/18		Corporate Support - Ruth Love
	12	Complete other related bodies note, identifying those that exceed £10k (Note 13.3)	16/05/18 to 22/05/18		Corporate Support - Ruth Love
	13	**Comprehensive Income & Expenditure Statement Notes completed**	**23/05/2018**		**Corporate Support - Moira Miller**
5. Balance Sheet - *PPE (Note 14)*	*1*	Complete Movement in Property Plant and Equipment note (Note 14.1)	16/05/18 to 22/05/18		Corporate Support - Accountant
	2	Complete Valuation of Property, Plant and Equipment note (Note 14.2)	16/05/18 to 22/05/18		Corporate Support - Accountant
	3	Summary of Capital Expenditure and Financing (14.3)	16/05/18 to 29/05/18		Corporate Support - Peter Cupples
	4	Commitments under Capital Contracts (14.4)	28/05/18 to 29/05/18		Corporate Support - Accountant
Heritage Assets (Note 15)	*5*	Provide Reconciliation of Carrying Values	30/05/2018		Corporate Support - Accountant
	6	Complete Heritage Asset Disclosures (Note 15)	30/05/2018		Corporate Support - Accountant
Intangible Fixed Assets Note (Note 16)	*7*	Complete Movement in Intangible Fixed Assets note (Note 16)	30/05/2018		Corporate Support - Accountant
Investment Property (Note 17)	*8*	Complete Movement in Investment Property note (Note 17.1)	30/05/2018		Corporate Support - Accountant
	9	Calculate Investment Property Income and Expenditure and complete note (Note 17.2), ensure reconciles to analysis of investment income on face of CI&E	24/05/2018		Corporate Support - Moira Miller
Schools Non Profit Distributing Organisation (Note 18)	*10*	Complete Assets Held under Schools NPDO contract note (Note 18.1)	16/05/2018		Corporate Support - Accountant
	11	Complete Schools NPDO Finance Lease Liability note (Note 18.2)	02/05/2018		Corporate Support - Moira Miller
	12	Complete Payments due to Operator Under Schools NPDO Contract note (Note18.3)	02/05/2018		Corporate Support - Moira Miller
Operating Leases (Note 19)	*24*	Request information from departments re operating leases	23/03/2018		Corporate Support - Ruth Love
		Departments complete operating lease template	26/03/18 to 27/04/18		Departments

Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
	25	Complete Operating Leases - Amounts Paid to Lessors note (Note 19.1)	30/04/18 to 01/05/18		Corporate Support - Ruth Love
	26	Complete Assets Held Under Operating Leases note (Note 19.2)	30/04/18 to 01/05/18		Corporate Support - Ruth Love
Long Term Debtors/Investments (Note 20)	***27***	House Loans (Working Papers Completed)	13/04/2018		Consolidated Team - Duncan MacBrayne
	28	Waste PPP Land Contamination Fund	27/04/2018		Corporate Support - Sandra Coles
	29	Calculation of Charging Orders - Care Home Fees LT Debtor and completion of associated working papers	01/05/18 to 08/05/18		Departmental Support - Sharon MacAlister
	30	SHF - Loans to Registered Social Landlords	17/04/2018		Corporate Support - Moira Miller
	31	Calculation and working papers for Other Long Term Debtors (if any)	18/04/2018		Corporate Support - Moira Miller
	32	Finalise Lead Schedule and Working Papers	18/04/2018		Corporate Support - Moira Miller
	33	Completion of LT Debtor Note (20)	18/04/2018		Corporate Support - Moira Miller
	34	WGA - Complete LT Debtors Section	18/04/2018		Corporate Support - Moira Miller
Short Term Debtors (Note 21)	***35***	Local Tax Collection Debtors - Production of working papers	16/05/18 to 22/05/18		Departmental Support - Elizabeth Moller
	36	Sundry Debtor Accounts - Production of Working Papers	26/04/18 to 02/05/18		Debtors - Jennifer Gorman
	37	Housing Benefit Overpayments - Production of Working Papers	11/04/18 to 17/04/18		Benefits - Maggie Campbell
	38	VAT Debtor - Production of Working Papers	30/04/2018		Corporate Support - Sandra Coles
	39	Net Debtor/Creditor to Scottish Government for NDR - Finalise Working Papers	16/05/2018		Corporate Support - Moira Miller
	40	Other Debtors - Provision of working papers from various departments	16/05/18 to 22/05/18		Corporate Support - Moira Miller
	41	Finalise Lead Schedule and Working Papers	23/05/2018		Corporate Support - Moira Miller
