



Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
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18 September 2018

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **TUESDAY, 25 SEPTEMBER 2018** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

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(Pages 473 - 526)

Report by Chief Internal Auditor

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Report by Head of Strategic Finance

13. LOCAL GOVERNMENT BENCHMARKING FRAMEWORK (LGBF) 2016/17: ASC MEMBERS' COMMENTS (Pages 533 - 538)

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14. NATIONAL FRAUD INITIATIVE IN SCOTLAND (Pages 539 - 590)

Report by Chief Internal Auditor

15. AUDIT & SCRUTINY COMMITTEE ANNUAL REPORT 2017/18 (Pages 591 - 598)

Report by Chair of Audit and Scrutiny Committee

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Audit and Scrutiny Committee

Martin Caldwell (Chair)

Councillor George Freeman

Councillor Alan Reid

Councillor Richard Trail

Councillor Jim Findlay

Councillor Sir Jamie McGrigor

Councillor Sandy Taylor (Vice-Chair)

Councillor Andrew Vennard

Shona Barton, Area Committee Manager

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 TUESDAY, 19 JUNE 2018**

Present: Martin Caldwell (Chair)

Councillor George Freeman
Councillor Sandy Taylor

Councillor Richard Trail
Councillor Andrew Vennard

Attending: Shona Barton, Area Committee Manager
Cleland Sneddon, Chief Executive
Kirsty Flanagan, Head of Strategic Finance
Jane Fowler, Head of Improvement and HR
Laurence Slavin, Chief Internal Auditor
David Meechan, Audit Scotland
Peter Worsdale, Audit Scotland
David Sullivan, Accountant
Sonya Thomas, Performance Management & Improvement Officer

The Chair welcomed Peter Worsdale, Audit Scotland, to the meeting and welcomed Councillor Richard Trail to his first meeting of the Audit and Scrutiny Committee.

The Chair ruled and the Committee agreed to vary the order of business and to consider additional item 20 of the agenda (Internal Audit Reports To Audit And Scrutiny Committee – Service Level Agreement ICT Report) after item 5 of the agenda (Internal Audit Reports To Audit And Scrutiny Committee 2018/19) by reason that the business at item 20 would have been included with the reports contained within item 5 had it been available at the time of publishing the agenda.

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated on behalf of Councillors Jim Findlay, Sir Jamie McGrigor and Alan Reid.

2. DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3. MINUTES

The Minutes of the Audit and Scrutiny Committee as held on 20 March 2018 were 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 1 against a number of areas, which included:

- 2017/18 Audit Plan completion
- 2018/19 Audit Plan progress
- Additional audit team activity

- Continuous monitoring
- Internal Audit development plan
- Performance indicators

Decision:

The Committee agreed to endorse the report.

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

5. INTERNAL AUDIT REPORTS TO AUDIT & SCRUTINY COMMITTEE 2018/19

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

- Waste Management
- Trading Standards
- Purchasing Cards
- Psychological Services
- Street Lighting
- General Data Protection Regulation

Decision:

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

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

6. INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE - SERVICE LEVEL AGREEMENT ICT REPORT

The Committee gave consideration to a report containing action plans in relation to the Service Level Agreement (SLA) ICT.

Decision:

The Committee:-

1. agreed to endorse the SLA ICT report; and
2. agreed to confirm the completion of the 2017/18 internal audit plan.

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

7. 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 31 March 2018.

Decision:

The Committee endorsed the content of the report.

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

8. ARGYLL AND BUTE COUNCIL MANAGEMENT REPORT 2017/18

The Committee gave consideration to a report by Audit Scotland outlining the key issues identified during the interim audit work carried out at Argyll and Bute Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. The report also detailed the progress of work on the audit dimension as required by the Code of Audit Practice, which focussed on financial management, financial sustainability and governance and transparency.

Decision:

The Committee agreed to note the contents of the report.

(Ref: Report by Audit Scotland, dated 19 June 2018, submitted.)

9. INTERNAL AUDIT ANNUAL REPORT 2017-18

The Committee gave consideration to a report outlining the work undertaken by Internal Audit in respect of the Annual Audit Plan 2017/18 and advising on the outcomes of the Chief Internal Auditor's independent annual opinion on the effectiveness of the Council's risk management, internal control and governance processes.

Decision:

The Committee agreed to endorse the content of the report and the associated annual opinion of the Chief Internal Auditor.

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

10. STRATEGIC RISK REGISTER

The Council's Constitution requires the Chief Executive to attend one meeting of the Audit and Scrutiny Committee per annum to report on how the Council is addressing its key strategic risks and other matters of interest. The Committee gave consideration to a report providing an update on the Council's Strategic Risk Register (SRR) and summarising recent revisions to the Council's risk management processes.

Decision:

The Committee agreed to endorse the updated Strategic Risk Register.

(Ref: Report by Chief Executive, dated 19 June 2018, submitted.)

11. LOCAL SCRUTINY PLAN 2018/19 - AUDIT SCOTLAND

The Committee gave consideration to a report introducing the Local Scrutiny Plan (LSP) 2018/19, setting out the planned scrutiny activity in Argyll and Bute Council during the financial year 2018/19 based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising representatives of all scrutiny bodies who engage with the Council.

Decision:

The Committee agreed to endorse the content of the Local Scrutiny Plan 2018/19.

(Ref: Report by Head of Strategic Finance, dated 19 June 2018, submitted.)

12. COUNCILS' USE OF ARM'S-LENGTH ORGANISATIONS

The Committee gave consideration to a report by Audit Scotland outlining how Councils use arms'-length external organisations (ALEOs), how they oversee ALEOs, what ALEOs are achieving and the future direction of ALEOs together with recommendations that Audit Scotland have identified for Councils to follow to ensure compliance with the Public Pound principles (FtPP).

Decision:

The Committee agreed to note the contents of the report.

(Ref: Report by Audit Scotland, dated 17 May 2018, submitted.)

The Chair ruled and the Committee agreed to take a comfort break. The Committee adjourned at 12.55 pm and reconvened at 1.10 pm with all Members present as per the sederunt.

13. SCRUTINY MANUAL

The Committee gave consideration to a report presenting the Scrutiny Manual which provides guidance to council officers and elected members on the Council's approach to scrutiny.

Decision:

The Committee agreed to endorse the Scrutiny Manual.

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

14. 2018/19 SCRUTINY PLAN

The Committee gave consideration to a report presenting the proposed 2018/19 Scrutiny Plan.

Decision:

The Committee:-

1. agreed to approve the 2018/19 Scrutiny Plan;
2. agreed to endorse the Chief Internal Auditor's (CIA) proposal to reschedule the 2018/19 audit of roads maintenance into the 2019/20 internal audit plan;
3. agreed to advise the CIA of their interest in attending scrutiny training if an appropriate course is made available; and
4. agreed to endorse the CIA's proposal to conduct a review of lessons learned after the completion of the 2018/19 scrutiny plan to identify areas for improvement.

(Ref: Report by Chief Internal Auditor, dated 19 June 2018, submitted.)

15. COUNCIL PERFORMANCE REPORT - OCTOBER TO MARCH 2018

The Committee gave consideration to a report presenting the Council's performance report with associated scorecard for performance for FQ3 and FQ4 – October to March 2018.

Decision:

The Committee:

1. reviewed the Council report and scorecard as presented for the purposes of scrutinising the Council's performance; and
2. noted the changes made following the implementation of the Performance Improvement Framework and the planned improvements for 2018/19.

(Ref: Report by Chief Executive, dated 19 June 2018, submitted.)

16. LOCAL GOVERNMENT BENCHMARKING FRAMEWORK - ANALYSIS AND COMMENTARY

The Committee gave consideration to a report presenting the final Local Government Benchmarking Framework (LGBF) 2016/17 data for Argyll and Bute which included "Telling Our Story" and "Looking Forward" commentary from Heads of Service.

Decision:

The Committee:-

1. considered the contents of the report prior to the publication as part of the Council's statutory Public Performance Reporting duty;
2. agreed to send the report to a members' seminar to raise awareness and to better enable members to carry out their scrutiny function; and
3. agreed that the Audit and Scrutiny Committee would review the information provided in the report, feedback comments to the Head of Improvement and HR, and a report would come to the next meeting of the Committee on the indicators which have been identified with reference to the key data and the looking forward part of the report.

(Ref: Report by Executive Director of Customer Services, dated 19 June 2018, submitted.)

17. LOCAL GOVERNMENT IN SCOTLAND: CHALLENGES AND PERFORMANCE 2018

The Committee gave consideration to a report by the Accounts Commission on Local Government in Scotland Challenges and Performance 2018 providing information with a high level summary of areas of interest for the Audit and Scrutiny Committee.

Decision:

The Committee:-

1. agreed to note the report by the Accounts Commission; and
2. agreed to endorse the view that the Council is taking action in both its improvement and transformation agendas to address the issues in the recommendations section.

(Ref: Report by Executive Director of Customer Services, dated 19 June 2018, submitted.)

18. REVIEW OF CODE OF CORPORATE GOVERNANCE

The Committee gave consideration to a report advising that the Council's Governance Group has reviewed the action plan for 2017/18 and updated the content of the local code of corporate governance to reflect the governance position within the Council for 2017/18. The report also advised on the progress of the action plan for 2018/2019 and the statement of governance and internal control in the Annual Accounts for 2017/18.

Decision:

The Committee:-

1. agreed to approve the content of the revised Code of Corporate Governance for 2017/18;
2. agreed to approve the content of the Action Plan for 2018/19; and
3. agreed to approve the draft statement of governance and internal control for 2017/18.

(Ref: Report by Executive Director of Customer Services, dated 19 June 2018, submitted.)

19. UNAUDITED FINANCIAL ACCOUNTS

The Committee gave consideration to a report providing an overview of the Unaudited Annual Accounts for 2017-18 and a summary of the significant movements from 2016-17. Information on the revenue outturn for 2017-18 was also provided.

Decision:

The Committee:-

1. noted the draft unaudited financial accounts; and
2. noted that the audited accounts would be brought back to a future meeting for endorsement.

(Ref: Report by Head of Strategic Finance, dated 19 June 2018, submitted.)

20. 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 workplan.

(Reference: Audit Committee Workplan dated 19 June 2018, submitted)

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ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

STRATEGIC FINANCE

25 SEPTEMBER 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 2 of 2018/19.
- 1.2 Core activities together with a progress update statement are shown below.
- **2018/19 Audit Plan progress:** The audit plan is currently on track.
 - **Individual Audits undertaken:** Six audits have been completed during the period. Of these audits, one is rated as high, four as substantial, one as reasonable and none as limited.
 - **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.

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 2 against a number of areas;

- 2018/19 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to review and endorse this report.

4. DETAIL

4.1 At the time of writing six audits have been completed since the previous Committee in June 2018. Four audits are currently in progress and these will be reported to a future Committee. Three audits that were originally scheduled to be presented to this meeting have been rescheduled to December's committee and one (Planning fees) schedules for December has been brought forward to this Committee. This will not affect the completion of the overall audit plan.

Audits Completed

- Community Empowerment Act
- Members Services
- ALEO – LiveArgyll Governance
- Equality & Diversity
- Adult Learning
- Planning Fees

Audits in Progress

- Organisational Culture
- School Funds Review
- Environmental Services
- LEADER
- Marine Services (scope extended to all four ferry services)
- Off Payroll Working
- Oban Airport

4.2 In addition to those already in progress indicative audits planned for Quarter 3 2018/19 are:

- Financial Planning
- CareFirst
- Housing Benefit & Council Tax Reduction
- Waste Management

4.3 **Additional updates from Quarter 2:**

- The CIA has completed the review relating to the correspondence received by Audit Scotland on the governance, performance monitoring and procurement arrangements associated with the Alcohol & Drug Partnership. The report is included as a separate agenda item.
- The FTF consortium have concluded our External Quality Assessment (EQA). This is included as a separate agenda item.
- Scrutiny Training was provided to members of the Audit and Scrutiny Committee, Internal Audit and a number of other officers on the 27 and 28 August. Scrutiny work is due to commence in Q3. The first scrutiny review scheduled is Money Skills Argyll.
- The CIA has created an audit universe document that will be used to inform the selection process on what service areas are included in future years audit plans.
- Internal Audit have further developed their approach to team development days by inviting services to present to the team on key topics to share knowledge, enhance the audit team's profile and build the team's understating of the key risks and issues facing services. To date sessions have been provided by officers in relation to Self-Directed Support and Corporate Governance. Sessions on Roads Maintenance and Early Years are scheduled for future meetings. We are grateful to those officers who have agreed to give up their time and share their experience with the team.
- Audit Scotland recently published a report on a high profile fraud incident within another Scottish local authority. As previously reported Internal Audit developed three strands of additional test areas in order to minimise the risk of Argyll & Bute Council being vulnerable to a similar fraud. Progress has been made for each of these strands and a summary of this work will be reported to the Audit and Scrutiny Committee in December.
- The CIA received a request from Strathclyde Partnership for Transport (SPT) to complete and sign a closedown certificate for the Helensburgh Park and Ride Project. By signing this certificate the CIA is confirming that the terms and conditions of the grant have been complied with and that the project can be financially closed down. Supporting documentation, including invoices, was reviewed for appropriateness, ledger downloads were analysed to

ensure expenditure was incurred in line with the proposed nature of the grant and compliance testing was carried out on general grant conditions such as reporting and the retention of documents. Testing identified that expenditure incurred by the Council was £2,381.69 less than the overall £380,000 grant received from SPT, this was due to an invoice included in the 2016/17 claim also being included in the 2017/18 claim in error. This error was identified to relevant Council and SPT Officers and the over claim has subsequently been repaid to SPT.

- The CIA received an additional request from SPT to complete a Certificate of Accuracy for the ferries concessionary fares reimbursement claim. The supporting evidence was reviewed and the Certificate of Accuracy was completed and returned to SPT. This testing identified two issues:
 - For financial year 2017/18 SPT increased the concessionary fares by £0.10 however the Council did not update their ticket machines to reflect this increase. As a consequence passengers continued to be charged the previous fare until April 2018 resulting in a loss of £170.80 revenue due to the Council.
 - Only two days data was included in the claim for the Lismore ferry for March 2018 as the ticket machine data download malfunctioned. This resulted in a loss of compensation for the Council as they cannot evidence the number of concessionary fares sold for a period of 29 days.

An audit of marine services is scheduled for quarter 3 and further review of these issues will be included in this audit. This will be reported to the December committee.

- Internal Audit have revised their approach to the audit of Oban Airport to provide a more consistent and complete approach to our programme of compliance testing against the Aerodrome Manual and the Rescue and Firefighting Service Manual.
- Every year a small number of Statutory Performance Indicators (SPI's) are required to be returned by Councils as part of the Local Government Benchmarking Framework (LGBF). A sample of data provided to the Improvement Service must be reviewed by Internal Audit and submitted by 31 August each year. Internal Audit was provided with the full set of data from which to select indicators for review on 02 August. As large variances were reported in the attendance figures for Swimming Pools, Indoor and Outdoor Leisure facilities and museums, these indicators were selected for review. Attendance data was provided by Council run facilities, those run by LiveArgyll and from third party providers who receive financial support from the Council. The data provided from a mix of systems and manual records were found to be presented accurately and appropriately estimated where actual attendance figures were not available.

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. Due to the volume of CM tests carried out the decision has been made to report by exception only. Table 1 below summarises activity to date where there were issues identified and provides detail of findings and management commentary. In addition to the areas noted in the table below continuous monitoring testing was carried out on Council Tax, VAT, General Ledger, Budgeting, Creditors and Debtors in the last quarter. No control weaknesses were identified from this testing.

Table 1: Continuous monitoring programme results:

Test Area	Controls Tested	Control Effectiveness	Findings	Management Commentary
Payroll	High Gross Pay	Not Satisfactory	An instance of high gross pay was identified through routine audit testing. Following investigation by the payroll team it was identified that this was a redundancy payment, however the amount paid to the individual was an overpayment.	<p>A recovery process has been put in place, with the overpayment being recovered over a period of 24 months.</p> <p>Payroll and Pensions have implemented a new secondary check control to reduce the risk of a similar error occurring in future.</p> <p>In response to this issue, Internal Audit will amend their continuous monitoring schedule to include the new control and are increasing the sample sizes for payroll CM in 2018/19.</p>

Test Area	Controls Tested	Control Effectiveness	Findings	Management Commentary
My View Expenses Testing	Expenses Testing	Satisfactory	<p>From an original sample of 50 claims, 14 claims were submitted without receipts to support the amount claimed. HR confirmed that the receipt field has been made mandatory on the MyView system. All 14 issues were prior to the implementation of this field.</p> <p>A further sample of 25 claims was tested and there was only one issue identified, with a user not submitting a valid receipt for claim. Valid receipts were attached to all subsequent claims for this individual.</p>	Due to the low error rate for the additional sample this was not formally reported to management. As a response to this Internal Audit have increased sample sizes for expenses testing going forward.

- 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 2 below details the National Reports issued during quarter 2.

Table 2: Issue of National Reports in Quarter 2:

National Report	Issued To	Detail	Management response/ Action taken
National Fraud Initiative in Scotland 2016/17	<ul style="list-style-type: none"> Presented to Audit & Scrutiny Committee as a separate agenda item. 	Scotland's public finances have been boosted after a data-sharing exercise identified nearly £19 million of fraud and error across the public sector.	To be discussed as a separate agenda item.

- 4.7 National Fraud Initiative (NFI). As discussed at the June A&SC meeting, the most recent cycle of NFI activity has now been concluded with the new data set due to be available in January 2019. Therefore the usual table update on matches progressed has been removed as there has been limited activity since the last committee. This will be reintroduced for March 2019 meetings onwards.
- 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 3: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
PSIAS Assessment	Completed EQA is attached to this meeting under a separate agenda item.	Complete	September 2018
Audit risk universe	Existing audit risk universe has been updated to reflect new service plans and better associate risk profiles to auditable units.	Complete	September 2018
Review current terms of reference (TOR) template	Review current TOR template to bring in line with new report template and include additional information suggested by the EQA review. In particular it is recognised the TOR could provide a clearer link between the risks identified and the control objectives designed to provide assurances over those risks.	Complete	October 2018
Prepare SMT paper on minor areas for consideration from EQA review	EQA report highlighted some minor areas for consideration which the CIA has agreed to take to the SMT for discussion. These include: 1. Explicit reference of how internal audit contribute to best value 2. Consideration of how the Committee get their assurances over health and social care integration 3. Committee Chair input into CIA performance 4. CIA job description not recognising the IIA qualification	On Track	November 2018
Response to high profile	Internal Audit have developed additional test areas in order to	On track	December 2018

Area For Improvement	Agreed Action	Progress Update	Timescale
fraud report	minimise the risk of the Council being vulnerable to a similar fraud that occurred in another Scottish local authority. Progress has been made and will be concluded and reporting to the December meeting of the committee.		
Review format and content of annual internal audit plan	Review the format and content of the annual internal audit plan to more overtly reference an alignment between key risks faced by the Council and the planned audit activities. In particular, where relevant, there will be a clear alignment between identified audit assignments and the Council's strategic and/or operational risk register and a three year projection to show proposed future coverage of key strategic risks. The 2019/20 plan will also provide a summary of the key risks which were addressed by the 2018/19 internal audit plan. Consideration should also be given to aligning reviews to service plan challenges as per the 2017-2020 service plans.	On track	December 2018
Training and CPD	Two members of the team are currently training to gain further qualifications (CIPFA and IIA). Every member of the team are required to complete an annual Performance Review of Development which includes a development plan. 2018 PRDs were carried out in February 2018. Scrutiny training was carried out in August 2018.	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 2018– 19 – FQ2 18/19 (as at August 2018)		
TEAM RESOURCES		
PRDs IA Team G →	TARGET	Percentage of PRDs complete
	90%	100%

	Number of eligible employees FTE		Number of PRDs complete FTE	
	5		5	
Revenue Finance	BUDGET	ACTUAL	G ➔	
YTD Position	£62,112	£62,089		
Year End Outturn	£236,493	£236,493		
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)				
Annual Risk Assurance Statements completed by Services	Target	On Track	G ➔	
	Status	On Track		
Risks Management Overview report approved	Status	On Track	G ⬆	
	Target	On Track		
Review of Strategic Risk register	Status	On Track	G ⬆	
	Target	On Track		
Annual Audit Plan approved by 31 March	Status	On Track	G ➔	
	Target	On Track		
% of audits completed in audit plan	Status	100%	G ➔	
	Target	100%		
% of audit recommendations accepted	Actual	100%	G ➔	
	Target	100%		
% customer satisfaction with audit reports	Actual	100%	G ⬆	
	Target	80%		

5. CONCLUSION

- 5.1 The 2018/19 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control 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
25 September 2018

For further information contact:

Laurence Slavin, Chief Internal Auditor (01436 657694)

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

STRATEGIC FINANCE

25 SEPTEMBER 2018

INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2018/2019

1. EXECUTIVE SUMMARY

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

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions
Community Empowerment Act	High	0	0	0
Members Services	Substantial	0	1	0
ALEO - LiveArgyll	Substantial	0	0	3
Equality & Diversity	Substantial	0	1	3
Adult Learning	Substantial	0	2	1
Planning Fees	Reasonable	1	0	1

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

2. RECOMMENDATIONS

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

3. DETAIL

- 3.1 A high level summary of each completed audit report is noted below:
- **Community Empowerment Act:** This audit has provided a high level of assurance as internal control, governance and the management of risk are at a high standard. Appropriate guidance has been prepared and implemented in line with the dates stipulated by the Act and made widely available to staff and to the public. The Council's priorities and outcomes are influenced by community engagement through the work of Community Planning Partnerships, community events and provision of information. Participation requests and Asset Transfer requests were appropriately assessed and decisions made in line with the requirements of the Act.
 - **Members Services:** This audit has a substantial level of assurance as internal control, governance and the management of risk is sound. There is a comprehensive induction program made available to all new and returning members and a voluntary member's continuous professional development

program is in place. A program of seminars, based on feedback from members is available to members with details published on the HUB. All members have access to Casebook and a Casebook controller has been assigned to all relevant services. The 2015 member's survey highlighted that member satisfaction with Casebook was only 43% with a slight increase to 47% reported in the 2016 survey. Early indications from Internal Audit's ongoing elected member survey is that there is still a level of dissatisfaction amongst elected members in relation to how timeously officers respond to member queries.