	42	Debtors Note (21)	23/05/2018		Corporate Support - Moira Miller
	43	WGA - Complete Debtors Section	23/05/2018		Corporate Support - Moira Miller
Assets Held for Sale (Note 22)	***44***	Complete Assets Held for Sale Note (22)	30/05/2018		Corporate Support - Accountant
	45	Finalise Lead Schedule and Working Papers	31/05/2018		Corporate Support - Accountant
	46	WGA - Complete Assets Held for Sale Section	31/05/2018		Corporate Support - Moira Miller
Cash and Cash Equivalents (Note 23)	***47***	Cash Held by the Authority (Imprests)-provide working papers	27/04/18 to 01/05/18		Creditors
	48	Cash in Transit - Working Papers	16/05/18 to 18/05/18		Revenues - Alison Millar
CC&E - Short Term Deposits	***49***	Goldman Sachs/Standard Chartered - working papers	27/04/2018		Corporate Support - Ruth Love
	50	BoS Corporate Deposit - working papers	27/04/2018		Corporate Support - Ruth Love
	51	CB Instant Access Account - working papers	27/04/2018		Corporate Support - Ruth Love
	52	Money Market Funds	27/04/2018		Corporate Support - Ruth Love

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Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
CC&E - Bank Overdraft Working Papers	***53***	Income Bank Account - working papers	30/04/2018		Revenues - Alison McGeachy
	54	Expenditure Bank Account - working papers	30/04/2018		Creditors
	55	Housing Benefits Bank Account - working papers	30/04/2018		Benefits - Sharon Leitch
	56	Council Tax / NDR Bank Account - working papers	30/04/2018		Revenues - Alison Millar
	57	Finalise Lead Schedule and Working Papers	21/05/2018		Corporate Support - Sandra Coles
	58	Complete Cash and Cash Equivalents Note (23)	21/05/2018		Corporate Support - Sandra Coles
	59	WGA - Complete Cash Holding Section	21/05/2018		Corporate Support - Moira Miller
Creditors (Note 24)	***60***	Accrued Payrolls - Pull overall figure together for Accrued Payrolls	01/05/2018		Consolidated Team - Ailsa Laing/Duncan MacBrayne
Superannuation	***61***	Teachers - Identification of year end balance on teachers superannuation control account as at 31 March 2018	08/05/2018		Consolidated Team - Astrid Ronald
	62	Non-teachers - Identification of year end balance on non-teachers superannuation control account as at 31 March 2018	08/05/2018		Consolidated Team - Astrid Ronald
Short Term Accumulating Absences	***63***	Teachers - Provision of working papers for creditors	12/04/2018		Corporate Support - Accountant
	64	Non Teachers - Provision of working papers for creditors	12/04/2018		Corporate Support - Accountant
	65	Creditors System Liability (Core Payables) - Working papers/discoverer report	16/04/2018		Consolidated Team - Astrid Ronald
	66	Accrued Expenditure/deferred income - Pull summary sheet together with links to templates to help auditors choose sample	30/04/2018		Consolidated Team - Linda Williamson
	67	Other Creditors - various Departmental Support (provision of working papers)	08/05/18 to 10/05/18		Corporate Support - Moira Miller
	68	Finalise Lead Schedule and working Papers	11/05/2018		Corporate Support - Moira Miller
	69	Complete Creditors Note (24)	11/05/2018		Corporate Support - Moira Miller
	70	WGA - Complete Creditors Section	11/05/2018		Corporate Support - Moira Miller
Borrowings (Financial Instruments) - Note 25	***71***	Completion of Borrowings/Financial Instruments Working Papers	19/04/18 to 25/04/18		Corporate Support - Sandra Coles
	72	Financial Instruments - Types - Note 25.1	24/04/18 to 25/04/18		Corporate Support - Peter Cupples
	73	Financial Instruments - Fair Value - Note 25.2	24/04/18 to 25/04/18		Corporate Support - Peter Cupples
	74	Financial Instruments - Gains and Losses - Note 25.3	24/04/18 to 25/04/18		Corporate Support - Peter Cupples
	75	Financial Instruments - Risks - Note 25.4 to 25.9	24/04/18 to 25/04/18		Corporate Support - Peter Cupples
	76	Financial Instruments - Risks - Note 25.10 to 25.11	24/04/18 to 25/04/18		Corporate Support - Peter Cupples
	77	Borrowings/Financial Instruments - Complete Accounts	24/04/18 to 25/04/18		Corporate Support - Peter Cupples