- **ALEO-LiveArgyll:** This audit has a substantial level of assurance as internal control, governance and the management of risk are sound. LiveArgyll has appropriate and comprehensive governance documents in place which enable effective management and decision making. The roles and responsibilities of the Board are clearly documented with the suitability of potential members assessed prior to appointment. LiveArgyll has an overarching and comprehensive business plan covering 2017-2021. It was approved in January 2018 and provides a clear strategic direction of travel. Member development could be strengthened by the periodic review of member performance.
- **Equality & Diversity:** This audit has provided a substantial level of assurance as internal control, governance and management of risk is sound. There is a suite of comprehensive policies and procedures in place in relation to equality & diversity (E&D) and mandatory training is provided to Council officers. One medium recommendation was made for consideration to be given to implementing a process to monitor the completion of the mandatory E&D course available on LEON. Three low recommendations were made to review the current E&D policy, remind officers to complete and return Equality and Socio-Economic Impact Assessments to Human Resources & Organisational Development (HR&OD) and that HR&OD should implement a process to regularly monitor progress towards delivering the equality actions.
- **Adult Learning:** This audit has provided a substantial level of assurance as internal control, governance and management of risk is sound. There is a comprehensive operational manual in place and a plan was published in 2015 in compliance with the Act. A new plan is currently being prepared for publishing in September 2018. Two medium recommendations were made to remind staff to populate appropriate information and attach evaluation forms in the document management system (PRISM) and to review the process for recording receipt of tutor disclosure. One low recommendation was made to consider implementing a process for monitoring outstanding debt before allowing people to attend future chargeable courses.
- **Planning Fees:** This audit has provided a reasonable level of assurance as internal control, governance and the management of risk are broadly reliable however there is high priority issue centred around noncompliance with newly established procedures for processing pre-application advice requests and failure to charge fees where they should have been charged.

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
25 September 2018**

For further information contact:

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APPENDICES

1. Community Empowerment Act audit report
2. Members Services audit report
3. ALEO – LiveArgyll Governance audit report
4. Equality and Diversity audit report
5. Adult Learning audit report
6. Planning Fees audit report

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Argyll and Bute Council
Internal Audit Report
September 2018
FINAL

**Community Empowerment
Act**

Audit Opinion: High

	High	Medium	Low
Number of Findings	0	0	0

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to the Community Empowerment Act (the Act).
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. The Act will help to empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services. The Bill was passed by the Scottish Parliament on 17 June 2015 and received Royal Assent and became an Act on 24 July 2015.
5. The Act provides a legal framework that will promote and encourage community empowerment and participation. It creates new rights for community bodies and places new duties on public authorities. It provides a framework which will:
 - empower community bodies through the ownership of land and buildings and strengthening their voices in the decisions that matter to them
 - support an increase in the pace and scale of public service reform by cementing the focus on achieving outcomes and improving the process of community planning.
6. There are 11 parts covered by the Act:
 - National Outcomes
 - Community Planning*
 - Participation Requests*
 - Community Rights to Buy Land
 - Asset Transfer Requests*
 - Delegation of forestry commissioners' Functions
 - Football Clubs
 - Common Good Property*
 - Allotments*
 - Participation in Public Decision-making*
 - Non-Domestic Rates*
7. The Council have established a working group to oversee the implementation of the various elements of the Act which directly impact on the Council (indicated with “*”).

8. Our review has focused on parts 2, 3 and 5 of the Act. Part 8 was reviewed as part of the 2017/18 internal audit plan, parts 9 and 10 are not yet implemented and no new areas of relief are currently being considered by the Council in relation to part 11.

Scope

9. The scope of the audit was to assess preparedness for the Act and ensure appropriate governance and procedures are in place to achieve compliance as outlined in the Terms of Reference agreed with the Chief Executive on 23 July 2018.

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 detail of the five possible categories of audit opinion is provided in Appendix 1 to this report.
11. Our overall audit opinion for this audit is that we can take a **high** level of assurance. This means that internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with.

Key Findings

12. The audit has not highlighted any significant areas for improvement.

2. Objectives and Summary Assessment

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	The Council has appropriate guidance to enable compliance with the Community Empowerment (Scotland) Act 2015 for the elements covered by this review.	High	Appropriate guidance for both the public and council officers has been prepared and made available.
2	The Council's priorities and outcomes are influenced by community engagement.	High	The Council, and, more widely the Community Planning Partnership (CPP) engages actively with the community through a combination of community events, information provision and the activity of area community planning groups.
3	The Council implemented parts 2, 3 and 5 of the Act timeously.	High	The Council implemented parts 2, 3 and 5 in line with the required dates stipulated by the Act.
4	Applications for Participation Requests and Asset Transfer Requests submitted to the Council are	High	All validated applications received in the first year of implementation of the Act were appropriately

	supported and assessed in line with the Council guidelines.		assessed with decisions taken in line with relevant guidance.
5	Staffing resources and procedures currently in place are adequate to support the work involved.	High	Implementation of the Act has resulted in additional workload for staff however this has been managed through the implementation of guidance, procedures and staff development.

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

3. Detailed Findings

The Council has appropriate guidance to enable compliance with the Community Empowerment (Scotland) Act 2015 for the elements covered by this review.

15. The Council website has dedicated information pages in regard to the Act that provide an overview of the Act's various elements and links to where further information or support can be found including other relevant websites. This is available to staff and members of the public.
16. The content of the forms and guidance available on the Council's website for parts 3 and 5 comply with the requirements set out by the Act. For part 2 a direct link to the legislation is provided as well as a link to the Community Planning Partnership area of the website which provides further information and ways to get involved.
17. The terms of reference of the CPP provides its members with information on the formal meeting structure and community engagement requirements covering part 2 of the Act. Further guidance on part 3 of the Act is available on the HUB and available to all council staff. Guidance on part 5 of the Act is available to appropriate staff and members of the Asset Transfer Group via a SharePoint site.
18. The Strategic Risk Register and Operational Risk Register of the Chief Executive's Unit have been updated to include appropriate reference to the Act.

The Council's priorities and outcomes are influenced by community engagement.

19. The CPP has been in place since 2001 with the 2013-2023 Single Outcome Agreement (SOA) renamed the 2013-2023 Local Outcome Improvement Plan (LOIP). Progress achieving outcomes is regularly reported to the CPP Management Committee and area community planning groups.
20. The process for consultation on the first SOA (formerly Community Plan) was agreed in August 2012 and undertaken throughout January and February 2013, it included the full CPP, Area Community Planning Groups and other interested parties. The LOIP demonstrates a clear understanding of local needs, circumstances and aspirations of its local communities, it incorporates an overall objective and six local outcomes that are linked to six national policy priorities for community planning and contributes to 16 national outcomes. Each local outcome states starting position, details what success will look like in ten years and what progress is expected on priority actions and activities in the first three years.
21. Place standard consultation was held in April 2017 to support the "design and delivery of successful places, creating quality development where people want to live", this received

responses from 474 people across all four areas of Argyll and Bute and determined what activity needs to take place and where in the next one to three years.

22. The LOIP is supported by shorter term delivery plans which are reviewed regularly through the CPP Management Committee and area community planning groups. The annual report describes projects in place and key achievements in the year in progressing local outcomes.
23. Locality plans are in place via area community planning action plans. Eight outcomes have been identified and assessed using the Improvement Service's community planning outcome profile tool (out of work benefits, child poverty, S4 tariff rate, positive destinations, crime rate, emergency admissions, early mortality and depopulation).
24. Area Community Action Plans are dated 2017-20 and are to be subject to quarterly monitoring with an initial review scheduled following year-end 2018-19. Communities have been prioritised for targeted CPP work and identified actions to address poorer outcomes allocated to lead organisations to progress over the period 2017-2020.
25. The Council engages with the community in a variety of formats ensuring that the National Standards for Community Engagement are followed (inclusion, support, planning, working together, methods, communication and impact). Examples include:
 - Community Empowerment event at the Three Villages Hall in Arrochar in March 2017, attended by members of the community and 3rd sector organisations. Presentations were provided by officers, organisations and MSPs to advise on key aspects of the Act.
 - "Big Listen" events throughout Argyll and Bute area to gather the views of local people.
 - Community Planning Partnership (CPP) and Area Community Planning Groups. A fortnightly CPP Bulletin provides up-to-date and relevant information for Argyll and Bute as well as information about, and links to, current consultations.
26. The membership of the CPP was reviewed in December 2015. The terms of reference dated June 2018 indicates that all 16 statutory organisations, as determined by the Act, are represented on the CPP. The CPP is further enhanced through the inclusion of two community bodies, three thematic links/groups and 14 other organisations. Meetings of the full CPP are held annually in December with a document containing highlights of this meeting passed to the Area Community Planning Groups in February for information and further distribution. Meetings of the CPP Management Committee are held in the remaining three quarters of the year with meetings well attended and papers and minutes available on the Council's website.
27. The four area community planning groups hold quarterly meetings which are well attended and papers and minutes are available on the Council's website.
28. The communications, marketing and web strategy does not currently contain an overall approach to consultation; however, this has been prepared along with a toolkit/guidance. These are to be submitted for approval to Customer Services Department Management Team imminently after which they will be made available to all staff on the Council's intranet site "HUB".
29. The CPP, along with the Improvement Service, are undertaking a self-assessment exercise to identify improvements. A survey was sent to CPP Management Committee members on 20 August 2018 with results to be considered at the CPP Management Committee on 19 September

2018. A similar exercise was undertaken three years ago that identified improvements to benefit both the community and the CPP.

The Council implemented parts 2, 3 and 5 of the Act timeously.

30. Guidance on Community Planning was available prior to the implementation date of 20 December 2016. Scottish Government Guidance (dated December 2016) is used and accessible via the internet.
31. Guidance on Participation Requests was available for the implementation date of 01 April 2017. Scottish Government Guidance (dated April 2017) is used and accessed via the council's website. The webpage offers further information and an online application process with inbuilt guidance.
32. New guidance on Asset Transfer Requests was available for the implementation date of 23 January 2017. Scottish government guidance (dated January 2017) and a summary document are used and accessed via a link on the Council's website. Internal process guidance has been developed by staff and the Asset Transfer Group and is currently under review. Key elements of the guidance are detailed throughout the application process via forms and frequently asked questions.

Applications for Participation Requests and Asset Transfer Requests submitted to the Council are supported and assessed in line with the Council guidelines.

33. Participation requests are focused on extending and improving community participation in improving outcomes for communities. They enable communities to request to participate in decisions and processes which are aimed at improving outcomes.
34. Four participation requests had been submitted at the time of the audit. All four were reviewed and we confirmed that:
 - all four qualified as "community transfer bodies" either through submission of their company memorandum and articles of association or their status as community councils
 - requests were submitted in the correct format and stated the required outcome, reason for request, knowledge and expertise of the group and how the outcome will be improved through their participation
 - decision notices were provided in a timely manner and in the correct format
 - decision notices contained the reason for agreement, the stage the processes had reached, and how and to what extent the body is expected to participate.
35. As required by the Act an Annual Report has been published containing the number of requests received, number which resulted in changes to service and any action taken to promote and support the making of participation requests.
36. Part 5 of the Act introduces a right for community bodies to make requests to the Council for any council owned land or buildings they feel they could make better use of. They can request ownership, lease or other rights as they wish. The Council must transparently assess requests against a specified list of criteria, laid out in the Act, and agree the request unless there are reasonable grounds for refusal.
37. One asset transfer request has been submitted, validated and agreed to date. The applicant is a community trust that is both a registered company and charity. The Articles of Association have been submitted with the application and assessed to confirm it is an appropriate community

transfer body with appropriate governance arrangements in place with the capacity to deliver the project and make it sustainable.

38. The application contains all essential elements as per the guidance including specific location, reason, considered benefits, payment offered, duration of lease, and the nature and extent of rights sought. There has been no alternative proposal received for the same asset and the application has been thoroughly assessed by the appropriate council services as part of the overall assessment to support the decision taken. The decision notice has been provided in an appropriate format specifying the terms and conditions and was issued within the six month timeframe required by the Act.
39. No applications have been declined and therefore there has been no requirement to undertake the review and appeals processes.
40. As required by the Act a comprehensive register of land and assets has been compiled and published on the Council's website and an asset transfer request annual report has been prepared and published on the Council's website.

Staffing resources and procedures currently in place are adequate to support the work involved.

41. Whilst implementation of the Act has resulted in additional workload, this has been managed through use of guidance, appropriate procedures and staff development. This has helped ensure that all participation and asset transfer requests were processed within the timescale allowed within the Act.
42. Officers have been allocated roles relevant to their professional knowledge and experience to allow completion of tasks.
43. Some members of the Special Projects Team and Social Enterprise Team have attended training relevant to part 5 of the Act. The Asset Transfer Group meets monthly and makes use of a SharePoint site to access documentation, legislation and guidance for reference.

Appendix 1 – 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 & Bute Council - Internal Audit Report

August 2018

Final

Member Services

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	0	1	0

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Contact Details

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll & Bute Council's (the Council) system of internal control and governance in relation to Member Services.
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 Leadership Support and Members Services Team are responsible for providing a wide range of administrative and advisory services to support elected members in their day-to-day role including provision of training through a programme of seminars and continuous professional development. It is also responsible for the administration and oversight of the case management system (Casebook) to support elected members in managing their constituency casework. A higher level strategically focused service is provided to the Administration/Policy Leads. This includes responsibility for civic matters on behalf of the Provost in relation to protocols, funding requests and civic events.

Scope

5. The scope of the audit was to ensure that members receive sufficient support from the Council to allow them to carry out their role effectively.

Audit Opinion

6. 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 are provided in Appendix 2 to this report.
7. 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

8. We have one medium priority recommendation where we believe there is scope to strengthen the control and governance environment. This is summarised below:
 - in the event that the 2018 elected member survey does not highlight a material improvement in member satisfaction with Casebook consideration should be given to

engaging further with members to ascertain the root cause of their concerns to help identify the most appropriate improvement action.

9. 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.

Objectives and Summary Assessment

10. 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	Appropriate training and development is provided to enable members to carry out their roles effectively	High	There is a comprehensive induction programme made available to all new and returning members and a voluntary member's continuous professional development programme. A programme of seminars, based on feedback from members is also made available with the programme published on the HUB. Members are consulted via a range of mechanisms to ensure that their training requirements are met.
2	The case management system is used efficiently and effectively	Substantial	Training on Casebook is included in the member's induction programme with guidance notes available on the HUB. Guidance notes are also available for support staff. All members have access to Casebook and a Casebook controller has been assigned to all relevant services. Members are notified on a monthly basis of all outstanding cases and they are also reported to the Customer Services Departmental Management Team (DMT) on a monthly basis. There is currently a back log of Development & Infrastructure (D&I) issues in Casebook however we recognise that D&I are in the process of recruiting two additional officers whose roles will include providing additional support to elected members.
3	Member support is appropriate, effective and appropriately monitored	Substantial	Members Services conduct an annual members survey to assess satisfaction with the support provided. The last survey, carried out in 2016 (2017 was not carried out due to elections), reported overall satisfaction of 90%. However in 2015 members satisfaction with Casebook was 43% rising very slightly to 47% in 2016. Early indications from an ongoing elected member survey is that there is still a level of dissatisfaction amongst elected members in relation to how timeously services respond to member queries. In the event that the 2018 member survey does not highlight a significant improvement in Casebook satisfaction action should be taken to identify and resolve the cause of the dissatisfaction.

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

2. Detailed Findings

Appropriate training and development is provided to enable members to carry out their roles effectively

12. All members, new and returning, are offered the opportunity to participate in an induction programme. A review of the programme found it to be comprehensive covering pertinent areas such as roles and responsibilities, the support that elected members can expect to receive and introductions to key council services. All members are invited via e-mail and sent an overview of the programme as well as links to the presentations given. In addition members are supplied with a series of handbooks which cover the following areas:

- the first few weeks in office
- roles and responsibilities of members at both ward and Council level
- standards, ethics and information handling
- corporate governance and the governance of Scotland
- policy and legislation information.

13. The Council has adopted the continuous development framework (CPD) for elected members in Scottish Local Government. The Framework has been developed in conjunction with elected members and councils across Scotland and includes a wide range of political skills and behaviours for elected members to consider including in a personal development plan. Engagement in the framework is voluntary. It covers areas such as:

- how to deal with ward issues and to represent constituent needs effectively
- political awareness and understanding within the Council
- effective communication
- analysis and problem solving
- negotiation and Lobbying
- effective working with others.

14. Members Services consult with members on their training needs via a range of mechanisms including a member's reflection log, one to one meetings, evaluation forms handed out after each member training session and through requests from members for specific training to meet their individual requirements.

15. Members Services has a seminar training programme based on feedback from members. It is available on the member's HUB and includes all training material relevant to each course.

16. Elected member attendance at training sessions is monitored by Members Services and a consolidated attendance is prepared for all seminar sessions in each financial year.

The case management system is used efficiently and effectively

17. Casebook guidance notes for elected members are available on the member's section of the HUB with separate guidance available for the member support team. The guidance is periodically reviewed with the last review having taken place in June 2016.

18. Casebook training is covered in the member induction programme and members services also e-mail elected members periodically offering casebook training via one to one sessions.
19. All members have access to Casebook and, as at 30 June 2018, 20 of the 36 members had 339 'live' cases open in the system. There are case controllers for all appropriate council services who are responsible for ensuring that member queries are acted upon. A list of all casebook controllers is available from Members Services and is updated on a regular basis.
20. Casebook incorporates pre-determined response times for member queries depending on their allocated priority. These are:
 - High - 1 working day
 - Medium – 3 working days
 - Low – 5 working days.
21. Members Services review all open cases on a monthly basis and follow up overdue cases with the relevant service. A monthly report is prepared for the Customer Services DMT which summarises the number of open cases for each council service. The June 2018 report highlighted 500 open cases of which 426 (85%) were assigned to D&I. The high percentage sitting with D&I is predominantly because the majority of cases in Casebook are assigned to D&I as it includes the council services most likely to receive constituent queries (i.e. roads, street cleaning, lighting etc.). Services are responsible for ensuring that adequate resource are made available to address issues raised in Casebook in a reasonable timescale. D&I currently have one dedicated case controller but are in the process of recruiting two additional officers whose roles will include providing additional support to elected members. As action is already being taken to help alleviate this issue no audit action point has been raised.
22. Members Services have recently undertaken a review of all open cases and written to members seeking their agreement to close cases. In the event of a nil response cases will be closed after four weeks. Members retain the ability to retrieve closed cases. The June 2018 report to the Customer Services DMT noted that the reason for carrying out the review was due to there being a large number of cases remaining open that should be closed and consequently was distorting Casebook performance reporting.
23. Since June 2018 members have been contacted on a monthly basis to advise them which cases will be closed under the four week rule and that, if no response is received, they will be closed.
24. Members Services regularly consult with the Casebook controllers concerning open cases.

Member support is appropriate, effective and appropriately monitored
25. Member Services conduct an annual member survey to assess their satisfaction with the support provided. The last survey, carried out in 2016 (2017 was not carried out due to elections), reported overall satisfaction of 90% (85% in 2014 and 90% in 2015), based on responses received from 21 of the 36 members. The results of the 2016 survey, including comparison with the 2014 and 2015 surveys were presented to SMT in March 2017. The 2018 survey is scheduled for September 2018 with the results being made available by November 2018.
26. Whilst this is a very positive overall score, the 2015 survey highlights that member satisfaction with Casebook was only 43% with a slight increase to 47% reported in the 2016 survey. Internal Audit are currently conducting an elected member survey as part of an ongoing organisational culture audit and, whilst it is not complete yet, early indications are that members continue to

have concerns about the time taken by services to respond to member queries. The June 2018 Customer Services DMT report (refer to paragraph 21), confirmed that *'feedback has indicated that although the system provides members with an effective tool to manage their caseload, the timeliness and quality of responses being provided by the services is not currently meeting expectations and as such is having a negative impact on Member satisfaction with the system'*. The paper also confirms that a series of improvement actions have been identified, in particular with reference to how Members Support will work with Roads and Amenity Services to address the issue of poor response times and lack of consistency in responses provided.