	78	WGA - Borrowing Figures	26/04/2018		Corporate Support - Peter Cupples
Other Liabilities (Note 26)	***79***	Schools NPDO Finance Lease Liability	02/05/2018		Corporate Support - Moira Miller

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Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
	80	Waste PPP Land Contamination - Provision of working paper, same as long term debtor.	27/04/2018		Corporate Support - Sandra Coles
	81	Finalise Lead Schedule and Working Papers	03/05/2018		Corporate Support - Moira Miller
	82	Complete Other Liabilities Note (28)	03/05/2018		Corporate Support - Moira Miller
	83	WGA - Complete Deferred Liability Section	04/05/2018		Corporate Support - Moira Miller
Provisions (Note 27)	*84*	Equal Pay Claims - Calculate provision and provide working papers	01/05/18 to 08/05/18		Corporate Support - Moira Miller
	85	Registered Social Landlords - Calulate provision and provide working papers	01/05/18 to 08/05/18		Departmental Support - Elizabeth Moller
	86	Reorganisation Redundancy Costs - Calculate provision and provide working papers	01/05/18 to 08/05/18		Departmental Support - Sandra McLindon/Sharon MacAllister
	87	Utilities Provision - Calculate provision and provide working papers	01/05/18 to 08/05/18		Departmental Support - Elizabeth Moller
	88	Other Provisions - Calulate provisions and provide working papers	01/05/18 to 08/05/18		Corporate Support - Moira Miller
	89	Split Provisions between short and long term	16/05/2018		Corporate Support - Moira Miller
	90	Provisions Note (27)	16/05/2018		Corporate Support - Moira Miller
	91	Finalise Lead Schedule and Working Papers	16/05/2018		Corporate Support - Accountant
	92	WGA - Complete Provisions Section	16/05/2018		Corporate Support - Moira Miller
Capital Grants Received in Advance (Note 28)	*93*	Ministry of Defence LIBOR Funding	16/04/2018		Corporate Support - Moira Miller
	94	Grant in Aid - Gaelic School Capital Fund	16/04/2018		Corporate Support - Moira Miller
	95	Finalise Lead Schedule and Working Papers	16/04/2018		Corporate Support - Moira Miller
	96	Complete Capital Grants Received in Advance Note (28)	16/04/2018		Corporate Support - Moira Miller
	97	WGA - Complete Deferred Liability Section	16/04/2018		Corporate Support - Moira Miller
Pension Assets and Liabilities (Note 29)	*98*	Calculation of Accrued Pension Contribution (29.1)	01/05/2018		Corporate Support - Moira Miller
	99	Transactions Relating to Retirement Benefits (29.2)	01/05/2018		Corporate Support - Moira Miller
	100	Assets and Liabilities in Relation to Post Employment Benefits (29.3)	01/05/2018		Corporate Support - Moira Miller
	101	Pension Assets and Liabilities Recognised in the Balance Sheet (29.4)	01/05/2018		Corporate Support - Moira Miller
	102	Analysis of Pension Fund Assets (29.5)	01/05/2018		Corporate Support - Moira Miller
	103	Basis for Estimating Assets and Liabilities (29.6)	01/05/2018		Corporate Support - Moira Miller
	104	Impact on Authority's Cash Flow (29.8)	01/05/2018		Corporate Support - Moira Miller
	105	Teachers' Pensions - Amount Paid Over (29.9)	01/05/2018		Corporate Support - Moira Miller
	106	Teachers' Pensions - Check Contribution Rate (29.9)	01/05/2018		Corporate Support - Moira Miller
	107	Teachers' Pensions - Added Years awarded by Council Calculation (29.9)	01/05/2018		Corporate Support - Moira Miller
	108	WGA Complete Pensions Section (IAS19)	02/05/2018		Corporate Support - Moira Miller
	109	**Balance Sheet Complete**	**31/05/2018**		**Corporate Support - Moira Miller**

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Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
6. Other Notes to the Financial Statements	*1*	Note 1 - Review and amend accounting policies	01/03/2018		Corporate Support - Moira Miller
	2	Note 2 - Accounting Standards Issued but Not Yet Adopted	02/03/2018		Corporate Support - Moira Miller
	3	Note 3 - Critical Judgements in Applying Accounting Policies	02/03/2018		Corporate Support - Moira Miller
	4	Note 4 - Assumptions / Estimation Uncertainty	18/05/2018		Corporate Support - Moira Miller