27. The SMT report in March 2017 (refer to paragraph 25) included reference to a number of areas, including Casebook, where members would like extra support. At that time no overarching plan was prepared to support the resolution of these issues as a number of members were due to stand down with a new Council elected in May 2017 and also because of the resource challenges associated with the introduction of service choices. However it is recognised that a range of actions were introduced including member feedback being incorporated into the member induction program, the member handbook and an improved member's page on the website.
28. Due to the 2018 member survey being scheduled for September 2018 which is after the completion of this audit, we are unable to determine whether there has been a material improvement in member satisfaction with Casebook however, as per paragraph 26, concerns clearly still exist. In the event that the 2018 survey does not highlight a material improvement in member satisfaction, and falls short of the 70% target set in the Governance and Law service plan, consideration should be given to engaging further with members to ascertain the root cause of their concerns to ensure that the current improvement actions are properly focused on the areas requiring improvement and determine whether any further action is required.

Action Plan 1

29. Key performance indicators based on the member survey results are recorded in Pyramid though no current data is available due to the 2018 member survey being scheduled for September 2018.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p>Member Casebook Satisfaction</p> <p>The 2015 and 2016 member surveys conducted by Member Services highlighted members satisfaction with Casebook was 43% and 47% respectively. Internal Audit’s ongoing elected member survey, and a paper taken to the Customer Services DMT in June 2018, confirm that member satisfaction with officer responses to member queries continue to be an issue.</p> <p>The 2018 member survey is being conducted in September 2018 with results available in November 2018. In the event that the 2018 survey does not highlight a material improvement in member satisfaction consideration should be given to engaging further with members to ascertain the root cause of their concerns to help identify the most appropriate improvement actions.</p>	<p>Failure to address member’s concerns about the timeliness and quality of officer responses to member queries may result in a deterioration of officer member relationships.</p>	<p>Governance and Law are aware that members are currently dissatisfied with the quality and response times for many Casebook inquiries from specific departments. An improvement programme is currently being led by EDI however in the event the next survey does not highlight an improvement in member satisfaction then Governance and Law will confirm this position and refer the matter to SMT for further consideration of the concerns and appropriate improvement actions</p>	<p>Patricia O’Neill 30 December 2018</p>

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

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

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.

Argyll and Bute Council
Internal Audit Report
August 2018
Final

LiveArgyll Governance

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	0	0	3

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of LiveArgyll's system of internal control and governance.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with LiveArgyll officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate 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. In November 2016, Argyll and Bute Council (the Council) took the decision to transfer culture and leisure services to a charitable trust. They considered the transfer of these services as an opportunity to provide a new, fresh, efficient and commercially focused approach to delivering services across Argyll and Bute. LiveArgyll was launched in October 2017 and is responsible for services including libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets.
5. LiveArgyll is set up as a company limited by guarantee and is a wholly owned subsidiary of the Council. Following due diligence the Office of the Scottish Charity Regulator (OSCR) granted LiveArgyll charitable status (Charity Number SC047545). To facilitate the operation of LiveArgyll, the following documentation has been prepared:
 - Lease Agreement – establishes ownership of the building assets retained by the Council and leased to LiveArgyll.
 - Support Services Agreement - LiveArgyll access a range of support and administration services provided by the Council with the terms established by a range of service level agreements (SLAs).
 - Services Agreement – establishes the management agreement between LiveArgyll and the Council including the service specifications to be delivered by LiveArgyll.
6. The 2018/19 expenditure budget for Live Argyll is approximately £6m of which £3.57m is provided by the Council as a management fee.

Scope

7. The scope of the audit was to ensure that LiveArgyll either has, or has made, good progress toward having effective governance arrangements to enable them to manage their affairs appropriately. The audit took cognisance of the fact that LiveArgyll is in its first year of operation meaning there may be areas still in development rather than fully established. It considered governance across a wide range of areas including strategic and business planning, performance reporting, risk management, financial management and leadership.

Audit Opinion

8. 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 are provided in Appendix 2 to this report.
9. 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

10. We have highlighted three low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - future meetings between LiveArgyll and the Council should be scheduled and formally recorded
 - periodic review of the performance of the Chair and Live Argyll Board (the Board) members should be introduced
 - board meeting agendas, reports and minutes should be made available to the public on the LiveArgyll website.
11. 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

12. 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 is an appropriate governance framework in place to allow effective management and decision making.	High	LiveArgyll has appropriate and comprehensive governance documents in place which enable effective management and decision making. The provision of services to LiveArgyll by the Council is formally established with regular engagement between the two bodies to discuss pertinent issues. The recording of this engagement could be strengthened.
2	There are appropriate arrangements in place to promote and support effective strategic leadership by the board and sub committees.	Substantial	The roles and responsibilities of the Board are clearly documented with the suitability of potential members assessed prior to appointment. Member development could be strengthened by the periodic review of member performance. Board meeting agendas, reports and minutes are not currently made available on the LiveArgyll website.
3	There are business plans in place which	Substantial	LiveArgyll has an overarching and comprehensive business plan covering 2017-2021. It was approved in

	Control Objective	Assessment	Summary Conclusion
	are aligned to strategic priorities and performance management arrangements.		January 2018 and provides a clear strategic direction of travel. In addition there are two sub business plans, one for Leisure and Sport and one for Libraries, Archives and Museums.
4	There are effective performance management and reporting arrangements.	Substantial	LiveArgyll has a Business and Performance subcommittee whose remit includes considering performance and making recommendations to the Board. A suite of performance indicators for internal performance reporting and reporting to the Council has been developed, was reported to the Board in July 2018 and will be reported to the Council shortly thereafter.
5	There are appropriate arrangements in place to ensure effective financial management and financial reporting.	Substantial	There are comprehensive financial and security regulations providing clarity over financial roles and responsibilities and budget monitoring. A budget monitoring report for quarter one of 2018 was presented to the Finance and Audit subcommittee and compared income and expenditure actuals against budget with variance explanations provided.
6	Risk management arrangements are effective and applied consistently.	High	A comprehensive risk management policy has been agreed by the Board and there is a risk register with associated mitigation actions against each risk. Risks are periodically reviewed by the Board.

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

3. Detailed Findings

There is an appropriate governance framework in place to allow effective management and decision making

14. LiveArgyll has developed a range of key governance documents to support effective management and decision making. This includes articles of association, financial and security regulations, scheme of delegation, standing orders, a service agreement with the Council and a support services agreement outlining the services provided by the Council to LiveArgyll. Our review of these documents found them to be comprehensive.
15. All charities registered in Scotland must adhere to the regulations detailed within the Charities and Trustees Investment (Scotland) Act 2005. The Office of Scottish Charities Regulator (OSCR) provides guidance for charities in relation to “what they must do or not do”. Where appropriate we reviewed LiveArgyll’s governance arrangements against the OSCR guidance.
16. LiveArgyll, as a registered charitable company limited by guarantee, is governed by its Articles of Association. The OSCR guidance outlines the expected content of Articles of Association including:
- what the Charity exists to do
 - the powers it has to further its charitable purpose
 - how many charitable trustees there should be and how they are appointed and removed

- rules about member meetings, how they are arranged and conducted and how decisions are made and recorded
 - how to change the governing document
 - how to close the Charity down.
17. The Articles of Association comply with the requirements as detailed in the OSCR guidance, the standing orders provide appropriate governance over board meetings, committees and general meetings and the scheme of delegation outlines the roles and responsibilities of senior management.
18. OSCR guidance stipulates that a conflict of interest statement for board members should be prepared and cover the following:
- what the charity should do if a conflict arises
 - give examples of scenarios where a conflict of interest may arise
 - what action the charity should undertake if a conflict arises
 - have in place a register of interests
 - include a conflict of interest agenda item for all board meetings.
19. LiveArgyll, through their Code of Conduct for Directors, and documented arrangements for directors to record financial and non-financial interests, have fully addressed the requirements set out in the OSCR guidance.
20. Included within the support services agreement between LiveArgyll and the Council are monitoring arrangements to ensure the Council are providing the agreed services. Whilst we could confirm that the LiveArgyll General Manager has been corresponding regularly with a representative of the Council (often by e-mail) the first formally recorded meeting to discuss issues such as business plan reporting, performance reporting and the net cash position was not carried out until February 2018.

Action Plan 1

21. In compliance with the Companies Act 2006, all board members are registered with Companies House.
- There are appropriate arrangements in place to promote and support effective strategic leadership by the Board and sub committees**
22. In February 2017 the Council advertised for independent trustees/directors for the Board. LiveArgyll prepared a list of assessment criteria for each prospective board member and candidates were assessed against this criteria. Three independent board members were selected by a panel of senior councillors in April 2017 and three Council members were agreed by Council in May 2017. In line with best practice a trade union representative was nominated by Joint Trade Unions in June 2017. The name, work experience and background of each board member is available on the LiveArgyll website.
23. The roles and responsibilities of board members are established in the standing orders and financial and security regulations. There is a clear Code of Conduct for Directors which establishes what is expected from directors to maintain the highest standards of integrity and stewardship, to ensure LiveArgyll is effective and ensure there is a good working relationship with the LiveArgyll senior management team.

24. LiveArgyll board members do not receive remuneration but are reimbursed for any expenses incurred through carrying out their duties as board members.
25. A paper taken to the Board in May 2018 refers to board members enquiring about the provision of training to assist them in fulfilling their role. The paper details a proposal to have board effectiveness sessions at the end of each board meeting with the first session to be held in July 2018 on 'An overview of the functions carried out by LiveArgyll on behalf of Argyll and Bute Council'. Consultation has taken place with the Board to determine appropriate topics to be delivered at future board meetings.
26. In addition to the Board, LiveArgyll have a Finance and Audit subcommittee and a Business and Performance subcommittee. Both subcommittees have a Board approved remit which sets out their roles and responsibilities. The Code of Conduct for Directors places a requirement on directors to attend a minimum of 66% of meetings '*to ensure that best practice in governance is reached and maintained.*'
27. Based on attendance at board meetings since LiveArgyll went live in October 2017 there are two members who will not be able to meet the minimum requirement for the first annual programme of meetings. LiveArgyll do not currently have arrangements to periodically review the performance of the Chair of the Board or board members. This is considered to be appropriate given LiveArgyll has been operational for less than one year. Periodic review of the performance of the Chair and all board members is considered good practice and consideration should be given to introducing this at an appropriate time.

Action Plan 2

28. Board meeting agendas, reports and minutes are not currently made available on the LiveArgyll website however management have advised that consideration is currently being given to making these documents available in the future. Hard copies are made available at the LiveArgyll headquarters.

Action Plan 3

There are business plans in place which are aligned to strategic priorities and performance management arrangements

29. There is an overarching business plan covering the period 2017-2021 which was approved by the Board in January 2018. The plan is clearly aligned to LiveArgyll's strategic priorities and provides a 'golden thread' between the priorities, desired outcomes and how LiveArgyll will measure outcomes. The plan was found to be comprehensive and included areas such as:
 - strategic priorities and desired outcomes
 - performance management
 - operations and performance monitoring
 - financial overview including financial projections up until 2020/2021
 - a summary of the Board structure and management team
 - marketing
 - risk management.
30. Included within the business plan is a commitment to "*have sector business plans which outline priorities and associated proposals for change. We also have our individual business unit plans*

which will translate these priorities and proposals into specific actions and measures. It is these three tiers which will form the foundation of our performance monitoring and management process.”

31. There are two sub business plans, one for Leisure and Sport and one for Libraries, Archives and Museums. These plans were found to comprehensive providing strategic direction and operational requirements for the period 2017/18 to 2020/21. The plans refer to developing individual unit business plans between February 2018 and April 2018 however the completion of these unit plans has been delayed. LiveArgyll are currently implementing a number of program developments including pricing reviews and staffing efficiency reviews. These require completion prior to developing individual unit business plans. As such the delay in completing the individual unit plans has not been raised as an audit issue. We would encourage LiveArgyll to reconsider the value in drafting unit plans once these developments are complete. The existing overarching business plan and sub business plans are sufficient, at the current time, to ensure LiveArgyll is operating with appropriate strategic direction.
32. The overarching business plan states that LiveArgyll *“will in the first few months after transfer develop a marketing strategy aimed at getting a better understanding of our customer and local residents”*. This has been delayed till October 2018 due to a decision not to recruit a marketing manager and other projects being prioritised including the procurement of an external marketing company and the creation of a social media policy.

There are effective performance management and reporting arrangements

33. A Business and Performance subcommittee has been established whose remit includes considering performance, reviewing the company key performance indicators (KPIs) and making recommendations to the Board.
34. The support services agreement confirms that LiveArgyll will provide the Council with a report on operational performance within two calendar months of the end of the second and fourth quarter of each financial year.
35. A suite of KPIs has been developed with these to be reported to the Board bi-annually. The first report was presented to the Board in July 2018 and will be presented to the Council in November 2018. These reports will also be presented to the finance and audit subcommittee. LiveArgyll are also in the process of developing a dashboard of performance information for both the Board and Business and Performance subcommittee. In addition templates have been developed for individual units that will record facility usage, sickness data and facility downtime.

There are appropriate arrangements in place to ensure effective financial management and financial reporting

36. There are comprehensive financial and security regulations which detail roles and responsibilities in relation to financial matters, budget monitoring & control and virement between cost centres.
37. Revenue budget monitoring guidance provides support for budget holders and details roles and responsibilities, types of budget monitoring reports and a budget monitoring timetable for the financial period 2018/19.
38. The Council provides LiveArgyll with monthly financial monitoring reports that compare actual expenditure against budget for all LiveArgyll cost centres. The report breaks down expenditure

against budgeted accounts such as employee costs, premises cost and third party payments. These are reviewed by LiveArgyll officers and, where appropriate explanations are provided for identified variances.

Risk management arrangements are effective and applied consistently

39. There is a comprehensive risk management policy which was agreed by the Board in May 2018. The policy covers areas such as risk identification, mitigation and control.
40. A risk register has been created which documents identified risks with associated risk mitigation. In May 2018 the Board reviewed the risk register and agreed to review it on a bi-annual basis going forward.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p>Recording of LiveArgyll/Council Meetings</p> <p>LiveArgyll are in regular correspondence with a representative of the Council (often by e-mail) to discuss performance and service issues however the first formally recorded meeting was not carried out until February 2018. Going forward regular meetings should be scheduled and minuted.</p>	<p>Issues regarding performance and service delivery may not be addressed transparently and in a timely manner.</p>	<p>Several meetings have taken place, evidence provided for February and May meetings. In addition there is regular interaction between representatives of both organisations. Electronic records via (email) are an appropriate recording mechanisms as issues are dealt with on a “live” basis. Formal scheduled meetings also take place and minutes will be available.</p>	<p>General Manager</p> <p>Complete</p>
Low	2	<p>Review of Board Member Performance</p> <p>LiveArgyll do not currently have arrangements to periodically review the performance of the Chair of the Board and board members. Periodic review of the performance the Chair and all board members is considered good practice and consideration should be given to introducing this at an appropriate time.</p>	<p>Failure to periodically review board members performance may lead to ineffective decision making.</p>	<p>Arrangements are in place. Performance is reviewed on an on-going basis. Numerous policies are in place including Board Attendance and Conduct policies are in place. Directors are also sighted on their roles and responsibilities via Companies House requirements. In addition effectiveness sessions are in place aimed at</p>	<p>General Manager</p> <p>July 2019</p>

				developing and enhancing existing board skills and expertise. Board members were provided with an example of a self-assessment check-list for information and discussion. We will implement a similar self-Assessment scheme once agreement with Board members has been reached.	
Low	3	<p>Public Availability of Board Papers</p> <p>Consideration should be given to making board meeting agendas, reports and minutes available to the public via the LiveArgyll website.</p>	Lack of transparency in the use of public funds and decision making.	Board Papers are available in hard copy. At its recent July meeting the Board agreed to the publishing of Agenda, Minutes and unrestricted reports on Website	<p>September 2018</p> <p>Business Support Manager</p>

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

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

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
Internal Audit Report
August 2018
FINAL

Equality and Diversity

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	0	1	3

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Equality and Diversity (E&D).
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. The Equality Act 2010 (the Act) provides a legal framework to protect the rights of individuals and advance equality of opportunity for all in the private, public and voluntary sectors. The Act cites nine groups, referred to as 'protected characteristics', which are protected from discrimination under the Act. These are: age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race and ethnicity; religion or belief, sex and sexual orientation. Part 1 of the Equality Act 2010, commonly referred to as the Fairer Scotland Duty, came into force in Scotland in April 2018. It places a legal responsibility on the Council to actively consider how they can reduce inequalities of outcome caused by socioeconomic disadvantage, when making strategic decisions.
5. The Council has a legal general responsibility to eliminate unlawful discrimination; advance equality of opportunity and foster good relations. The Council's specific duties under the Act are to:
 - report on mainstreaming equality
 - publish equality outcomes and report on progress
 - assess and review policies and practices
 - gather and use employment information
 - publish gender pay gap information
 - publish statements on equal pay
 - consider award criteria and conditions in relation to public procurement.
 - publish in a manner that is accessible.
6. The Council has an E&D Policy in place which aims to eliminate discrimination and encourage diversity amongst the workforce. The Council's aim is that the workforce will be truly representative of all sections of society and each employee feels respected and able to give of their best. The policy is underpinned by the following key equality principles:

- no-one is disadvantaged because of their age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation
- the differences between people are valued and good relations between groups are promoted
- people are treated fairly and with equal respect
- informed assessments are made on the impact of policies and services
- people are involved in the decisions that affect them and encouraged to participate in public life.

Scope

7. The scope of the audit was to consider the adequacy and accessibility of the Council's E&D policies/procedures and the extent to which the Council complies with them. The audit also considered the provision of E&D training and appropriate performance reporting as outlined in the Terms of Reference agreed with the Head of Improvement and Human Resources on 6 July 2018.

Audit Opinion

8. 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.
9. 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

10. We have highlighted one medium priority recommendation and three low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - consideration should be given to implementing a process to monitor the completion of the mandatory E&D course available on LEON
 - the Council's E&D policy should be reviewed and refreshed
 - Officers should be reminded to submit completed Equality and Socio-Economic Impact Assessments to HR&OD.
 - Human Resources & Organisational Development (HR&OD) should implement a process to regularly monitor progress towards delivering the outcomes
11. 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

12. 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	The Council has, and complies with, appropriate E&D policies/procedures and these are accessible to staff and elected members.	Substantial	The Council has a suite of comprehensive policies and procedures which are readily available on the HUB. The current E&D policy, approved in December 2012, was scheduled for review by 31 March 2015 however this is outstanding. HR&OD have scheduled a review to commence in October 2018. The Council's approach to equality impact assessments has recently been revised and officers should be reminded of the importance of completing assessments and the requirement to submit these to HR&OD.
2	The Council provides appropriate training and guidance to all staff and elected members in relation to E&D.	Substantial	The Council provides an online training course via their e-learning site LEON. This is a mandatory course for staff which is also available to elected members. Face to face E&D training can also be provided. Elected members were provided E&D training as part of the induction programme in May 2017. There is no process in place to monitor the completion of the mandatory E&D course.
3	The Council has a robust process to monitor and report on progress towards E&D outcomes.	Substantial	The Council publish regular mainstreaming equality reports in compliance with the Act and have a set of equality outcomes covering the four year period 2013-2017. Council agreed on the 20 April 2017 that these outcomes remained fit for purpose. A revised set of outcomes are on HR&OD's work plan with a commencement date of August 2018 for publication in 2019. The outcomes have been split into action points which are the basis of an equalities action plan however progress against this plan is not monitored regularly.

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

3. Detailed Findings

The Council has, and complies with, appropriate E&D policies/procedures and these are accessible to staff and elected members.

14. In December 2012, the Council approved a new E&D policy. The policy aims to describe how the Council will better address the needs of all employees and all members of the communities it serves. This policy is available on the Council's intranet site in a sub section of the 'My HR' page dedicated to 'equality, diversity, equal opportunities and harassment'. The policy is also available on the Council's public internet site.
15. The E&D policy states that *"All elected members, senior management, line managers and employees share the responsibility to create an environment where we can make measurable progress on equality and diversity and where we genuinely respect each individual's differences"*. The policy also details the specific responsibilities of the following groups:
 - the Council as an organisation
 - elected members and all employees of the Council
 - elected members, the chief executive, executive directors and heads of service
 - line managers
 - Trade Union Representatives
 - providers of goods and services to and for the Council.
16. The policy states it should be reviewed at least every three years and has a documented review date of 31 March 2015. This review was not carried out. HROD have confirmed the review has been delayed due to service restructure and that a policy review has been scheduled with a commencement date of October 2018.

Action Plan 2

17. The E&D policy states that elected members, the Chief Executive, Executive Directors and Heads of Service are responsible for ensuring that equality impact assessments (EqIA) are completed for all new and revised policies and functions to minimise or eliminate negative impacts on people. Guidance for completing EqIAs is available on the HUB. Rapid impact assessments (stage 1) are required to assess whether there are any E&D implications and a full EqIA (stage 2) required if stage 1 concludes there is.
18. In June 2018 the Strategic Management Team (SMT) approved a report recommending a revised approach to EqIAs which takes account of recent changes to equality legislation and ensures that the 'Fairer Scotland Duty', which came into force on 1 April 2018, is taken into account when the assessments are carried out. EqIAs will be referred to as Equality and Socio-Economic Impact Assessments (EqSEIA) going forward.
19. Some of the key changes between the previous and current versions of the EqIA and EqSEIA are:
 - the revised impact assessment takes account of the Fairer Scotland Duty
 - there is a single EqSEIA form whereas previously there were separate ones for rapid impact assessments and full EqIAs.

- HR&OD no longer has a quality assurance role in the process, although completed assessments should still be sent to HR&OD for collation.

20. Testing on the availability of EqIAs for a sample of eight key policies presented to the Policy & Resources Committee highlighted that:

- HR&OD could not locate any on file, indicating that officers are not sending completed EqIAs to HR&OD as required
- either a rapid or full assessment was carried out for five of the eight policies with reasonable explanations provided for the remaining three.

Action Plan 3

21. The Council have a suite of other policies and procedure documents available to staff and members to support E&D, such as the dignity at work policy, the disability confident scheme and the grievance and disciplinary procedures. E&D is considered in the job advertisement, recruitment and induction processes. It was identified that the recruitment policy requires updating, however this review will be undertaken when the current TalentLink development is complete.

The Council provides appropriate training and guidance to all staff and elected members in relation to E&D.

22. The Council provides an online E&D training course via their e-learning site LEON. Completion of this course is mandatory for staff and the course is also available to elected members. Face to face E&D training courses can also be arranged at the request of management.

23. Elected members were provided with training on E&D as part of the members induction programme in May 2017. This training was provided by an external consultant and the slides are available for review on the members section of the HUB.

24. The Council previously offered a blended training programme which consisted of the LEON e-Learning module and a half day face to face session. Both parts were mandatory for completion of the training. However, due to the consistent poor uptake of the face to face courses and a number of cancellations (at a cost to the Council), in November 2017 the HR board decided that completion of the e-learning module would be sufficient as a baseline for all employees.

25. There is no process to monitor completion of the mandatory E&D training course.

Action Plan 1

26. There are also additional supplementary e-learning modules available, which cover all the protected characteristics, to complement the main mandatory course.

The Council has a robust process to monitor and report on progress towards E&D outcomes.

27. The Council produce regular mainstreaming reports in line with the requirement of the Act. The Council approved an initial mainstreaming report in April 2013. Subsequent reports were published in 2015 and 2017. Gender pay gap information and equal pay statements have been included in these reports as per the requirements of the Act. The next mainstreaming report is not required to be published by the Council until March 2019.

28. The Council published a set of approved equality outcomes on 25 April 2013 as part of the 2013 mainstreaming report covering the period 2013-2017. As per the requirements of the Act, the outcomes for the next four year period should have been published in 2017. At the Council meeting in April 2017, it was agreed that the existing set out outcomes are still fit for purpose so they remain as the current live outcomes. A review of the outcomes are on HR&OD's 2018 work plan scheduled for publication in 2019. The outcomes are publically available on the Council's internet site, although the website states that the outcomes are for the period 2013-2017 which may result in confusion for readers.

29. Each of the equality outcomes have been split into action points which form the basis of an equalities action plan. The action plan is maintained on the Council's pyramid system. Only 15 of the 76 action points have been updated in 2018/19.

Action Plan 4

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p>Monitoring of Completion of Mandatory Training</p> <p>The Council provides an online E&D training course via their e-learning site LEON. Completion of this course is mandatory for staff and the course is also available to elected members. There is no process in place to monitor completion of the course.</p>	Failure to ensure an effective process is in place for monitoring employee completion of the mandatory E&D course may result in employees not being suitably trained in E&D.	Options for monitoring training uptake to be investigated and reported to HR Board in October 2018 for their consideration.	Business Partner, Performance & Improvement 12 October 2018
Low	2	<p>Equality and Diversity Policy Review</p> <p>The current E&D policy was approved by Council in December 2012 and had a scheduled deadline for review of 31 March 2015. This review has not been carried out however HROD have a review scheduled to commence in October 2018.</p>	Failure to ensure up to date policies and procedures are available to staff and members may result in non-compliance with current agreed practice.	Review will begin in October 2018 and will include consultation with key stakeholders. Policy will require to follow normal approval route ending in Policy & Resources Committee.	Business Partner, Performance & Improvement 16 May 2019
Low	3	<p>Equality & Socio-Economic Impact Assessments (EqSEIAs)</p> <p>The Council has a process in place for the completion on equality impact assessments (EqIA). The process for this has recently been revised following the implementation of the Fairer Scotland Duty. For the purposes of this audit, testing was carried out on compliance with the previous process.</p> <p>For all eight tested HR&OD could not locate copies of the assessments on file, indicating that officers are not sending completed EqIAs to HR&OD as required. Whilst the new approach does not require HR&OD to perform a quality assurance role, officers are still required to provide</p>	Failure to ensure EqSEIAs are held on file for new or revised policies may result in a lack of transparency in the policy making process.	Newsflash to be issued confirming where documents have to be emailed to.	Performance & Improvement Officer 31 October 2018

		copies of completed assessments to HR&OD for filing purposes.			
Low	4	<p>Equality & Diversity Outcomes</p> <p>The Council published a set of approved Equality Outcomes on 25 April 2013 for the period 2013-2017. The Council then agreed that these remained fit for purpose in April 2017. A review of the outcomes are on HR&OD's 2018 work plan scheduled for publication in 2019. The outcomes are publically available on the Council's internet site, although the website states that the outcomes are for the period 2013-2017 which may result in confusion for readers.</p> <p>Each of the equality outcomes have been split into action points which form the basis of an equalities action plan held on Pyramid. Only 15 of the 76 action points have been updated in 2018/19.</p>	Failure to regularly monitor progress against associated actions may result in non-compliance with the agreed outcomes.	<p>Comment to be added to the website stating that outcomes are still applicable.</p> <p>Reminder to be issued to relevant Heads of Service to ensure actions are updated in Pyramid.</p>	<p>Business Partner, Performance & Improvement</p> <p>31 August 2018</p> <p>Performance & Improvement Officer</p> <p>31 August 2018</p>

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

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

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.

Argyll and Bute Council
Internal Audit Report
August 2018
FINAL

Adult Learning

Audit Opinion: **Substantial**

	High	Medium	Low
Number of Findings	0	2	1

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Adult Learning.
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. The Education (Scotland) Act 1980 (the Act) requires each local authority in Scotland to "secure adequate and efficient provision" of Community Learning and Development (CLD) in their area. CLD includes adult learning, youth work and community development. Adult learning is essential to enable and encourage adults in Scotland to acquire the knowledge, skills and confidence necessary to play an active and productive role, both personally and socially.
5. CLD is a professional practice that enables adults and young people to identify their own individual and collective goals, to engage in learning and take action to bring about change for themselves and their communities.
6. The Scottish Government's National Performance Framework sets out the strategic objectives for all public services, including those delivering CLD. Within this framework, CLD's specific focus is:
 - improved life chances for people of all ages through learning, personal development and active citizenship
 - stronger, more resilient, supportive, influential and inclusive communities.
7. The Council's adult learning service provides a range of learning opportunities for over 16s that fall under the thematic headings of employability, confidence and wellbeing and progression. These themes include accredited learning and literacy and numeracy support.
8. The Council have two performance indicators relating to adult learning, these are:
 - ED22_01 – Number of participants in activities that improve literacy and numeracy levels, the current target is 110 per quarter
 - ED22_02 – Number of adults accessing community based adult learning, the current target is 325 per quarter.
9. In October 2017/18 Adult Learning was restructured and relocated into Education. The budget for adult learning for 2018/19 is approximately £598,000.

10. Adult Learning use an externally hosted Management Information System called PRISM for document management, planning, evaluating and reporting. Information on each activity is stored under an individual activity reference number and all registered participants have an individual reference where a history of all activities they have participated in can be viewed.

Scope

11. The scope of the audit was to undertake a review and test compliance with documented policies and procedures and ensuring these are aligned to relevant legislation. We also reviewed general controls, specifically around the security and maintenance of data and records. This was as outlined in the Terms of Reference agreed with the Head of Education, Lifelong Learning and Support on 9 July 2018.

Audit Opinion

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

14. We have highlighted two medium priority recommendations and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - staff should be reminded to populate appropriate information and attach course evaluation forms in PRISM
 - the process to record the receipt of tutor disclosure should be reviewed and added to the Community Based Adult Learning handbook
 - consideration should be given to implementing a process for monitoring outstanding debt before allowing people to attend future chargeable courses.
15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	The Council has, and complies with, appropriate adult learning policies/procedures which are accessible to staff.	Reasonable	<p>There is a comprehensive operational handbook in place, which covers processes such as the appointment of tutors and course proposals. A review, scheduled for completion by December 2018, is underway to update the handbook in line with new GDPR requirements and the use of TalentLink to recruit tutors.</p> <p>Weaknesses were identified relating to inconsistent completion of PRISM data, availability of completed evaluation forms and the management of disclosure forms.</p>
2	The Council complies with the requirements of the Education (Scotland) Act 1980 and Community Learning and Development (Scotland) Regulations 2013 in relation to adult learning.	Substantial	The Act requires the Council to publish a needs assessment based three year CLD plan no later than the 1 September 2015 and each third year subsequently. The Council's web based 2015-2018 CLD plan is based on consultation carried out by the CLD partnership and has appropriate sections covering the requirements stipulated by the Act. The new CLD plan is currently being drafted and is due to be published in September 2018.
3	The Council has robust processes to monitor and report on progress toward achieving adult learning outcomes.	Substantial	There are various tabs in PRISM that should be completed for each activity along with pre and post activity evaluations. If each tab and evaluation form is completed, it covers a full LEAP cycle (Learning, evaluation and planning). As per control objective one, various PRISM tabs and evaluation forms are not being completed consistently. PRISM also records the number of participants on each of the adult learning courses run by the Council. These figures are used to inform performance indicators on pyramid. A self-assessment exercise is planned to assess performance against the "Education Scotland quality framework; How Good is the Learning and Development in our Community?". This review is scheduled to be complete by the end of 2018.
4	Documentation is complete, accurate, stored securely and is maintained in compliance with the data retention policy.	Substantial	Records are held securely on the PRISM document management system. Access is restricted to appropriate personnel via individual username and password.

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

3. Detailed Findings

The Council has, and complies with, appropriate adult learning policies/procedures which are accessible to staff.

18. There is a comprehensive operational CBAL handbook in place, which covers processes such as the appointment of tutors and course proposals. The handbook is retained on a shared drive which all adult learning staff have access to.
19. The CBAL handbook covers the period 2017-2018 and a review is currently ongoing to update the procedure in line with the new GDPR requirements and any changes to the tutor recruitment process in line with the implementation of the new TalentLink system. This review is scheduled to be complete by the end of 2018.
20. Each activity record on PRISM has:
- an evaluation tab detailing how the service will monitor and evaluate the course, whether it made a difference and what lessons could be learned for future courses
 - an activity planner tab which includes a project summary (identified need), the final outcome and if there are any partners involved
 - session planner tab which details the time, date and the action carried out in each session.
21. The records in PRISM for a sample of 25 courses were reviewed and it was identified that five had limited or no information in the course evaluation and activity planner tabs and two had no information in the action column of the session planner.
22. Pre and post activity evaluations should be completed by each course participant and there is a post activity evaluation section where the tutor can provide comments. Evaluations are attached to the learning activity record on PRISM. From the sample of 25 course records reviewed:
- seven had neither a pre or post activity evaluation form available on PRISM
 - three had a pre activity evaluation but no post activity evaluation
 - six had no tutor evaluation comments.
- Action Plan 1**
23. In order to provide, as far as possible, equality of opportunity to access adult learning provision, course fees are waived for those in priority groups. Although, sometimes courses are made up of a mixture of priority and non-priority groups, and may include both fee-waiver and some fee-paying participants. No course fees need to be paid by:
- 16-18 year olds
 - recipients of any state benefits
 - any current or past Adult Literacy and Numeracy learners recorded on PRISM
 - any learners currently attending either basic (non-accredited or internally accredited) ICT, Basic Confidence Building, Basic Skills, English for speakers of other languages (ESOL) and Adult Literacy and Numeracy or basic skills courses

- ESOL learners, whilst external funding is available to support ESOL provision (accredited and non-accredited).

24. The CBAL handbook states that a fee waiver form should be completed for every participant eligible for a fee waiver. Students not eligible for a fee waiver should be charged the hourly rate stated on the Council's Fees and Charges Schedule for a non-vocational class, and fee liability forms must be completed.
25. In 2017/18 there were four chargeable courses run by the Council with 22 participants in total across the four courses. Appropriate fee waiver and liability forms were in place for all participants, charges had been applied correctly and, where appropriate, debtor accounts had been raised. However we did identify five accounts which are outstanding, four of which were for two participants who had attended two classes each. The debt relating to the first class had been passed to the Council's legal department, in line with the standard debt recovery process, however, despite being in arrears, the participants were still allowed to attend a second class.

Action Plan 3

26. Tutors can either be self-employed, casual or volunteers. The CBAL handbook covers the process to be followed when recruiting tutors under the three different employment options. It also states that evidence of disclosure is required before employing any tutor, regardless of their employment option. Tutors can also be internal council staff. From a sample of 20 tutor files reviewed:
- disclosure details were available for 15 tutors
 - two volunteer tutor disclosures could not be sourced (one of these tutors is no longer used by the Council and was employed as a distance tutor)
 - three internal staff disclosures could not be sourced.

It is recognised this may be due to these tutors being in post for a number of years however this process should still be reviewed to ensure all appropriate checks are carried out and recorded on file prior to employment.

27. Where tutors are internal council staff, Adult Learning place reliance on the Council's Human Resources team to have arranged disclosures as part of the standard recruitment process. Therefore they perform no further checking. This is considered a reasonable approach. As our sample testing identified three internal staff where no disclosures could be found we will carry out additional testing on internal staff disclosure to ensure current processes are being complied with. As this process is not the responsibility of Adult Learning it is outwith the scope of this audit. We will report our conclusions separately to the December 2018 Audit & Scrutiny Committee. The Adult Learning Manager has agreed to undertake an exercise to check volunteer tutor disclosure.
28. Following identification of this issue the Adult Learning Manager issued an email to staff requesting that an exercise be undertaken to confirm that all current tutors have completed a disclosure check.

Action Plan 2

The Council complies with the requirements of the Education (Scotland) Act 1980 and Community Learning and Development (Scotland) Regulations 2013 in relation to adult learning

29. The Act requires the council to publish a three year CLD plan no later than the 1 September 2015 and each third year after the date of publication of the previous plan. The Council's 2015-2018 CLD plan is web based and has various tabs on the site covering the requirements stipulated by the Act. The new CLD plan is currently being drafted and is due to be published in September 2018.
30. The Act also requires the Council to carry out appropriate consultation to inform the CLD plan. Consultation is carried out via the CLD partnership which is made up of the key CLD providers including the Council, Argyll College, Argyll Voluntary Action, Department of Work and Pensions, Skills Development Scotland, Live Argyll, Fire Scotland, Police Scotland, the NHS and Jobcentre Plus. The Partnership looks at the needs identified through consultation processes, reports and any discussions to inform the main priority groups included in the CLD plan.
31. A consultation was issued to adult learners in July 2018 to identify the main priorities / issues under the following three main themes:
 - Skills for Learning, Life and Work
 - Health, Wellbeing and Personal Development
 - Your Voice
32. 33 responses were received, reviewed and collated to identify the main three priorities for each of the three themes for each geographical area of Argyll and Bute. These priorities will be incorporated in to the new CLD plan.
33. Each course is scheduled after demand has been identified, either via request by existing learners, communication with partners or from identification of need by the adult learning service/CLD partnership. Courses are offered in areas where there has been a demand/need identified. There can, on occasion, be individual demand for courses in less populated areas, or by people who cannot easily travel to the main areas where courses are offered. In this instance, the adult learning team will arrange an outreach service where a small or one to one course can be offered in the harder to reach areas.

The Council has robust processes to monitor and report on progress toward achieving adult learning outcomes.

34. There are various tabs in PRISM that should be completed for each activity along with pre and post activity evaluations. If each tab and evaluation form is completed, it covers a full LEAP cycle (Learning, evaluation and planning). The LEAP cycle is based on seven questions:
 - What is the need we are trying to address?
 - What specifically needs to change?
 - How will we know if change has taken place?
 - What will we actually do?
 - How will we make sure we're doing it as planned?
 - How successful have we been and what have we learned?
 - What now needs to change?

35. Adult Learning has recently created a programme of self-evaluation and peer review sessions. Staff will be set exercises based on the challenge questions in the “Education Scotland quality framework; How Good is the Learning and Development in our Community?”, given an area to assess their practice against, and will be asked to complete and return a form identifying areas of good practice and areas for improvement. This process is planned for completion by the end of 2018.
36. Registered participants are recorded on PRISM under the participant tab. Learners that do not wish to register are recorded under the non-registered headcount category. This means that the participant numbers can still be recorded for statistical purposes without storing personal details. This information is used to update the two adult learning performance indicators on Pyramid on a quarterly basis. A review of these indicators confirmed they are maintained with data available up to financial quarter 1 2018/19.
37. There has been no Education Scotland review of the Council’s CLD processes to date, however this is planned for early 2019. The Council will be inspected against the “Education Scotland quality framework; How Good is the Learning and Development in our Community?”

[Documentation is complete, accurate, stored securely and is maintained in compliance with the data retention policy.](#)
38. Documentation is stored in PRISM which is hosted externally on a secure website. Access to this system is restricted via a personal user name and password.
39. There are two levels of access on the system, site user and administrator. Inactive users are monitored on an ongoing basis to identify any users that have not accessed the system for an extended period of time. User access is locked until they require it again. No issues were identified from a review of the current user list.
40. The company that host the system, Netfocus, have created a report to identify participant records which have not been updated within a parameter of time (for example 3 years since they have attended a course). These records can then be anonymised to remove any personal data. The record is still retained to maintain the headcount but no personal identifiable information is stored. This process can also be used if a learner requests their records to be anonymised.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p>Completion of PRISM tabs and activity evaluation forms</p> <p>Each activity record on PRISM has an evaluation tab, an activity planner tab and a session planner tab. These tabs are used to plan, monitor, and evaluate each activity.</p> <p>Pre and post activity evaluations should also be completed by course participants and there is a post activity evaluation section available where the tutor can provide comments.</p> <p>Sample testing identified that the various tabs on PRISM were not being completed consistently and there were a number of activities where no pre or post activity evaluations were available.</p>	It may not be possible to evidence the positive impact courses are having on participants or identify where courses have not achieved expected outcome.	<p>Team meeting will be arranged with staff to address this issue. System examples will be reviewed and discussed with staff at meeting.</p> <p>If it is identified that some staff members may benefit from additional support or training on using the PRISM system then this can also be arranged as necessary.</p>	<p>Adult Learning Manager</p> <p>12 December 2018</p>
Medium	2	<p>Documenting receipt of disclosure forms</p> <p>Out of a sample of 20 tutors, evidence of basic disclosure checks could not be sourced for five. Two of these were volunteer tutor disclosures and three were for internal staff. Responsibility for confirming disclosure checks for volunteer tutors lies with Adult Learning.</p> <p>It is recognised this may be due to these tutors being in post for a number of years however this process should still be reviewed to ensure all appropriate checks are carried out and recorded on file prior to employment.</p>	Failure to comply with Council policy to undertake pre-employment checks.	<p>Following identification of this issue a request was sent to staff to undertake a review of all current tutors to ensure disclosure checks were in place.</p> <p>Going forward, workers will be required to see a new tutor’s disclosure form and record the date that this was verified. Verification of</p>	<p>Adult Learning Manager</p> <p>12 December 2018</p>

				volunteer tutor disclosures will be clarified with CS directorate and also recorded and held centrally. This process will be written into the CBAL handbook as part of the current review.	
Low	3	<p>Monitoring of outstanding debt</p> <p>Four instances of outstanding course fees related to two participants who had attended two courses each. In both cases the debt relating to the first course had been passed to the Council's legal department however the participants were still allowed to attend a second class.</p> <p>There is no process in place to ensure participants are not in arrears to the Council for previous courses before allowing them to attend future chargeable courses.</p>	Failure to ensure outstanding debts are monitored may lead to financial loss for the Council and setting a precedent for non-payment.	The Adult Learning Manager will investigate and discuss with the debtor and legal teams regarding options for monitoring outstanding debt before allowing participants to sign up for future chargeable courses.	Adult Learning Manager 12 December 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 & Bute Council - Internal Audit Report
September 2018
Final

Planning Fees

Audit Opinion: Reasonable

	High	Medium	Low
Number of Findings	1	0	1

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll & Bute Council's (the Council) system of internal control and governance in relation to Planning Fees.
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. From April 2018, the Council began charging for all pre-application advice provided for planning projects irrespective of size. Pre-application advice is an informal advice service provided by the planning department on a variety of planning related topics. These topics can include planning permission, planning permission in principle, advertisement consent, listed building consent, conservation area consent, works to protected trees and certificates of lawfulness. Fees for pre-application advice are outlined on the Council website.
5. As charging for pre-application advice is a new development for the Council it was decided to amend the focus of the audit from a more general one looking at planning fees to one specifically looking at whether the commitments to customers outlined within the Council's guidance are being met and that fees charged are appropriate. The 2018/19 budgeted income for pre-application advice is £65,000.