	5	Note 33 - Contingent Liabilities (consider alongside provisions)	01/05/18 to 08/05/18		Principal Accountants
	6	Note 34 - Termination Benefits (consider alongside Exit Packages)	01/05/18 to 08/05/18		Departmental Support - Sandra McLindon/Sharon MacAllister
	7	Note 35 - Trust Funds and Other Third Party Funds (Part of preparing accounts for charities and other trusts)	16/05/18 to 29/05/18		Corporate Support - Sandra Coles
	8	Note 36 - Common Good Funds (Prepare Accounts for Common Good Funds and collate information for Oban and Campbeltown Funds)	16/05/18 to 29/05/18		Corporate Support - Sandra Coles
	9	Note 37 - Tax Incremental Financing (TIF) Projects - Links to NDR Income Account - Journal processed by 16/05/18	29/05/2018		Departmental Support - Elizabeth Moller
7. Statement of Movement in Reserves - *General Fund Balance*	*1*	Analysis of General Fund Balance Movement	22/05/2018		Corporate Support - Moira Miller
	2	Analysis of amounts included in CI&E but excluded from General Fund	22/05/2018		Corporate Support - Moira Miller
	3	Analysis of amounts included in General Fund but excluded from CI&E	22/05/2018		Corporate Support - Moira Miller
	4	Transfer to from General Fund Balance	22/05/2018		Corporate Support - Moira Miller
	5	Breakdown of amounts additional to surplus/deficit on CI&E	22/05/2018		Corporate Support - Moira Miller
Other Usable Reserves (Note 32)	*6*	Usable Capital Receipts Reserve	04/05/2018		Corporate Support - Moira Miller
	7	Capital Fund	04/05/2018		Corporate Support - Accountant
	8	Complete Capital Funds Note (32.1)	04/05/2018		Corporate Support - Accountant
	9	Completion of Education R&R Fund Entries and Working Papers	01/05/18 to 02/05/18		Departmental Support - Anne Macdougall
	10	Process Ledger entries through MiR Statement	03/05/2018		Corporate Support - Moira Miller
	11	Complete Repairs and Renewals Note (32.2)	03/05/2018		Corporate Support - Moira Miller
Unusable Reserves (Note 31)	*12*	Revaluation Reserve	03/05/2018		Corporate Support - Moira Miller
	13	Capital Adjustment Account	03/05/2018		Corporate Support - Moira Miller
	14	Financial Instruments Adjustment Account	19/04/2018		Corporate Support - Moira Miller
	15	Accumulated Absences Account	12/04/2018		Corporate Support - Moira Miller
	16	**Statement of Movement in Reserves Complete**	**22/05/2018**		**Corporate Support - Moira Miller**
	17	WGA - complete reserves section	23/05/2018		Corporate Support - Moira Miller

Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
8. Cash Flow Statement - *Analysis of Balance Sheet Movements*	*1*	Revaluation Reserve	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	2	Capital Adjustment Account	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	3	Capital Activities Cash/Non Cash Transactions	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	4	Other Revenue Items not involving the movement of funds	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	5	Accrual Adjustments	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	6	Complete Operating Activities (Note 36)	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	7	Complete Operating Activities Section of Statement	31/05/18 to 04/06/18		Corporate Support - Moira Miller
Other Cash Flow Activities	*8*	Investing Activities (Note 37)	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	9	Financing Activities (Note 38)	31/05/18 to 04/06/18		Corporate Support - Moira Miller
	10	**Cash Flow Statement Complete**	**04/06/2018**		**Corporate Support - Moira Miller**
9. Council Tax Income Account	*1*	Prepare CTI Main Accounting Statement	16/05/18 to to 21/05/18		Departmental Support - Elizabeth Moller
	2	Prepare and complete Calculation of Council Tax Base note	22/05/2018		Departmental Support - Elizabeth Moller
	3	**Council Tax Income Account Complete**	**22/05/2018**		**Departmental Support - Elizabeth Moller**
10. NDR Income Account	*1*	NDRI Main Accounting Statement	23/05/18 to 28/05/18		Departmental Support - Elizabeth Moller