Scope

6. The scope of the audit was to ensure that that controls are in place around the pre application process and that fees are properly charged.

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 are provided in Appendix 2 to this report.
8. Our overall audit opinion for this audit is that we can take a **reasonable** level of assurance. 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.

Key Findings

9. We have highlighted one high recommendation, no medium recommendation and one low recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- training and/or procedure notes should be provided to ensure staff comply with agreed procedures and charge the appropriate fee for advice provided
 - the error in the Civica generated performance report should be rectified to improve the efficiency and accuracy of performance reporting.
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 procedures in place to ensure that pre application advice fees are properly processed and charged.	Reasonable	The Council website includes a section entitled “What is Pre Application Advice” which includes the commitments the council have made to all applicants. Planning utilise two IT systems to facilitate the Pre Advice process. A case management system (Uniform) which stores the request data and the Civica workflow system which guides officers through the key steps required to process an application. The Council website provides a link to the “Scottish Government Fee calculator” which allows applicants to determine the fee that would apply to their application. Staff training via workshops and written procedure notes is still to be provided.
2	Commitments to customers outlined within the guidance are being met and fees charged are appropriate to advice given.	Reasonable	Sample testing has highlighted inconsistent processing of pre-application advice requests including occasions where applicants were not charged fees when they should have been.
3	Performance targets are in place and properly reported.	Substantial	Planning services have a performance target to respond to 75% of all pre applications within 20 days. An error has been identified in the report that generates the performance information. This means performance information is manually calculated before it is entered in the Council’s Pyramid system.

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 procedures in place to ensure that pre application advice fees are properly processed and charged

13. The Council's website includes a section entitled "What is Pre Application Advice" which includes:
 - what documents must be submitted as part of the application
 - what the applicant can expect in response from the Council
 - a link to a fee table setting out what charges may apply
 - the timescale that the applicant can expect to receive advice.
 - a link to starting the pre advice application process.
14. The website also clearly sets out the fee structure in place for pre application advice with that fee based either on a fixed fee of £1,000 for major developments, 25% of the planning fee with a maximum charge of £800 for permitted development enquires and local developments, or no fee if the advice relates to specific areas such as disability access.
15. To help applicants determine which fee may apply the website has a link to a "Scottish Government Fee calculator". The calculator consists of a series of questions which, once completed, automatically allocates the relevant fee based on the information provided.
16. All applications from 1 April 2018 must be submitted via the website. Where a fee is required acknowledgement of payment from the applicant is automatically sent.
17. All information submitted by the applicant is captured on the Uniform system. Rather than having written procedure notes the planning team utilise Civica as a work flow system that sets out the various tasks a planning officer must follow from initial enquiry through to publication of the final report to the applicant. Civica also stores key template documents which are utilised to provide consistency in the application process.
18. In March 2018 an e-mail was issued to relevant staff informing them of the requirement to charge Pre Application advice fee, of the fee structure being introduced and the process to follow to respond to customers. It also referred to training being provided via a written procedure note and workshops. There is no evidence that this was carried out.

Action Plan 1

Commitments to customers outlined within the guidance are being met and fees charged are appropriate to advice given

19. A planning officer is assigned to each application at the weekly team meetings. Once assigned, an acknowledgement letter is sent to the applicant advising them that the Council will endeavour to respond to the pre application enquiry within 20 days of receipt of the request
20. The Council website summarises the following list of commitments that the Council will meet for all pre application advice requests:
 - a list of relevant policies under the Local Development Plan, Supplementary Guidance Policies, and other relevant material considerations
 - a planning history of the site

- any known constraints such as conservation area, area of panoramic quality, archaeological sites.
- an assessment from an officer of the proposal
- a list of consultees should an application be submitted.

21. A sample of 15 pre advice requests were reviewed to confirm compliance with the processes outlined above and that fees had been charged approximately. This highlighted:

- five fully complied with the council's commitments with the correct templates (as per paragraph 17) used
- eight were given advice but the agreed template was not used meaning not all the commitments were met
- four of those eight were not charged a fee when they should have been
- two were recorded being pre advice but related to other planning issues.

Action Plan 1

Performance targets are in place and properly reported

22. The Council website states that *"It is our aim to issue a pre-application enquiry report containing the information detailed above within 20 working days from receipt of a valid pre-application enquiry"*. Included within Civica's workflow process are timely reminders to complete cases within the required timescale. Included within Pyramid, the Council's the performance management system, is a target to meet 75% of all relevant applications within 20 days.

23. The Pyramid scorecard for Quarter 1 for 2018/19 reported performance of 71.1% against the 75% target. The Civica generated report which collates the performance data reported 47.4% for the same period. Audit testing confirmed that there was an error in the Uniform report and that, until the error can be corrected, a manual count is being performed to inform the data input in Pyramid.

Action Plan 2

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Compliance with Procedures & Provision of Training</p> <p>Sample testing of pre advice requests highlighted inconsistent processing of pre-application advice requests including not using appropriate template documentation and erroneously not charging fees.</p> <p>Training and procedure notes intended to support staff when the new fees were introduced does not appear to have been provided.</p>	Failure to comply with agreed procedure and charge appropriate fees may lead to financial loss to the Council and reduced customer satisfaction with services provided.	Training and procedure notes will be completed and circulated.	Development Manager 30 November 2018
Low	2	<p>Performance Reporting</p> <p>The Pyramid scorecard for Quarter 1 for 2018/19 reported performance of 71.1% against the 75% target. The Civica generated report which collates the performance data reported 47.4% for the same period. Audit testing confirmed that there was an error in the Uniform report and that, until the error can be corrected, a manual count is being performed to inform the data input in Pyramid.</p>	Relying on manual counts to inform performance reporting increases the risk of error and is an inefficient use of officer time.	This will be investigated and a corrective action will be taken in time for FQ3 reporting.	Development Manager 31 December 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
AUDIT AND SRUTINY COMMITTEE**STRATEGIC FINANCE****25 SEPTEMBER 2018**

INTERNAL AUDIT REPORT FOLLOW UP 2018-19

1.0 INTRODUCTION

- 1.1 Internal audit reports include an action plan with a management response establishing the agreed action, timescale and responsible officer. Internal Audit record these in a database and, on a monthly basis, follow them up to ensure they are being progressed.
- 1.2 This report updates the committee on all open actions as at 31 July 2018 including information on actions where the agreed implementation date has been rescheduled.

2.0 RECOMMENDATIONS

- 2.1 To note the contents of the report.

3.0 DETAIL

- 3.1 The two tables below provide a numerical summary of open audit actions with a split between actions due between 01 April and 31 July and actions due after 31 July 2018.

Actions Due between 01 April 2018 and 31 July 2018

Service	Complete	Delayed / Rescheduled	Total
CUSTOMER & SUPPORT SERVICES	3	0	3
EDUCATION	1	0	1
PLANNING & REGULATORY SERVICES	9	1	10
ROADS & AMENITY SERVICES	4	2	6
Total	17	3	20

Actions Due after 31 July 2018

Service	Complete	On Course	Delayed / Rescheduled	Total
CUSTOMER & SUPPORT SERVICES	3	2	0	5
EDUCATION	1	3	0	4
GOVERNANCE & LAW	1	0	0	1
LIVEARGYLL	1	2	0	3
PLANNING & REGULATORY SERVICES	3	1	0	4
ROADS & AMENITY SERVICES	4	2	0	6
STRATEGIC FINANCE	0	1	1	2
TOTAL	13	11	1	25

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

4.0 CONCLUSION

4.1 Satisfactory progress continues to be made implementing audit actions.

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
 25 September 2018

For further information please contact:

Laurence Slavin, Chief Internal Auditor, 01436 657694

APPENDICES

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

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

Action Plan Points Due between 01 April and 31 July 2018						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
Planning and Regulatory Services - Trading Standards	Arrangements to produce statutory Section 70 report and other non-statutory reports. The data fields in Uniform and General Enforcement Form (GEF) should be reviewed and updated to ensure they are consistent and reflect current legislative and regulatory requirements.	High	Should the system generated option be suitable, Uniform fields will be reviewed and thereafter updated where possible to generate the report.	30 June 2018 31 December 2018	The 30 th June 2018 date was conditional on there being a system generated option to generate a report. Discussions with other Scottish local authorities have confirmed that none of them are managing to use IDOX to produce the required report for the annual return. Consequently the current year return (due 29 th June 2018) will need to be an incomplete return (as per previous years). We will compile a full report of issues found in completing this year's report and share this with IDOX to develop a resolution to this issue by 31 December 2018.	Trading Standards Manager Delayed but rescheduled
Roads and Amenity Services - Waste Management	Assessment of future restoration costs and ongoing maintenance costs of Renewi sites should be carried out and financial provisions made	High	A new asset management plan is being produced by 1 June 2018 and will detail all financial provisioning necessary	30 June 2018 31 December 2018	The asset management plan is part of the Waste Strategy work stream and will feature as part of the September ED&I report. The Waste Strategy EDI	Fleet, Waste & Infrastructure Manager Delayed but rescheduled

Action Plan Points Due between 01 April and 31 July 2018						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
	where appropriate.		for the on-going maintenance and restoration costs of Renewi sites. Details from this asset management plan will be included in the waste model.		was originally going to be presented at the June EDI. The report has been put back to the September EDI to include the Waste model and updated information on Landfill ban solutions. As a result of this delay the Asset plan will feature additional information that will provide more contextual support for the outcomes and recommendations made, particularly in relation to the Waste Financial Model covering our own sites/operations and the PPP area.	
Roads and Amenity Services – Street Lighting	The Service Plan is not aligned to agreed response times. The repair response target times in the Council's documented procedures are not consistent with the target times in the R&AS 2018/19 service plan.	Low	Service plan will be amended.	30 June 2018 31 August 2018	Action has not yet been completed due to sickness absence and annual leave.	Contracts Manager Delayed but rescheduled

Action Plan Points Due After 31 July 2018
--

Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
Strategic Finance – Value Added Tax (VAT)	VAT training has not been delivered to all staff involved in determining VAT treatment.	Medium	VAT training in the format of an e-learning module will be prepared to allow Argyll and Bute specific training to be delivered.	31 March 2018 31 August 2018 30 November 2018	This has to be delayed and rescheduled to November 2018 due to staff workload. There is now a VAT manual on the HUB that all staff can easily access.	Finance Manager, Corporate Support Delayed but rescheduled

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Argyll and Bute Council

2017/18 Annual Audit Report
PROPOSED



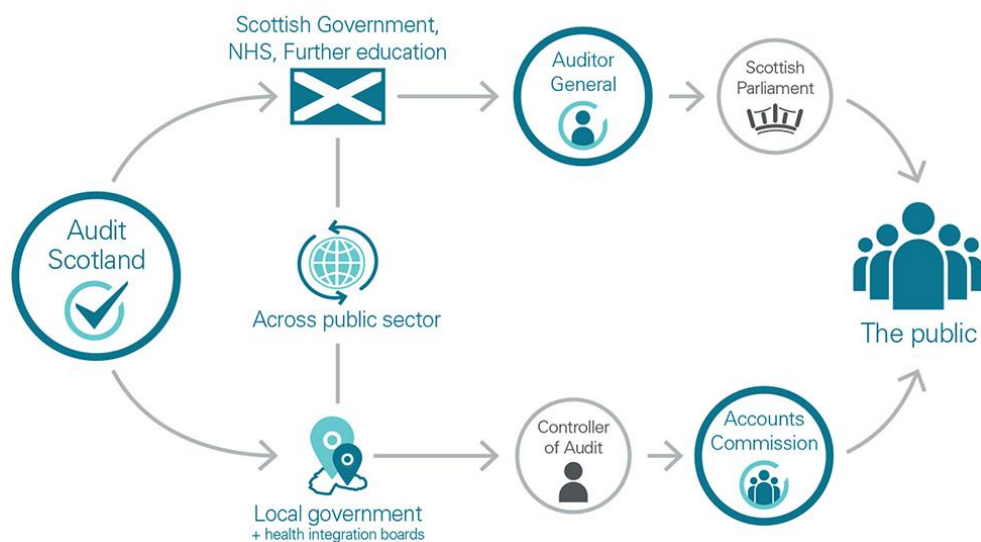
 AUDIT SCOTLAND

Prepared for the Members of Argyll and Bute Council and the Controller of Audit
17 September 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.

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Key messages

2017/18 annual accounts

- 1** In our opinion, Argyll and Bute Council and its group financial statements give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 3** The financial statements of the eight section 106 charities administered by the Council are free from material misstatement.

Financial management

- 4** Financial management is effective with a budget process focussed on the Council's priorities.
- 5** Our testing of the design and operation of the financial controls over significant risk points confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial sustainability

- 6** The Council and its group financial position is sustainable in the medium to long term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels.
- 7** The Council has a medium to long-term financial strategy which is aligned to the Council's priorities and demonstrates how the Council will address future budget challenges but could be further enhanced. The Council has made savings over the past few years but the size of the projected future funding gap means it will be difficult to make the required savings in future years.

Governance and transparency

- 8** The Council has appropriate governance and accountability arrangements in place that support the scrutiny of its decisions.
- 9** The Council conducts its business in an increasingly open and transparent manner. The public can attend meetings of the Council and its standing committees with minutes of these meetings and supporting papers readily available on the Council's website.

Best Value

- 10** The Council has been effective in promoting community engagement across most areas of its activities. It has also successfully implemented its statutory obligations relating to the Community Empowerment Act 2015.
- 11** There are challenges in partnership working between the Council, NHS Highland and Argyll and Bute Integration Joint Board who aim to revisit the risk sharing arrangements outlined in the integration scheme. Effective partnership working will be essential for providing integrated services within the available funding.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Argyll and Bute Council and its group (the Council).

2. The scope of the audit was set out in our annual audit plan presented to the 20 March 2018 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:

- our audit of the Council and its group 2017/18 annual accounts and the financial statements of the eight section 106 charities administered by the Council including the issue of independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- audit work covering the Council's arrangements for securing Best Value relating to community engagement and elements of partnership and collaborative working
- our consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

4. The Council is also responsible for compliance with legislation and for putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
5. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice (2016) and supplementary guidance, and International Standards on Auditing in the UK.
6. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's best value arrangements and in doing this we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016.
8. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £255,454, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to Argyll and Bute Council by providing insight into, and offering foresight on financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.
12. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
13. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, Argyll and Bute Council and its group financial statements give a true and fair view and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

The financial statements of the eight section 106 charities administered by the Council are free from material misstatement.

Audit opinions on the annual accounts

14. The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Audit and Scrutiny Committee on 25 September 2018. We reported, within our independent auditor's report that, in our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

15. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

The Council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on section 106 charities

16. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the financial statements of each registered charity where members of Argyll and Bute Council are sole trustees, irrespective of the size of the charity.

17. We received the charities' annual reports and financial statements in line with the agreed timetable and after completing our audit we reported in our independent auditor's reports that, in our opinion: the financial statements of all eight charities give a true and fair view, or properly present, the section 106 charities' financial position and are properly prepared in accordance with charities legislation.

18. The trustees' annual reports of the eight charities are consistent with the financial statements and prepared in accordance with proper accounting practices.

19. Over a number of years, we have reported that there had been little or no expenditure incurred by the Council's eight charitable trusts and the Council had

committed to consider whether its dormant trusts were meeting their objectives and whether they should be wound up.

20. The majority of the trusts were still dormant during 2017/18. While Council continued to consider reducing their number during the year, it made no further progress with their consolidation. We have been advised that this was due to the prohibitive costs of any further consolidation and to the nature of the remaining charitable trusts. However, the Council should continue to work with the Office of the Scottish Charity Regulator (OSCR) to reach agreement on transferring, where possible, the remaining trust balances to other charitable organisations who may be better placed to meet the purposes for which the charitable trusts were established.

Submission of the Council and its group annual accounts for audit

21. We received the unaudited annual accounts on 29 June 2018, in line with the audit timetable set out in our 2017/18 annual audit plan.

22. The working papers provided with the unaudited accounts were of a reasonable standard, although some of the expected working papers were not initially provided. Due to the absence of some key finance officers during the audit process, there were significant problems in obtaining certain working papers, documentation and evidence required to conclude on audit testing. This was the most significant factor contributing to the high volume of issues outstanding towards the end of the audit process. Additionally, staff turnover during the audit resulted in shifting responsibilities among key client staff and this also impacted on the clearance of issues as the audit progressed.

Whole of Government Accounts

23. The Council submitted a consolidation pack for the whole of government accounts audit in July 2018, in line with the deadline.

Risk of material misstatement

24. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

25. Misstatements are material if they could reasonably be expected to influence the economic decisions of users based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

26. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

27. On receipt of the annual accounts we reviewed our planning materiality calculations and made minor changes to the materiality levels we reported in our annual audit plan. This had no impact on our audit approach.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£4.07 million
Performance materiality	£2.44 million
Reporting threshold	£41 thousand

Source: Audit Scotland, Annual Audit Plan 2017/18

How we evaluate misstatements

28. It is our responsibility to request that all misstatements in excess of the reporting threshold are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. There were five individual misstatements or errors which exceeded our reporting threshold. These are described in paragraphs below.

29. Through our testing of receivables balances, we found that short-term debtors were overstated by £0.09 million, with a corresponding understatement of expenditure in the CIES. Management do not propose to adjust for this item as it is not considered material in the context of the financial statements. We agree that this amount is not material.

30. An adjustment was required in the accounts as a result of the pension scheme actuary providing an updated valuation of the Council's share of Strathclyde Pension Fund assets. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This is a national issue affecting all organisations which participate in the Local Government Pension Scheme.

31. The Council has obtained a revised report from the actuary on their share of pension assets and liabilities, based on the updated estimate for the whole pension fund. As a result, the Council's pension assets increased from £656 million to £667.8 million and the net pension liability in the balance sheet decreased from £68.2 to £56.4 million, with a matching increase in unusable reserves. Management has amended the council and group accounts to reflect a more up to date estimate of pension fund assets. Further details on this matter are included in [Exhibit 3](#).

32. Live Argyll, the Council's new libraries and leisure trust, was consolidated in the draft accounts as an associate. However, Live Argyll is the Council's wholly owned subsidiary and should therefore be consolidated as such in the group accounts. Management has made an appropriate adjustment in the accounts. Further information on this and Live Argyll is included in [Exhibit 3](#) and paragraphs 43 and 44. For Live Argyll's first full year of operation in 2018/19, the Council should review the reporting arrangements and group boundary to establish, for example, whether the inclusion of a group cash flow statement would be appropriate.

33. On review of assets under construction, we concluded that £3.4 million of assets listed as under construction required to be listed as assets in use. In addition, £1.5 million of other land and buildings should have been classified as assets under construction to reflect the refurbishment of part of Dunoon Primary School. Management has amended the accounts and these adjustments had no

net effect on the outturn for the year or the general fund balance. Further information is included in [Exhibit 3](#).

34. After reviewing the revaluations carried out in year we concluded that one asset, valued at £0.10 million, had not been included within the annual accounts or the asset register. Management has amended the asset register and the accounts to include this property.

35. Both the council tax income account and the non-domestic rates income account required presentational adjustments to correct for misallocations within the draft accounts. These amendments had no broader impact on the Council's financial statements.

Significant findings from the audit in accordance with ISA 260

36. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.





37. The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Defined Benefit Scheme- Asset Values</p> <p>The council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary.</p> <p>The timing of actuarial reports means that actuaries produce their IAS19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund assets, reported in the Council's balance sheet, being understated by £11.8m.</p>	<p>We drew this issue to the attention of management and they agreed to instruct its actuary to update their report to reflect asset returns as at 31 March 2018. The revised report confirmed a material reduction in the net pension liability, amending this from £68.2 million to £56.4 million (a reduction of £11.8 million). There is a corresponding increase in the surplus on post-employment benefits on the CIES. This adjustment also impacted presentation on the MIRS and the defined benefit pension note.</p> <p>We are content that the revised amounts and disclosures in the accounts reflect the updated actuarial report.</p> <p>This adjustment does not impact on the outturn for the year or the general fund balance.</p>

Finding	Resolution
<p>2. Holiday Pay Accrual</p> <p>As reported in our 2016/17 annual audit report, the percentage used to incorporate Other Staff into the calculation of the holiday pay accrual was based on a sample taken in 2010/11.</p> <p>There is a risk that over time the relevance and validity of the sample data will reduce resulting in a misstatement of the amount accrued.</p>	<p>Management agreed to update the sample data used in the calculation of the holiday pay accrual for 2018/19.</p> <p> Recommendation b/f 1 (refer appendix 1, action plan)</p>
<p>3. Assets Under Construction</p> <p>70 assets under construction with a total value of £6.5 million were included in the accounts with the same value as in the 2016/17 and 2015/16 annual accounts. This indicated that asset values and classifications were not appropriately reflected in the accounts.</p>	<p>Management performed a review of assets under construction with the value over £0.25 million. As a result, multiple assets with a total value of £3.4 million in the asset register, were re-classified as in use and transferred to the appropriate operational asset categories. Management agreed to amend its procedures to ensure that assets, when put in to operation, are reflected on the fixed asset register as being in use.</p> <p>Management also agreed to revalue these assets in 18/19 to ensure that asset values and future depreciation charges are based on appropriate values and estimated useful lives of the relevant assets.</p> <p>Additionally, management should extend the review of the assets under construction to all assets currently valued under £0.250 million to ensure all items are appropriately classified and treated in the accounts.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>4. Common Good Assets</p> <p>Oban swimming pool with a net book value of £3.5 million was included appropriately in the Council's group accounts but was incorrectly omitted from the Council's asset register. Two other common good fixed assets have been included in the accounts with a net book value of £0.2 million, based on an incorrect treatment of these assets on the asset register. The last valuation movement on these assets from 2013 had not been appropriately reflected on the asset register.</p>	<p>Management agreed to undertake a valuation of common good assets during 2018/19. These should be included in the asset register and accurate asset values and depreciation charges should be included in the annual accounts from 2018/19 onwards.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>5. Heritage Assets</p> <p>As reported in prior years, the Council owns museum exhibits which are not included within heritage assets as no detailed inventory exists. The Council agreed to consider cataloguing the assets at the Campbeltown Museum and the Argyll Collection in 2015/16 and in 2016/17 but this exercise has not yet been completed.</p>	<p>Management obtained a listing of all assets but these have yet to be valued. Management now aims to complete this review during 2018/19.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>

Finding	Resolution
<p>6. Live Argyll</p> <p>Live Argyll was initially included in the accounts as an associate. However, Live Argyll is the Council's wholly owned subsidiary and therefore its assets and liabilities should have been included within the group balance sheet.</p>	<p>Management agreed to include Live Argyll in the consolidated accounts as a wholly owned subsidiary. This adjustment did not have an impact on the group balance sheet position.</p>

Source: Audit of 2017/18 accounts

Good practice in financial reporting

38. Some aspects of the annual report and accounts reflect good practice as set out in the Audit Scotland Good Practice Note '[Improving the quality of local authority accounts – expenditure and funding analysis](#)'. But there is scope for the Council to consider making the management commentary and governance statement more succinct.

Follow up of prior year recommendations

39. We have followed up actions previously reported and assessed progress with implementation; these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

40. In total, four agreed actions were raised in 2016/17. Of these, three were fully implemented and one has yet to be actioned.

41. Overall, the Council has made good progress in implementing these actions. In particular we note that the Council has prepared a long-term financial strategy and an overarching workforce plan. For the action not yet implemented, a revised response and timescale has been agreed with management as set out in [Appendix 1](#).

Integration Joint Board

42. For the second year the Council included its share of the financial transactions of Argyll and Bute Integration Joint Board (the IJB) within its group financial statements. We confirmed that the Council has processes in place for agreeing its transactions and year-end balances with the IJB. In addition, we liaised with the auditor of the IJB to obtain assurances on the accuracy and completeness of the IJB figures included in the accounts. In turn, we provided assurances to the IJB auditor that the transactions included within the council's system for services commissioned by the IJB were correctly accounted for. This assurance was supported by targeted substantive testing. Further information on the IJB is included in [parts 3, 4 and 5](#) of this report.

Live Argyll – new libraries and leisure trust

43. The first six months of the leisure and libraries service is included within the Council's comprehensive income and expenditure in the 2017/18 annual accounts. From 1 October 2017 Live Argyll was established as a charitable company, limited by guarantee, with the purpose of running leisure and libraries services. Thereafter, the Council paid a management fee to this new charitable trust, to run these services. In total, the Council paid £1.8 million to Live Argyll during its first six months of operation (between 1 October 2017 and 31 March 2018). The 2018/19 expenditure budget for Live Argyll is approximately £6 million of which £3.6 million is expected to be provided by the Council as a management fee.

44. We reviewed the year-end exercise performed by the Council at the start of the operation of Live Argyll. This exercise aimed to ensure the accurate allocation of balances from Council service areas to Live Argyll, and to establish the correct management fee to be paid to Live Argyll. We concluded that balances had been transferred appropriately and the management fee was appropriately calculated.

Other findings

45. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

46. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations, and there were no objections to the accounts.

Part 2

Financial management



Main judgements

Financial management is effective with a budget process focussed on the Council's priorities.

Our testing of the design and operation of the financial controls over significant risk points confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial performance in 2017/18

47. In February 2017, the Council approved a balanced budget of £235.9 million for 2017/18. The balanced budget position was arrived at following an additional allocation of one-off transitional funding of £2.14 million to Argyll and Bute Health and Social Care Partnership or Integration Joint Board (IJB) to support transformational change and mitigate its projected budget gap. The budget was aligned to the Council's main priorities outlined in the corporate plan.

48. The Council has a good track record of delivering services within budget in recent years. The final outturn for 2017/18 was an overall underspend of £2.6 million against the original budget. The most significant areas of underspend were:

- departmental underspend of £0.96 million
- other central/non-departmental costs underspend of £0.88 million, and
- an underspend of £0.73 million in relation to funding and over-recovery of council tax income.

49. Also included within the overall net underspend is a £1.16 million social work overspend relating to the IJB services provided by the Council. As stipulated in the IJB's integration scheme, the council was required to provide additional funding for this part of the IJB's 2017/18 overspend. The IJB is expected to pay it back through reductions in future funding and has agreed with the Council to spread these over the three years to 2020/21. As recovery relates to amendments to future years' funding contributions, no debtor is recognised on the Council's balance sheet and no corresponding creditor in the IJB's accounts. The Council and the IJB agreed to a funding reduction of £0.10 million in 2018/19 and £0.30 million in 2019/20, with the balance of £0.76 million to be recovered in 2020/21.

50. Whilst the Council has recorded an overall underspend, there are significant variations in how different services have performed. Larger under and overspends are summarised in [Exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

Exhibit 4

Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Customer Services	£1.306	Deliberate decisions not to fill vacant posts, and insurance and utility cost savings on Non-Profit Distributing Organisation (NPDO) contracts.
Loans Charges	£0.500	Planned special repayments of loan principal deferred.
Pension Costs	£0.369	Superannuation and pension costs lower than anticipated.
Overspends		
Community Services	£0.331	Increased demand for additional support needs and placements in residential schools.
Social Work Services	£1.155	Increased service costs and demand pressures, with slippage in the IJB savings plans.

Source: Argyll and Bute Council 2017/18 Annual Accounts

Efficiency savings

51. With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

52. The Council is required to complete and publish an Annual Efficiency Statement summarising efficiencies achieved for each financial year, detailing the main efficiency savings delivered. The Annual Efficiency Statement for 2017/18 was submitted to COSLA by the mid-August deadline, and can be found on the Council's website. The Policy and Resources Committee routinely receives budget monitoring reports, which include separate reports on progress against savings plans.

53. For 2017/18, the Scottish Government's efficiency savings target for every public body was 3 per cent of funding. Excluding non-domestic rates income, the Council received £162.98 million in Scottish Government funding for 2017/18, giving a 3 per cent efficiency target of £4.88 million. The Council exceeded this target by achieving total efficiency savings of £6.48 million (4.14 per cent). Some £4 million of these savings were in procurement. In particular, the Council sought to use contracts more effectively and also carried out their own procurement exercises.

54. As part of the budget setting process in February 2016, the council agreed a total of 125 Service Choices savings options to be delivered over the three years from 2016/17 to 2018/19. 116 of these have already been delivered, so overall the delivery of this programme to date has been successful. In February 2018, the Council agreed 28 Service Package Policy Options. These savings are recurring in

nature and have already been removed from departmental budgets. As per the report to the Policy and Resources Committee on 16 August 2018, twelve were delivered, ten were on track for delivery and six have yet to be implemented.

Capital plan 2016/17 to 2019/20

55. Capital expenditure in 2017/18 was £31.09 million against a budget for the year of £38.54 million, resulting in an underspend of £7.44 million (19.3 per cent). This slippage relates principally to the Council's CHORD (Campbeltown, Helensburgh, Oban, Rothesay, Dunoon) development projects, street lighting LED replacement, Development and Infrastructure Services - Roads and Amenities and Dunoon Conservation Area Regeneration Scheme (CARS) grants.

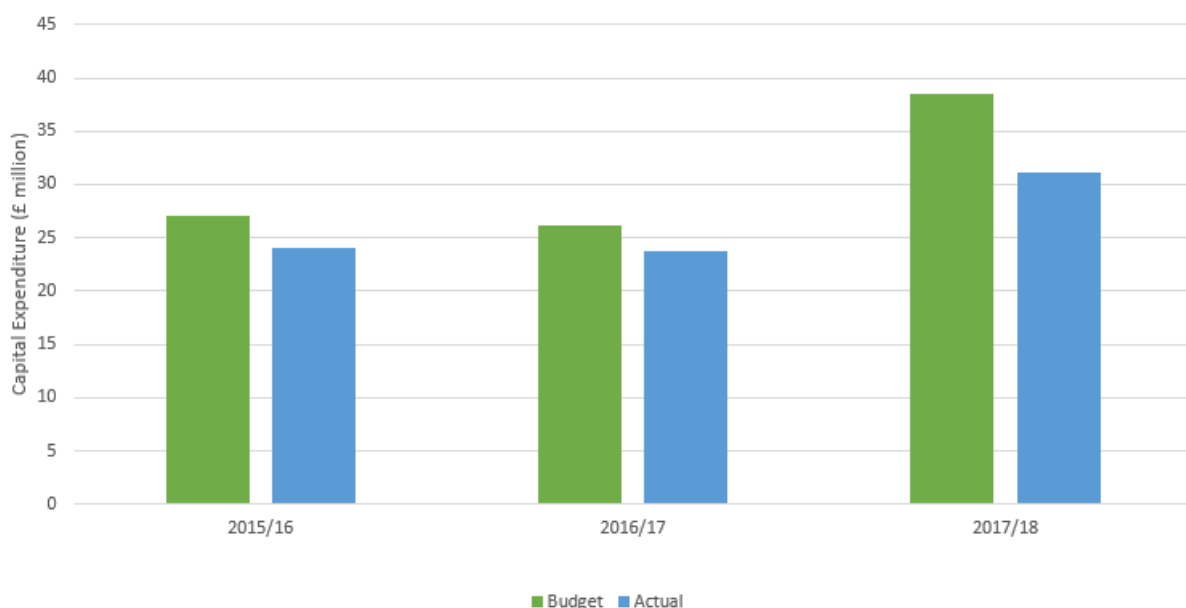
56. The Council's capital plan is funded from various sources including capital grants from the Scottish Government and other bodies, capital receipts, contributions from reserves and the revenue budget, borrowing funded by the loans charges budget and funding from the Scottish Futures Trust. In 2017/18, the Council received £5.767 million from the sale of its assets against a budget of £6.34 million (91 per cent). The Council projects a shortfall of £2.67 million in actual capital receipts across the capital programme and this has been reflected within 2018/19 budget.

57. The August 2018 capital monitoring report shows that, from a total of 194 projects within the capital programme, 35 (18 per cent) are not on track. However, management consider all of these to be recoverable with no special recovery actions considered necessary. Forecast total project cost on the total capital plan is £219.65 million, compared to a total budget for all projects of £219.15 million, giving an expected overspend for the overall capital plan of £0.5 million (0.2 per cent).

58. The Council has experienced slippage in its capital programme over a number of years as outlined in [Exhibit 5](#).

Exhibit 5

Capital slippage compared to budget



59. Regular monitoring reports to the Policy and Resources Committee track project delivery and forecast outturn for the financial year and cumulatively for the duration of the current capital plan. The slippage in the last three financial years is set out in [Exhibit 5](#), with a significant increase in the difference between the budgeted and actual capital expenditure shown for 2017/18. There is a risk that continued slippage on the general fund capital programme or re-profiling of capital expenditure into future years could impact on service delivery in future. This is therefore an area that the Council should keep under review.

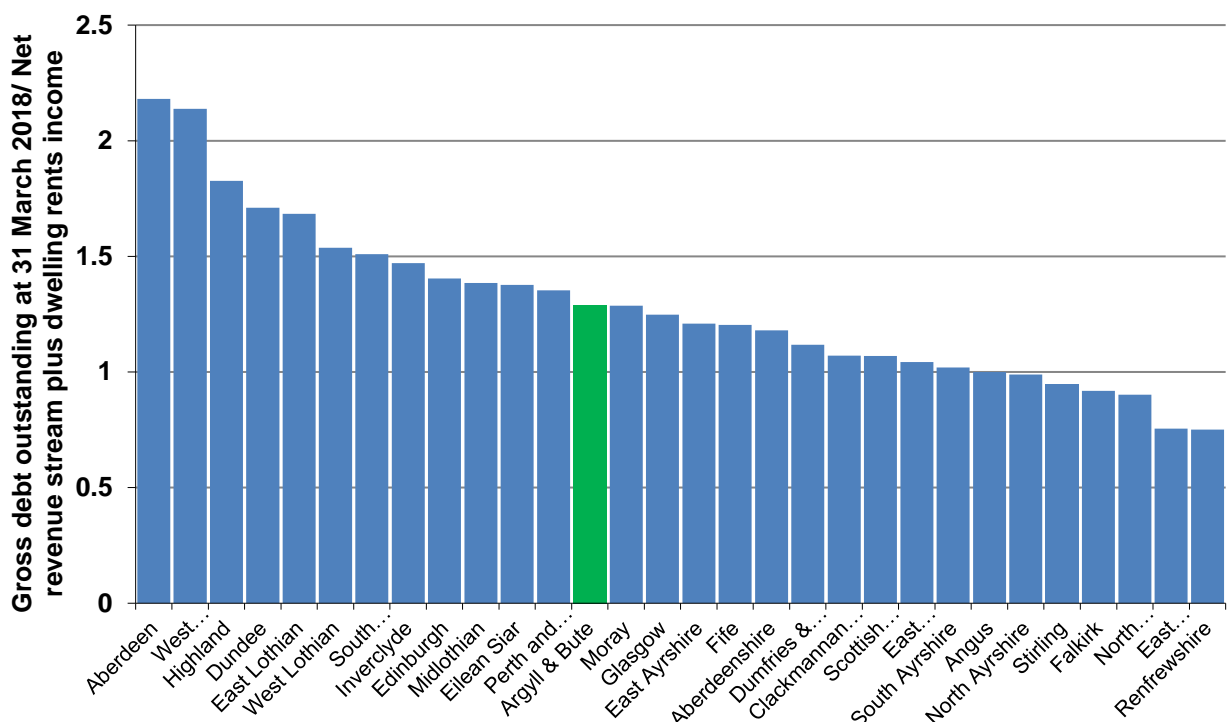
Borrowing in 2017/18

60. The Council's external borrowing as at 31st March 2018 was £180.91 million, an increase of £8.67 million on the previous year. The increase was a result of new borrowing from the Public Works Loans Board (PWLB) of £20 million, offset by £8.9 million of loan repayments to PWLB and a managed reduction in temporary borrowing of £3.1 million per [Exhibit 6](#).

61. Total external debt (which includes the Council's long-term liabilities) was within the authorised limit and operational boundary set by the treasury management strategy. When compared to other Scottish councils in [Exhibit 6](#), the current borrowing position appears sustainable. The Council continues to consider the affordability of future borrowing.

Exhibit 6

Borrowing (including PPP/PFI) as a proportion of income



Source: Audit Scotland database (note: net revenue stream consists of council tax income, general government grant income, NDR income and dwelling rents income)

Budgetary process

62. Audit Scotland's Local Government in Scotland: Financial overview 2016/17 (November 2017) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or

low levels) of usable reserves to rely on. We noted that the Council's budget and savings plan is aligned to the Council's priorities as set out in its Corporate Plan.

63. We reviewed the budgetary control system and concluded that the Council's budget monitoring arrangements were effective. We confirmed that there was satisfactory communication of accurate and timely information on financial performance to members through the regular financial monitoring reports to Policy and Resources Committee (PRC). From our review of these reports we concluded that they provided a good overall picture of the budget position at service level. The reports forecast outturn for the financial year and include good explanations for significant variances against budget. They also provide the underlying reasons for changes required to the initial budget.

64. We also confirmed that there were appropriate arrangements in place to identify funding gaps through the regularly updated Budgetary Outlook Reports presented to the PRC. This included savings plans required to address the identified funding gaps for the three years from 2018/19 to 2020/21.

65. In addition, we reviewed monitoring of capital projects and confirmed that regular updates were provided to the PRC at key stages of individual projects as well as cumulatively for the duration of the capital plan. Reports demonstrated the rationale for investment decisions and funding methods. Members were able to question officers on any issues arising.

66. We concluded that, overall, budget monitoring arrangements support effective scrutiny of the Council's finances.

Systems of internal control

67. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

68. Our findings were included in the management report, presented to the Audit and Scrutiny Committee on 19 June 2018. We concluded that the key controls were operating effectively. Area where existing controls could be improved were included in an action plan which we will follow up as part of our 2018/19 audit. We did not identify any significant control weaknesses which could affect the Council's ability to record, process, summarise and report financial and other relevant data and thus result in a material misstatement in the financial statements.

Financial capacity

69. The Section 95 officer is the head of service with responsibility for strategic finance, is a member of the strategic management team and has direct access to the chief executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council.

70. The strategic finance team provides key financial support across the Council and is responsible for producing annual accounts. The team has decreased in size in recent years and since the end of 2017 some key staff have been on sick leave, including during the latter stages of the 2017/18 audit of annual accounts. This has had an adverse impact on the workload of other finance team members and on response times to audit queries. Furthermore, the existing finance staff have been required to take on additional workload as a result of having to operate separate financial records for Live Argyll within the Council's systems.

71. We note that management has recently concluded a review of the strategic finance function and this is expected to result in a re-structuring of the function. Management expect this to provide increased resilience across the finance team.

As part of our 2018/19 audit, we will assess whether the changes are effective in addressing these pressures on Finance resources.

72. It is important that members receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We noted in our 2016/17 report that the May 2017 elections resulted in a significant number of new members being elected. Soon after taking office, new and returning members received induction training which included material on how the Council works and how it is financed. We reviewed the training provided to new and returning members and concluded that it had been appropriately designed and should aid them in exercising their scrutiny responsibilities effectively. An on-going programme of online and conventionally delivered financial training is also provided to members. As an example, members were provided with a treasury management training in May 2018.

Part 3

Financial sustainability



Main judgements

The Council's and its group's financial position is sustainable in the medium term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels.

The Council has a long-term financial strategy which is aligned to the Council's priorities and demonstrates how it will address future budget challenges but it could be further enhanced.

The Council has made savings over the past few years but the size of the future funding gap means it will be difficult to make the required savings in future years.

Financial planning

73. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although elected members only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Council.

74. Where future funding patterns are not known, councils can plan for a range of scenarios so they are prepared for different levels of funding and income. The Council's medium-term revenue budget outlook reporting had previously included best and worst-case scenarios, but during 2017/18 this has been enhanced to present financial forecasts under best case, worst case and mid-range scenarios. In our view, in the present uncertain financial environment, this approach provides an effective method of dealing with that uncertainty.

75. We were pleased to note that in October 2017 the Council approved a medium to long-term financial strategy 2018/19 to 2027/28, which was aligned with the Council's priorities. We reviewed this strategy against the requirements set out in [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014).

76. We confirmed that the strategy included forecasts for revenue, capital and treasury management and details of plans to mitigate future budget gaps. The underlying principles previously agreed by the Council provide a flexible framework within which the Council can react to changing financial challenges. Assumptions used in making financial projections are based on best estimates as at September 2017, and scenario planning was utilised to reflect the expected impact of changes in those assumptions.

77. The Council should consider enhancing its long term financial strategy when this is next reviewed. In particular, it should consider providing detailed financial

Financial sustainability looks forward to the medium and long term to consider whether the board is planning effectively to continue to deliver its services or the way in which they should be delivered

plans for up to five years, providing details of changes in assets, liabilities and reserves over time and including an analysis of levels of service demand.

Recommendation 4

The Council should consider producing detailed financial plans, extending to five years from the current three years. The medium to long-term financial strategy could also be enhanced by including details of changes in assets, liabilities and reserves over time, and an analysis of levels of service demand.