	2	Analysis of Rateable Values	29/05/2018		Departmental Support - Elizabeth Moller
	3	NDR Charge	29/05/2018		Departmental Support - Elizabeth Moller
	4	**NDR Income Account Complete**	**29/05/2018**		**Departmental Support - Elizabeth Moller**
11. Remuneration Report	*1*	Councillors - Review policy and arrangements for changes	12/03/2018		Corporate Support - Moira Miller
	2	Councillors Remuneration	16/05/2018		Consolidated Team - Duncan MacBrayne
	3	Senior Councillors' Remuneration	17/05/2018		Consolidated Team - Duncan MacBrayne
	4	Obtain Pension Information for Senior Members	18/05/2018		Consolidated Team - Duncan MacBrayne
	5	Senior Councillors Pension Benefits	21/05/2018		Corporate Support - Moira Miller
	6	Review policy and arrangements - senior employees	12/03/2018		Corporate Support - Moira Miller
	7	Employees remuneration (Bands over £50,000)	16/05/2018		Consolidated Team - Ailsa Laing
	8	Senior Employees' Remuneration	17/05/2018		Consolidated Team - Ailsa Laing
	9	Obtain Pension Information for Senior Employees	18/05/2018		Consolidated Team - Ailsa Laing
	10	Senior Employees' Pension Benefits	21/05/2018		Corporate Support - Moira Miller
	11	Employee Exit Packages (consider alongside provisions)	01/05/18 to 08/05/18		Departmental Support - Sandra McLindon/Sharon MacAllister
	12	**Remuneration Report Complete**	**21/05/2018**		**Corporate Support - Moira Miller**

Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
	13	Submit draft remuneration report to SMT (5 June 2017 meeting)	30/05/2018		Corporate Support - Moira Miller
12.Group Accounts	*1*	Determination of Group Structure	01/03/2018		Corporate Support - Moira Miller
	2	Single Entity Accounts	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	3	Common Good Accounts	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	4	Associates Accounts	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	5	Health and Social Care Integration Accounts	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	6	Live Argyll - Leisure Trust Accounts (Group Consolidation)	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	7	Consolidation	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	8	Completion of Group Accounts and Notes	01/06/2018 to 04/16/18		Corporate Support - Moira Miller
	9	**Group Accounts and Notes Complete**	**04/06/2018**		**Corporate Support - Moira Miller**
13. Corporate Governance Statement	*1*	Completion of Corporate Governance Statement	By 01/06/2018		Internal Audit - Laurence Slavin
14. Management Commentary	*1*	Completion of Management Commentary	By 01/06/2018		Corporate Support - Peter Cupples
	1	**2017-18 ANNUAL ACCOUNTS COMPLETE**	**04/06/2018**		**Corporate Support - Moira Miller**
15. Summary Accounts and Financial Snapshot	*1*	Complete Summary Accounts and Financial Snapshot	31/05/18 to 04/06/18		Corporate Support - Elizabeth Moller
16.Treasury Management Annual Report	*1*	Complete Treasury Management Annual Report	17/05/18 to 04/06/18		Corporate Support - Sandra Coles
17. Year-end Capital Plan Monitoring Report	*1*	Complete Year-end Capital Plan Monitoring Report and covering Committee Report	17/05/18 to 04/06/18		Corporate Support - Accountant
18. S106 Charity Accounts Prepared	*1*	Prepare S106 Charity Accounts	17/05/18 to 04/06/18		Corporate Support - Sandra Coles
19. Final Procedures	*1*	Strategic Management Team Meeting (SMT) - Draft to be tabled on the day	04/06/2018		Head of Strategic Finance
	2	Head of Strategic Finance final review of Annual Accounts, and accompanying year end reports (See above 15-18)	04/06/18 to 08/06/18		Head of Strategic Finance
	3	SMT/Full Council/ Audit Committee Papers ready (complete year end pack) to be sent Governance and Law	08/06/2018		Corporate Support - Peter Cupples
	4	Brief Council Leader/senior politicians on Annual Accounts and accompanying reports pack.	w/c - 04/06/2018		Head of Strategic Finance
	5	Audit Committee	19/06/2018		Head of Strategic Finance
	6	Full Council Meeting (Special)	28/06/2018		Head of Strategic Finance
	7	Signature by Head of Strategic Finance	28/06/2018		Head of Strategic Finance