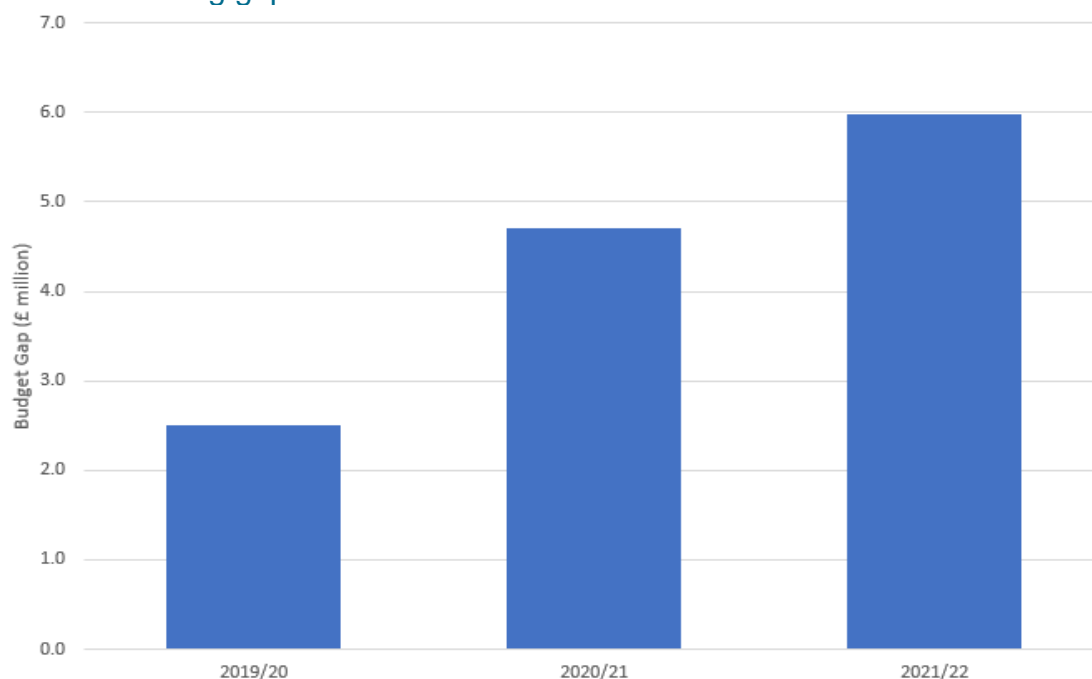
Funding position

78. The Council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demand for services, increasing costs of services and reductions in local government funding.

79. The Council approved a balanced budget for 2018/19 at its meeting held on 22 February 2018. This was a “consensus budget” across the Chamber, and was set at £236.30 million, projecting a surplus of £2.41 million to be utilised in reducing a forecast capital funding shortfall. However, a funding gap of £4.12 million was identified for 2019/20 rising to £10.37 million by 2020/21. As at August 2018, the Council forecast a lower funding gap of £2.51 million for 2019/20 but this is expected to rise to a cumulative funding gap £13.19 million by 2021/22 based on its mid-range scenario as illustrated in [Exhibit 7](#).

Exhibit 7

Identified funding gaps 2019/20 – 2021/22



Source: Argyll and Bute Council Policy and Resources Committee

80. There is a risk that savings plans and financial recovery plans at the IJB are not achieved. At present, the IJB has a projected total overspend against budget of £4.4 million in 2018/19, though only part of this relates to council services. The IJB has indicated in its high level financial projection that if funding for services is not increased there will be a cumulative budget gap in the IJB of £24.2 million by

2021/22. The risk to the Council is that it will be required to fund its share of the overspends, with this adversely impacting its general reserves or adding to the Council's funding gap should the Council choose to increase the IJB's budget allocation.

81. The Council's plans to bridge these gaps will be dependent on the Transformation Board progressing the programme of proposals for transformational change in areas such as fleet management, procurement and property management. The Council is also carrying out a comprehensive review of services to inform future budget decisions.

New Financial Powers

82. Proposals have been made for changes to the Scottish Budget process, with these likely to be introduced for the 2019/20 budget. The Council has taken cognisance of the Fiscal Framework and funding arrangements within which the Scottish Government now operates. Given the uncertainty over the economic and financial outlook expressed by the Scottish Government, no alterations were judged to be necessary to the Council's estimates within their Budget Outlook. Management will closely monitor economic and financial forecasts and update their figures if the funding position becomes any more certain.

83. Overall, we concluded that, in common with other local authorities, the Council is facing a challenging situation in the short term. Rising costs, ending of the public sector pay cap combined with small increases in funding and dependency on efficiency savings will make it difficult to achieve financial balance.

84. The medium to longer term financial position is difficult to predict given the uncertainty around EU withdrawal and New Financial Powers and future funding settlements. The Council needs to consider and plan for these events using more sophisticated scenario planning or modelling.

Savings plans

85. In arriving at its balanced budget position, the Council included savings of £4.3 million for 2018/19. It also identified £1.6 million of operational savings and £6.0 million of policy savings over the following three years as part of its plans to maintain financial balance.

86. The Council established a Transformation Board in 2017 to take forward significant future savings requirements and oversee all transformational options available to the Council. This Board is chaired by the Executive Director of Customer Services, senior managers across the Council are members and there is appropriate Trade Union representation.

87. The short to medium-term focus of this Board is to challenge services to deliver front line service savings via four operating principles: business cost reduction, income maximisation, service redesign and self-funding. A minimum target for savings has been set, taking into account the savings already delivered through the previous Service Choices initiative. The Board's overriding direction to officers is that these particular savings options should be transformational in nature. This represents phase 1 of the planned approach and the options brought forward to date are the first stages of an on-going programme. The Board remains charged with increasing the pace and scale of transformation. We continue to monitor developments in this area during 2018/19.

Reserves

88. One of the key measures of the financial health of a council is the level of reserves held. The level of usable reserves held by the Council decreased from £58.45 million in 2016/17 to £56.15 million in 2017/18 and is now at its lowest since 2013/14. This is illustrated in [Exhibit 8](#).

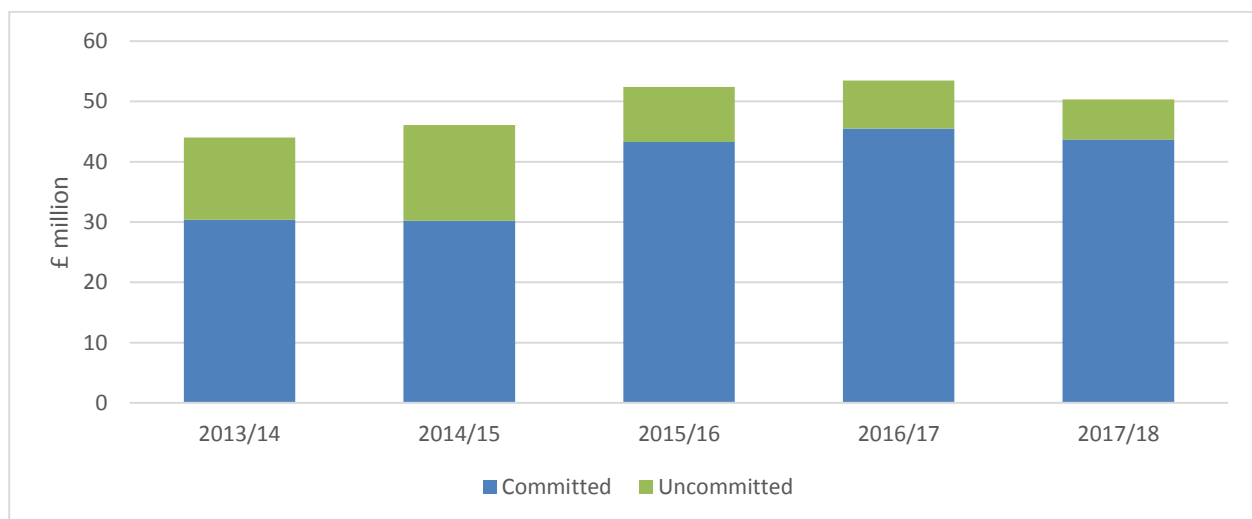
89. The general fund is the largest reserve. This reserve is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

90. The Council reviews the level of its uncommitted reserves when setting the budget each year. The Council's reserves strategy specifies that there should be a contingency balance of 2 per cent of its expenditure budget. For 2018/19 this equates to £4.73 million. As at 31 March 2018, the Council had £6.59 million in uncommitted reserves. £4.73 million of this was marked as contingency, leaving £1.90 million of unallocated general fund balance. 2017/18 reserves balances were in line with the approved strategy, however the IJB social work overspend adversely impacted the general fund balance by £1.16 million. As mentioned in paragraph 80, any significant future IJB overspends could reduce the Council's uncommitted reserves further, meaning the Council could be at risk of breaching its reserves policy.

91. [Exhibit 8](#) provides an analysis of the general fund over the last five years, split between committed and uncommitted reserves. It shows a notable reduction in the relative proportion of the uncommitted balance. While the Council has a good track record of delivering services within budget, there is a risk that the Council may breach its reserves policy and use up its contingency reserves in future years, particularly if the IJB continues to overspend significantly against its budget.

Exhibit 8

Analysis of general fund over last five years



Source: Argyll and Bute Unaudited 2017/18 Accounts

Workforce planning

92. Audit Scotland's [Local government in Scotland – challenges and performance 2018](#) (April 2018) report highlighted the need to plan and manage reductions to councils' workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively. Reducing staff numbers has been one of the main ways councils have reduced their spending and, in some councils, this is set to continue. Given the changes in workforce to date and the expected new demands on councils, robust workforce planning is essential to ensure councils have the right people, who have the right training and skills, to deliver their priorities. However, not all councils have organisation-wide workforce plans and the quality of these varies.

93. The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

94. The Council approved an overarching Strategic Workforce Plan 2018-2022 on 26 April 2018. The Plan develops themes from its People Strategy 2016-2020 and highlights eight key outcomes including that the Council's workforce reflects the future needs of the Council's services. The plan aligns directly to relevant parts of the Local Outcome Improvement Plan and the Corporate Plan 2018-22 and is intended to support the transformation agenda which underpins the medium to long term financial strategy.

95. The plan is a high-level document which commits management to develop service specific workforce plans by September 2018. Once these more detailed plans are developed, they should, alongside the strategic workforce plan, enable the Council to develop its future workforce to meet the recognised challenges and transformation agenda. We will monitor progress in this area as part of our 2018/19 audit work.

Ending of public sector pay cap

96. The current Budget Outlook 2019-20 to 2021-22 notes that the public sector pay commitment does not directly apply to local government but that Trade Unions would expect pay settlements to be similar to any public sector pay award. It also notes the COSLA position that any further increases to local government pay would be unaffordable unless backed by increased Scottish Government funding. In view of the continued uncertainty over future pay awards, the Council has decided to assume a pay award between 1.5% and 2.5% (mid range 2%) for 2019-20 to 2021-22. We consider this approach to be reasonable given the information currently available.

Rural Growth Deal

97. Argyll and Bute Council is currently in discussions with the Scottish and UK Governments to agree a Rural Growth Deal. This is similar in principle to the City Deal initiatives in other local authority areas of Scotland. The aim of the initiative is to deliver innovative and inclusive economic growth for the Argyll and Bute area.

98. A draft vision and key themes have been developed, with some examples of transformational projects. Key growth sectors and project themes have been identified which focus on the region's main economic strengths and the critical infrastructure, skills and education required for growth.

99. A public consultation has been carried out between June and August 2018 to explain the need for the Rural Growth Deal, and to gauge public support and the views of communities. The Council continues to work in partnership with key public, private and third sector stakeholders via a Rural Growth Deal Steering Board, established to improve collaboration and help inform the content of the future Rural Growth Deal. We will monitor progress during 2018/19.

EU withdrawal

100. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.

- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

101. The Council has a European & External Policy Team which provides analysis and briefing material for elected members and senior management, including Brexit where required. During 2017/18, an Industry and Regional Development Sounding Board has been established with Brexit one of the key items of its business. This group is chaired by the leader of the Council and includes another three elected members from the administration and two members of the opposition. Appropriate senior management staff also attend the meetings. Work in this area is therefore in progress, however, the potential implications are as yet to be reflected in financial plans.

Part 4

Governance and transparency



Main Judgements

The Council has appropriate governance and accountability arrangements in place that support the scrutiny of decisions made by the Council.

The Council conducts its business in an increasingly open and transparent manner. The public can attend meetings of the Council and its standing committees with minutes of these meetings and supporting papers readily available on the Council's website.

Governance arrangements

102. The Council's committee structure appears appropriate to its business. Committee meetings are generally well attended although there is scope for further improving attendance of the Audit and Scrutiny Committee (ASC) with an average elected members' attendance of 62 per cent since it was created in June 2017. However, we have been advised that some of the reduced attendance is due to a long-term sickness absence. Despite the initial intention to reduce the frequency of the four area committee meetings, there have been no substantive changes in the number of area committee meetings in 2017/18. Each area committee is scheduled to meet four times during 2018/19.

103. We attended all ASC meetings and some Council meetings during 2017/18. The papers provided by officers are of a good standard and provide members with a good overview of the issues being covered, together with more detailed information as appropriate. This supports discussion and scrutiny at the Council and committee meetings.

104. The Council operates a Local Code of Corporate Governance which is subject to annual review by the Council's Governance Group, chaired by the Executive Director of Customer Services as Monitoring Officer, and approval by the ASC. The group also prepares an annual action plan to record areas where work is on-going or further work needs to be done to improve governance arrangements.

105. The council offers a wide range of training to elected members including online members' hub with training materials for those members who cannot attend organised training events. On review of the register of training courses run for elected members during 2017/18, we noted that, while more elected members attended training courses than in previous years, there was still a mixed level of attendance. We would recommend that members continue to be encouraged to attend training that is relevant to their role.

106. Based on our observations and audit work, our overall conclusion is that Argyll and Bute Council's governance arrangements are effective and support the scrutiny of decisions made by the Council.

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.

Audit and Scrutiny Committee

107. The Council combined the functions of audit and scrutiny in the new Audit and Scrutiny Committee (ASC) from June 2017. The ASC subsequently updated its Terms of Reference which were included in the Council's updated constitution. In March 2018, it approved a new scrutiny framework, describing a three-stage prioritisation process for identifying topics for scrutiny. The Chief Internal Auditor also developed a more detailed scrutiny manual to help deliver scrutiny reviews.

108. In June 2018, the ASC approved the annual scrutiny plan for 2018/19. The plan identifies Money Skills Argyll and Road Resurfacing as areas for scrutiny in 2018/19. Additional staff resource is available within the internal audit budget to help deliver scrutiny work and the Chief Internal Auditor is currently considering how to make best use of this resource. Once all component elements for the ASC's scrutiny role were in place, the ASC members and officers were provided with a two-day scrutiny training at the end of August 2018.

109. We assessed the adequacy of the ASC's scrutiny arrangements and examined the new scrutiny framework. In our view, the three-stage prioritisation process included within the scrutiny framework provides an objective and transparent methodology for exercising scrutiny over the Council's policies and performance. We concluded that the component elements for the ASC's scrutiny role are appropriate and are likely to facilitate effective scrutiny. We will assess the effectiveness of the ASC's scrutiny function once fully operational.

Risk management

110. On review of the Council's risk management processes for 2017/18, we concluded that risk management is sufficiently embedded across the organisation. Strategic and operational risks are allocated to designated risk owners, who are responsible for monitoring changes in existing risks and for identifying new risks. Update reports are reviewed by the Strategic Management Team and considered by Policy and Resources and Audit and Scrutiny Committees.

111. Internal Audit identified inconsistencies in the management of operational risk registers such as in carrying out reviews and updates and confusion over roles and responsibilities. As a result, the Chief Internal Auditor reviewed the processes for reviewing and updating strategic and operational risk registers in early 2018 and proposed changes which were agreed by the Strategic Management Team (SMT). The Council's risk management manual has been revised to formalise the changes and provide guidance to officers.

112. The revised manual confirms that governance of risk management is the responsibility of the SMT and Departmental Management Teams (DMT). Going forward, the strategic risk register is to be updated bi-annually by the SMT, and the operational risk registers quarterly by DMTs.

113. The changes effected represent an enhancement to the Council's risk management process. Internal audit is planning to carry out a review of its operation during 2018/19.

Transparency

114. Transparency means that the general public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

115. There is evidence which demonstrates the Council's commitment to transparency. Members of the public can attend meetings of the full Council and other committees. Minutes of these meetings and supporting papers are readily available on the Council's website. Following a recent bench-marking exercise with other similar councils, the number of items taken in private have been reduced.

Most items on the full Council and committee agendas are now covered in open sessions with the Strategic Management Team monitoring the numbers of excluded items on a quarterly basis.

116. The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the Council encourages the public to get involved with its work and welcomes suggestions on how services might be delivered more effectively and efficiently through its "Have your say" part of the website. The website is easy to navigate with a high level of transparency and openness.

117. Overall, we concluded that the Council conducts its business in an increasingly open and transparent manner.

Live Argyll - new libraries and leisure trust

118. In November 2016, the Council decided to transfer leisure and libraries services to a charitable trust to provide a new, more efficient and commercially focused approach to delivering these services across Argyll and Bute. Live Argyll became operational in October 2017 and is responsible for libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets.

119. Live Argyll is a wholly owned subsidiary of the Council and is set up as a charitable company limited by guarantee. There is a services agreement between Live Argyll and the Council which includes the service specifications to be delivered by the charitable trust. The trust has access to support and administration services provided by the Council through a range of service level agreements.

120. Internal audit's review of Live Argyll's governance arrangements, reported in August 2018, provided substantial assurance that Live Argyll's internal control, governance and the management of risk was sound. It also made some recommendations including that Live Argyll should make its board meeting agendas, reports and minutes available to the public on its website.

121. We will keep this area under review in 2018/19 and will report as appropriate.

Internal audit

122. The Council's internal audit function is carried out in-house. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

123. Internal audit had an external quality assessment in 2018 as required every five years by PSIAS requirements. This review was carried out by the Fife, Tayside and Forth Valley internal audit consortium in summer 2018, with the draft report issued to the Council's Chief Internal Auditor in August 2018. The results of this review will be considered by the Strategic Management Team in September 2018.

124. We reviewed the Council's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Our review 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. While we did not place reliance on their work regarding our audit of the Council's financial statements, we considered the following internal audit's work as part of our wider dimension work and this gave us additional assurances over the wider control environment at the Council:

- 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
- Live Argyll governance.

Management commentary, annual governance statement and remuneration report

125. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.

126. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

National Fraud Initiative

127. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

128. We reviewed the Council's NFI activity in February 2018 and the results are summarised in [Exhibit 9](#). The NFI secure website listed a total of 7,672 data matches with 1,092 of these classed as 'recommended' matches (high risk) for investigation. The Council followed up 864 (79 per cent) of the recommended matches and 1,677 matches in total. Of these, only a small number of housing benefit frauds were identified with a total value of £4,200 with the Council initiating a normal recovery action. In light of the Council's use of additional, alternative matching methods, this represents a reasonable coverage of the recommended matches.

Exhibit 9

NFI activity



7,672

Matches



1,092

Recommended for
investigation



1,677

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

129. We concluded that the Council was proactive in investigating matches. This included reducing the number of investigations where the Council employed other data matching processes. The 2016/17 NFI exercise was well planned, adequately resourced and monitored, and appropriately reported to the Audit and Scrutiny Committee. We identified an area of good practice in the Council's use of an outsourced independent matching service twice yearly to identify council tax discount fraud.

Standards of conduct for prevention and detection of fraud and error

130. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for elected members and officers. We assessed these to ensure that they were appropriate, readily available to staff and regularly reviewed to ensure they remained relevant and current.

131. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we would require to bring to your attention.

Public Services Network (PSN)

132. To provide the performance, resilience and security required by the public sector, the PSN is unified by an agreed set of standards which all users, suppliers and customers must comply with. These standards and conditions are administered by the Cabinet Office's Digital Service. PSN compliance guarantees a common approach to information assurance, technical inter-operability, service management and governance. The Cabinet Office issued the Council with renewed PSN accreditation on 27 February 2018 confirming that the Council's infrastructure was sufficiently secure to connect to the PSN until 27 February 2019.

Cyber security

133. In November 2017, the Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

134. The Council is actively engaged in the Scottish Government's cyber resilience action plan and is strengthening its cyber resilience arrangements. It created a new Security and Compliance Officer role, developed a Threat Register and completed its Cyber Essentials pre-assessment by the required date (31 March 2018). This resulted in a detailed action plan identifying actions required for strengthening cyber resilience arrangements. The implementation of the action plan resulted in the Council achieving the Cyber Essentials accreditation in May 2018.

General Data Protection Regulation

135. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and introduces new and significantly changed data protection concepts.

136. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the Council incurring significant fines.

137. In autumn 2017, the Council established a GDPR project team and approved a detailed project plan for GDPR implementation. Quarterly updates on progressing the implementation plan have been provided to the SMT and annual reports on GDPR compliance will be provided to the Council and the ASC from June 2019.

138. In August 2018, the Policy and Resources Committee approved the Council's new Information Management (IM) Strategy 2018-21 which includes the approach to ensuring GDPR compliance. The Governance and Risk Manager has been appointed as a Data Protection Officer and mandatory GDPR training for all staff has been rolled out. This includes an online training module, a staff guidance note and other forms of training.

139. We concluded that, although the Council has not yet achieved full compliance with GDPR, it has made good progress in updating its information governance procedures to ensure compliance with GDPR. However, the Council's management and the Data Protection Officer should continue to monitor the initial uptake and on-going delivery of data protection training to all staff.

Correspondence referred to the auditor by Audit Scotland

140. We received correspondence covering issues related to Argyll and Bute Alcohol and Drugs Partnership (ADP) which is an NHS-led partnership. The Council's internal auditors are currently producing a report on the arrangements for procurement, performance monitoring and governance relating to ADP and are expected to present its findings to the Audit and Scrutiny Committee before the end of this calendar year. We will review internal audit's methodology and findings, perform further work if required and report during our 2018/19 audit as appropriate.