	8	**Unaudited Accounts produced and submitted to appointed auditor**	**29/06/2018**		**Corporate Support - Moira Miller**
	9	**Unaudited Accounts published on Local Authority website.**	**29/06/2018**		**Corporate Support - Moira Miller**

Final Accounts Preparation Plan and Timetable

Work Area	Task No.	Task Description	2017-18 Dates	Actual 2017-18 Completed Dates	Lead Responsibility
20. Notice of Public Right to Inspect and Object to Accounts	*1*	Preparation of Public Notice for placing in local papers (provided by Moira Miller)	06/06/2018		Consolidated Team
	2	Public Notice placed in local papers (Section 195 of the 1973 Act)	14/06/18 to 15/06/18		Consolidated Team
	3	Public Notice placed on Local Authority website	14/06/18 to 20/07/18		Corporate Support - Moira Miller
	4	Public Notice placed in offices of the Local Authority	14/06/18 to 20/07/18		Corporate Support - Ruth Love
	5	Distribution of Unaudited Annual Accounts to Area Offices	29/06/2018		Corporate Support - Ruth Love
	6	Period of Inspection of Unaudited Annual Accounts	02/07/18 to 20/07/18		General Public
	7	Period for registering an objection	02/07/18 to 20/07/18		General Public
21. Whole of Government Accounts Return	*1*	Net Cost of Service Analysis	16/07/18 to 18/07/18		Corporate Support - Moira Miller
	2	Net Operating Expenditure (Group Accounts)	19/07/2018		Corporate Support - Moira Miller
	3	Counter Party Data	20/07/2018		Corporate Support - Moira Miller
	4	Infrastructure Assets	23/07/2018		Departments - Roads and Amenity
	5	Additional Disclosures	23/07/2018		Corporate Support - Moira Miller
	6	**Unaudited WGA Return complete and returned to Scottish Government**	**23/07/2018**		**Corporate Support - Moira Miller**
	7	Submission of Unaudited WGA Return to External Audit	23/07/2018		Corporate Support - Moira Miller
	8	Sign off of WGA Return and electronic submission to Scottish Government	27/09/18 to 01/10/2018		External Audit / Corporate Support - Moira Miller
22. Final Accounts Audit	*1*	Final Accounts Audit Field Work	02/07/18 to 24/08/18		External Audit
	2	Final Clearance Meeting with Head of Strategic finance	29/08/2018		David McConnell (Audit Scotland) and Head of Strategic Finance
	3	Amendments processed and Production of Final Accounts complete with Audit Certificate for signing (latest date 15/09/2017)	30/08/18 to 14/09/18		Corporate Support - Moira Miller
	4	Production and agreement of ISA 260 report from External Audit	30/08/18 to 14/09/18		External Audit
	5	Audit Committee - Consideration of ISA 260 report and Final Audited Accounts	25/09/2018		Audit Committee
	6	Signing of Final Audited Accounts - Leader, Chief Executive, Head of Strategic Finance	25/09/2018		Leader, Chief Executive, Head of Strategic Finance
	7	Signing of Final Audited Accounts - Audit Certificate	25/09/2018		David McConnell - Audit Scotland
	8	Signed Audited Annual Accounts published on Website and distributed to local area offices and libraries,	30/10/18 to 31/10/18		Corporate Support - Moira Miller / Sandra Coles

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Audit & Scrutiny Committee Work Plan 2018 - 2019

This is an outline plan to facilitate forward planning of reports to the Audit & Scrutiny Committee

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
20 March 2018					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	23 February 2018	
	Internal Audit Reports to Audit & Scrutiny Committee 2017/18 • Catering Compliance with Nutritional Guidelines • Rural Resettlement Fund • Leisure Management • Earmarked Reserves	Chief Internal Auditor	Quarterly	23 February 2018	
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	23 February 2018	
	Risk Management Overview	Head of Strategic Finance	Annual	23 February 2018	
	Council Performance Report – April to September	Head of Improvement & HR	Annual	23 February 2018	
	Scrutiny Framework	Chief Internal Auditor	One-Off	23 February 2018	
	External Audit Annual Plan	External Audit	Annual	23 February 2018	
	Audit Scotland – Local Government in Scotland: Financial overview 2016/17	Head of Strategic Finance	Annual	23 February 2018	
	Treasury Management Strategy Statement and Annual	Head of Strategic Finance	Annual	23 February 2018	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Investment Strategy 2018-2019				
	Internal Audit 2018-19 Annual Plan	Chief Internal Auditor	Annual	23 February 2018	
	Year End Timetable	Head of Strategic Finance	Annual	23 February 2018	
	Internal Audit Charter and Internal Audit Manual	Chief Internal Auditor	Annual	23 February 2018	
19 June 2018					
	Council Strategic Risk Register Update	Chief Executive	Annual	25 May 2018	
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	25 May 2018	
	Internal Audit Reports to Audit Committee 2017/18 • Street Lighting • Psychological Services • ICT – SLA and User Testing • Waste Management • Trading Standards 2018/19 • Community Empowerment Act • General Data Protection Regulation	Chief Internal Auditor	Quarterly	25 May 2018	
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	25 May 2018	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Internal Audit Compliance with PSIAS	Chief Internal Auditor	One-Off	25 May 2018	
	Review of Code of Corporate Governance	Governance and Risk Manager	Annual	25 May 2018	
	External Audit Interim Controls Report	External Audit	Annual	25 May 2018	
	Local Government Benchmarking Framework Report	Head of Improvement & HR	Annual	25 May 2018	
	Unaudited Financial Accounts	Head of Strategic Finance	Annual	25 May 2018	
	Local Scrutiny Plan	Head of Strategic Finance	Annual	25 May 2018	
	2018/19 Scrutiny Plan	Chief Internal Auditor	Annual	25 May 2018	
25 September 2018					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	24 August 2018	
	Internal Audit Reports to Audit Committee 2018/19 • Financial Planning • Member Services • Equality & Diversity • Purchasing Cards • Environmental Services • Carefirst • Live Argyll Governance, Recording and Reporting	Chief Internal Auditor	Quarterly	24 August 2018	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	• Adult Learning				
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	24 August 2018	
	Audited Financial Accounts	Head of Strategic Finance	Annual	24 August 2018	
	External Audit Annual Report	Audit Scotland	Annual	24 August 2018	
	Treasury Management Annual Assurance Report	Head of Strategic Finance	Annual	24 August 2018	
18 December 2018					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	23 November 2018	
	Internal Audit Reports to Audit Committee 2018/19 • Off-Payroll Working • Housing Benefit & Council Tax Reduction • Operating Manual (Oban Airport) • Planning Fees • Marine Services (Jura Ferry) • Waste Management	Chief Internal Auditor	Quarterly	23 November 2018	
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	23 November 2018	
	Draft Annual Audit Plan	Chief Internal Auditor	Annual	23 November 2018	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	VAT Update Report	Head of Strategic Finance	Annual	23 November 2018	
	Treasury Management Strategy Statement and Annual Investment Strategy 2019/20	Head of Strategic Finance	Annual	23 November 2018	
	Risk Management Overview	Head of Strategic Finance	Annual	23 November 2018	
19 March 2019					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	22 February 2019	
	Internal Audit Reports to Audit & Scrutiny Committee 2018/19 • Organisational Culture • Performance Management • School Fund Governance • Self Directed Support • Early Years Provision	Chief Internal Auditor	Quarterly	22 February 2019	
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	22 February 2019	
	External Audit Annual Plan	External Audit	Annual	22 February 2019	
	Internal Audit 2018-19 Annual Plan	Chief Internal Auditor	Annual	22 February 2019	
	Year End Timetable	Head of Strategic Finance	Annual	22 February 2019	
Future Reports – dates to be determined					
	2018/19 IA reports: • Land & Asset Disposal	Chief Internal Auditor	Quarterly		

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	• Roads Maintenance				