Local scrutiny plan

141. The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted on 29 March 2018. Other than Education Scotland's follow-up of its 2017 and 2018 reports on the Council's education services, the LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2018/19. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

142. The latest Education Scotland report, published on 31 July 2018, noted that the Council made positive and continued progress since the original inspection in September 2016. This included strengthening its arrangements to drive improvement in the quality of its educational provision, building on its early progress across a number of key aspects of the leadership of the education service and increasing its efforts to improve relationships and communication with stakeholders.

Part 5

Best Value



Main judgements

The Council has been effective in promoting community engagement across most areas of its activities, so that consideration of the community impact has become an integral part of service planning and policy making.

The Council has successfully implemented its statutory obligations relating to the Community Empowerment Act 2015.

There are challenges in partnership working between the Council, NHS Highland and Argyll and Bute Integration Joint Board who aim to revisit the risk sharing arrangements outlined in the integration scheme. Effective partnership working will be essential for providing integrated services within the funding available.

Best value

143. Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for Argyll and Bute Council is planned for year four in the five-year programme.

144. The Best value audit work carried out this year focussed on the Council's arrangements for community empowerment, community engagement and elements of partnership working, particularly in relation to Argyll and Bute Integration Joint Board (IJB). The findings of this work are reported below. The effectiveness of the Council's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

Value for money is concerned with using resources effectively and continually improving services.

Community empowerment

145. The Community Empowerment Act 2015 gave local communities new powers to take control of and manage community assets. The Council has put in place measures to prepare for and implement all relevant elements of the Community Empowerment (Scotland) Act 2015. Procedures have been developed to ensure consistency across the council in its approach to community empowerment and enable effective, timely decisions to be made.

146. The Council's website contains information regarding the Community Empowerment (Scotland) Act 2015. This resource provides an overview of the various elements of the Act and contain links to further information/support regarding each of these, including links to the information pages of some of the Council's Community Planning Partners.

147. Elements of the Act which impact on Argyll and Bute Council are noted below, together with our assessment of the current position:

- **Community Planning:** Communities are appropriately engaged with community planning through Area Community Planning Groups, particularly in relation to the production of locality plans. The Council carried out a consultation with communities to identify key priorities for the plans. This work was completed in October 2017 and Locality Action Plans have been agreed for the four Council geographical areas.
- **Participation Requests:** The Council has developed processes and guidance in line with that proposed by the Scottish Government, and a dedicated website has been set up which contains links to the relevant documentation and contact details within the Council to obtain support in submitting a participation request. The required annual report has also been produced. The Council has met its obligations regarding implementation of this element of the legislation for 2017/18.
- **Asset Transfer Requests:** Dedicated asset transfer website has been set up which contains links to relevant documentation and the land and asset register, together with contact details within the Council for support in developing a request. The Council's Social Enterprise Team participated in a number of events to advise on the process. They form the single point of contact for transfer request submissions and provide support to any community group making a request. The required annual report has been produced and, as at June 2018, there were 14 live expressions of interest relating to potential asset transfer requests. The Council has met its obligations regarding implementation of this element of the legislation for 2017/18.
- **Common Good Property:** The Council carried out a review of common good property in order to produce a definitive listing in advance of statutory guidance being published. This guidance was published at the end July 2018 and officers are currently in process of preparing a report for the October PRC meeting setting out how this element will be taken forward. This includes the establishment of a common good register for consultation.
- **Non-Domestic Rates:** The Act provides for a new power which allows local authorities to create and fund their own localised business rate relief schemes to better reflect local needs and support communities. To date no new areas of relief to be funded by the Council are being considered, therefore the Council has not yet utilised the new powers brought about by the Act.
- **Community Choices Budgeting:** We have concluded that the Council made good progress in this area. Residents of Argyll and Bute were given the opportunity to have their say on how money in their area is spent by voting on the Council's Supporting Communities Fund. Local groups and organisations posted their project ideas on a website created specifically for the fund, in particular how they could use potential funding of up to £2,500 per project to benefit the local community. In April 2018, residents were given the opportunity to vote for which projects they would like to see funded. This method of allocating community funding will now be fully evaluated.

148. The Council has been proactive in its approach to preparing for the implementation of its community empowerment obligations. The elements of the Act which are currently in force have been implemented, other than the new powers relating to non-domestic rates. The Council continues its work to ensure that it will be able to comply with the other parts as and when they come into force.

Community engagement

149. Three of the eight priorities in the Corporate Plan 2018-2022 are concerned with communities. Corporate outcomes can be linked to business outcomes, which

are in turn built into annual service plans, where the impact of service changes on communities are identified where appropriate.

150. The Council engages with communities through a range of methods including its Community Development Team, Community Councils, voluntary and community groups, road shows and other events. There is a dedicated Community Development section on the Council website, providing clear guidance to individuals and groups on how to access the Council's community support.

151. The Community Development Team provides a range of support for community groups and for the Argyll and Bute Community Planning Partnership. A stated priority for the team is to work in partnership with other agencies to support groups who work with vulnerable individuals and communities.

152. The Council utilises consultation processes wherever possible to ensure community input to decision making and service design and delivery. The Council's main consultation exercise is the annual consultation on the budget where residents are invited to provide comment and suggestions on the budget and service options going into each financial year. Responses are collated and analysed, with their impact on the Council's decisions reported publicly.

153. The Council uses residents' feedback to improve and identify areas for review. Overall, we concluded that the Council has promoted community engagement across a range of activities, and that consideration of the community impact feeds through to its service planning and policy making.

Integration of health and social care – partnership working

154. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

155. The Argyll and Bute Health and Social Care Partnership (HSCP) is provided in partnership with NHS Highland and became fully operational on 1 April 2016. The Council has good arrangements in place to identify all financial transactions that relate to the HSCP. There are also proper arrangements to provide officers with appropriate financial information to enable the Integration Joint Board (IJB), the HSCP's governing board, to monitor its financial budget.

156. However, there are challenges in the partnership working between the three partner bodies. As at the end of August 2018, the IJB has yet to agree its 2018/19 budget. The budget report, presented to the IJB on 1 August 2018, shows that Argyll and Bute Council and NHS Highland offered a total funding of £265 million for 2018/19. The IJB forecasts its expenditure exceeding the offered funding by £1.6 million and it indicated that it will only accept funding offers once it has clarified whether these are sufficient for the delivery of delegated services. If additional funding offers are not possible, then the IJB will need to achieve an additional £1.6 million of savings. Until the budget is agreed and funding is approved, there is uncertainty around any impact on the IJB's provision of services.

157. In February 2018, the Council initiated a review of the IJB's integration scheme. This review will aim to revisit the risk sharing arrangements and the responsibilities of partner bodies regarding the funding of IJB overspends. Effective working relationships between the Council and NHS Highland will be vital in agreeing an integration scheme satisfactory to all parties. Going forward, the three partners need to recognise that there is finite funding for health and social care services and that effective partnership working will be essential for providing integrated services within the available funding.

Following the public pound

158. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

159. As noted elsewhere, from October 2017, Argyll and Bute Council transferred leisure and library services to an independent charitable trust, Live Argyll. The Council is represented on its Board of Trustees by three elected members and provides accounting, payroll and governance services to the new organisation under various service level agreements. In addition, in payment for the provision of services previously under Council control, the trust receives a management fee of c£3.5m per annum from the Council. The trust falls into the category of organisations described as arm's length external organisations, or ALEOs, and the responsibility for following the public pound applies fully to the Council's financial transactions with Live Argyll.

160. During 2017/18 Audit Scotland carried out a performance audit of Scottish councils' use of ALEOs. Findings from this work are included in the '*Council's Use of Arm's Length Organisations*' report and this is available on our website [here](#). The aim of the report was to support councils by identifying good practice and lessons learned and give assurance to the public over this means of service delivery.

161. In August 2018, the Council's internal auditors reported that a substantial level of assurance could be taken over governance arrangements within the new ALEO. In addition, the ALEOs significant reliance on the Council's financial and payroll systems means that currently the Council's internal financial controls are applied to Live Argyll transactions. In 2018/19 we will keep under review the financial transactions and accounting arrangements in place between the Council and Live Argyll, as these relate to the statutory responsibility for following the public pound.

Performance management

162. The current Performance and Improvement Framework (PIF) was approved by the Council and introduced from April 2017. From 2017/18, the Council monitored its performance against 32 business outcomes compared to the previous 63 service outcomes. This has provided a framework more closely linked with corporate objectives, and more user friendly for management and elected members.

163. Service plans have been revised from one-year to three-year plans, which are integrated with the performance management system to provide service scorecards. The performance scorecards highlight key successes, challenges and improvement actions, and are reported quarterly to Policy and Resources Committee.

164. We concluded that the Council's framework for performance reporting is of a high standard and the developments made have improved elected members ability to exercise scrutiny. The PIF is currently being further enhanced through the development of a suite of 21 business outcomes, considered to be more appropriate by management. These will align to the Argyll and Bute Outcome Improvement Plan and the Corporate Plan once implemented in 2019/20.

Overview of performance targets

165. The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

166. The most recent [National Benchmarking Overview Report 2016/17](#) by the Improvement Service was published in February 2018 and covered the 2016/17

reporting period. A report presented to the Audit and Scrutiny Committee in June 2018 included information on the Council's performance compared to Scottish averages for 77 indicators. Of these, 35 (45%) were better than average, 10 (13%) were the same or very slightly worse and 32 (42%) were worse than average.

167. Areas performing well included the cost of children looked after in residential based services, percentage of procurement spent on local small or medium sized enterprises, cost of museum visits, cost of maintenance per kilometre of roads and cost of planning applications.

168. Areas performing poorly included cost per library visit, waste disposal costs, percentage of unemployed persons assisted into work through council programmes and proportion of operational buildings suitable for current use.

169. The Audit and Scrutiny Committee agreed to relevant reports being presented to a members' seminar to raise awareness, and to strategic committees for agreement of the necessary performance improvements.

Statutory performance indicators (SPIs)

170. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

171. For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

172. We reviewed the Council's arrangements for collecting, recording and publishing SPI data in 2017/18. Overall, we concluded that these arrangements were satisfactory.

National performance audit reports

173. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports which are of direct interest to the Council. These are outlined in [Appendix 3](#).

174. The Council's internal audit section reviews Audit Scotland's and other national reports and passes them to the appropriate senior officer for consideration and action where appropriate. A quarterly report is provided to Audit and Scrutiny Committee which provides details of those national reports, which senior officers receive the reports, details of key reports' recommendations and the senior management response. This process is effective, particularly as the Chief Internal Auditor follows up the cases with no suitable response.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Review of Assets Under Construction</p> <p>70 assets under construction, of cumulative value of £6.498 million in the fixed asset register, had no movement in value over the year. On review of all assets under construction with the value of over £0.25 million, management established that a number of these assets, valued in the fixed asset register at £3.4 million were operational.</p> <p>Risk</p> <p>The asset value and classification may not be appropriately reflected in the accounts.</p>	<p>Management should undertake a revaluation of assets moved from assets under construction into the operational assets. This is to ensure that they are accurately reflected in the accounts and appropriate depreciation is charged going forward.</p> <p>Furthermore, management should extend the review of the assets under construction to all assets currently valued under £0.250 million to ensure all items are appropriately classified and treated in the accounts.</p> <p>Exhibit 3</p>	<p>A review of all assets under construction will be carried out during 2018-19 and for those identified as complete and impairment review or revaluation will be carried out.</p> <p>Anne MacDougall, Finance Manager.</p> <p>31 March 2019</p>
2	<p>Common Good Assets</p> <p>Oban swimming pool with a net book value of £3.5 million was included appropriately in the Council's group accounts but was incorrectly omitted from the Council's asset register.</p> <p>Two other common good fixed assets have been included in the accounts with a net book value of £0.2 million, based on an incorrect treatment of these assets on the asset register. The last valuation of these assets was undertaken in 2013, although the valuation movement had not been appropriately reflected on the asset register.</p> <p>Risk</p>	<p>A valuation of common good assets should be undertaken in 2018/19 and these should be appropriately reflected in the asset register and in the annual accounts.</p> <p>Exhibit 3</p>	<p>Valuation will be undertaken during 2018-19.</p> <p>Anne MacDougall, Finance Manager.</p> <p>31 March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>There is a risk that common good asset values are not supported by appropriate accounting records and are misstated within the group accounts and the value of misstatement cannot be estimated.</p>		
3	<p>Heritage Assets</p> <p>Heritage assets in Campbeltown Museum and the Argyll Collection have not been valued and included within the council's accounts.</p> <p>Risk</p> <p>There is a risk that heritage asset are misstated in the accounts and the value of the misstatement cannot be estimated.</p>	<p>Heritage assets should be valued and reflected in the accounts from 2018/19.</p> <p>Exhibit 3</p>	<p>Will liaise with Live Argyll to ensure a valuation is undertaken during 2018-19.</p> <p>Anne MacDougall, Finance Manager.</p> <p>31 March 2019</p>
4	<p>Financial Planning</p> <p>We were pleased to note that the Council prepared a medium to long-term financial strategy which includes forecasts for revenue, capital and treasury management, and details of plans to mitigate future budget gaps. Scenario planning was also utilised. However, the strategy could also include changes in assets, liabilities and reserves over time, and an analysis of levels of service demand. Additionally, the supporting detailed financial plans could be prepared for three rather than five years.</p> <p>Risk</p> <p>There is a risk that the current medium to long-term financial strategy and the supporting financial plans do not provide elected members with a full picture of potential financial challenges in the future years.</p>	<p>The Council should consider producing detailed financial plans, extending to five years from the current three years. The medium to long-term strategy could be enhanced by including details of changes in assets, liabilities and reserves over time, and an analysis of levels of service demand.</p>	<p>Will give consideration to enhancing the medium to longer term financial strategy as part of its next review,</p> <p>Kirsty Flanagan, Head of Strategic Finance</p> <p>31 March 2019</p>
Follow up of prior year recommendations			
b/f 1	<p>Holiday pay accrual</p> <p>The percentage used to incorporate Other Staff into the calculation was based on a</p>	<p>Sample data used to calculate the accrual for holiday pay should be</p>	<p>Sample data will be updated as part of the 2018-19 accounts preparation.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>sample of employees from 2010/11.</p> <p>There is a risk that over time the relevance and validity of the sample data will reduce resulting in misstatement of the amount accrued.</p>	<p>reviewed regularly to confirm its continued suitability.</p> <p>Update</p> <p>The sample data used in the calculation remains unchanged from the 2010/11.</p>	<p>Anne MacDougall, Finance Manager.</p> <p>31 March 2019</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>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.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive testing of transactions after the year end to confirm income and expenditure is accounted for in the correct period.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>No significant issues were noted in our testing of accruals and prepayments.</p> <p>Income and expenditure was accounted for in correct financial year.</p> <p>No significant transactions outside the normal course of Council business were identified.</p> <p>Overall, there was no evidence of management override of controls at the Council.</p>
<p>2 Risk of fraud over income</p> <p>Argyll and Bute Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Testing of controls over receivables.</p> <p>Reliance on internal audit's continuous monitoring of income controls.</p> <p>Review of arrangements to prevent and detect fraud.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions, including cut-off testing, focusing on the areas of greatest risk.</p>	<p>Key controls over receivables were operating effectively.</p> <p>Internal audit has not raised any risks of fraud in relation to income controls.</p> <p>The Council's fraud arrangements were found to be satisfactory.</p> <p>We found no issues during our detailed testing of income.</p>
<p>3 Risk of fraud over expenditure</p>	<p>Walk-through of controls over payables.</p>	<p>Key controls over payables were operating as intended.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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.</p>	<p>Reliance on internal audit's continuous monitoring of expenditure controls.</p> <p>Review of arrangements to prevent and detect fraud.</p> <p>Analytical procedures on expenditure transactions.</p> <p>Detailed testing of expenditure transactions, including cut off testing, focusing on the areas of greatest risk.</p>	<p>Internal audit has not raised any risks of fraud in relation to expenditure controls.</p> <p>Review of the Council's fraud arrangements were found to be satisfactory.</p> <p>We found no issues during our detailed testing of expenditure transactions.</p>
<p>4 Estimations and Judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:</p> <ul style="list-style-type: none"> • non current assets (including heritage assets) • provisions (including equal pay claims) • pension liabilities. <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of "review of the work of an expert" for the professional valuers and actuaries.</p> <p>Review of accounting estimates and disclosures.</p> <p>Additional assurances obtained from legal and HR officers in relation to provisions.</p> <p>Focused substantive testing of non-current assets, provisions and pension liabilities including data submitted by the council to actuaries.</p>	<p>We did not find any issues with the reliability of these experts.</p> <p>We agreed samples of accruals and provisions to appropriate back up evidence.</p> <p>Pension disclosures, and the net pension liability, required amendment to reflect the updated valuation of pension assets by scheme actuaries.</p> <p>We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.</p>
<p>5 Libraries and Leisure Trust</p> <p>On 1 October 2017, most of the council's museum, library and sports centre operations were transferred to Live Argyll, an arms-length trust. This means that 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.</p> <p>Also, with the accounting period end only two months way, the new Trust has still to confirm the appointment of external auditors.</p>	<p>Review of the council's mini year-end exercise including accounting cut-off at the transfer date, and income/assets/liabilities transferred.</p> <p>Obtain component auditor controls assurances and financial statement confirmations for group financial statements audit purposes.</p>	<p>We reviewed the year-end exercise performed by the Council at the start of the operation of Live Argyll. We concluded that balances had been transferred appropriately and the management fee was appropriately calculated.</p> <p>Auditor assurances have been requested, however have not been received from the component auditor. This has been noted as outstanding evidence in the ISA 260.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>6 New housing benefits system</p> <p>The council has implemented a new housing benefit system from February 2018 and has transferred 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.</p> <p>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, this results in a financial statements risk.</p>	<p>Review of project management methodology and of implementation plan.</p> <p>Review of the reconciliations between the closing Northgate and opening Civica systems.</p>	<p>The project management methodology and the implementation plan was satisfactory.</p> <p>Our IT audit specialist reviewed the reconciliations between the Northgate and Civica systems and found that the transfer of data had been carried out successfully. No significant issues were noted.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice











<p>7 Financial sustainability</p> <p>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.</p> <p>As at 22 February 2018, the mid-range scenario of the council's three year Budget Outlook from 2018/19 to 2020/21 estimates a budget gap of £4.1 million for 2019/20, rising to £10.4 million in 2020/21, with a balanced budget position forecast for 2018/19.</p> <p>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. The council has recognised this risk as part of its risk management process.</p>	<p>Review of the council's annual budget setting arrangements.</p> <p>Assessment of the council's medium to long term financial strategy.</p> <p>On-going review of budget monitoring reports and other reports to members on financial position.</p> <p>On-going review of the council's financial position and delivery of planned savings.</p>	<p>Budget setting arrangements were appropriate.</p> <p>The council's medium to long term financial planning was assessed. We found that the council had appropriately planned for the range of scenarios but the strategy could be further enhanced.</p> <p>Budget monitoring reporting to members and budget managers was of a high standard and enabled corrective action to be taken timeously should overspends develop during the year.</p> <p>Savings plans to date have been delivered successfully and plans for future savings are in development.</p> <p>Financial sustainability risks facing the council are being appropriately managed.</p>
<p>8 Financial sustainability</p> <p>The developing financial position of the Argyll and Bute Integration Joint Board (IJB) may impact upon that of the</p>	<p>On-going review of IJB financial performance and delivery of savings.</p>	<p>The IJB overspent in year, which required the council to fund an additional £1.155 million in service expenditure. This impacted on the general fund</p>

Audit risk	Assurance procedure	Results and conclusions
<p>council going forward. Latest forecast overspend for the IJB is £2.915m and the share of this apportioned to Argyll and Bute Council is £1.915m.</p> <p>Indications are that future IJB overspends will increase, despite savings plans being developed.</p>		<p>reserves, and means the council has a reduced level of unallocated reserves available.</p> <p>There is still a risk to financial sustainability due to IJB overspends.</p>
<p>9 Workforce planning</p> <p>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.</p> <p>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.</p>	<p>Assessment of the strategic workforce plan once approved.</p>	<p>The strategic workforce plan 2018-2022, was approved by the Council on April 2018. We have concluded that this plan along with the underlying service workforce plans, should enable the Council to develop its future workforce to meet the Transformation Agenda. We will monitor progress in this area as part of our 2018/19 audit work.</p>
<p>10 Governance and transparency</p> <p>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.</p> <p>Until this is finalised and the scrutiny function commences, there is a risk that the combined committee is not operating effectively.</p>	<p>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.</p>	<p>Through attendance of the ASC, and review of the new ToRs and the scrutiny framework, we concluded that the arrangements in place are likely to facilitate effective scrutiny. We will continue to assess the effectiveness of the ASC's scrutiny function throughout 2018/19.</p>

Appendix 3

Summary of national performance reports 2017/18



		Apr		
		May		
Common Agricultural Policy Futures programme: further update		Jun		Scotland's colleges 2017
		Jul		NHS workforce planning
Self-directed support: 2017 progress report		Aug		
Equal pay in Scottish councils		Sept		
Transport Scotland's ferry services		Oct		NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov		
		Dec		
		Jan		
Early learning and childcare		Feb		
Managing the implementation of the Scotland Acts		Mar		

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Argyll and Bute Council

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Argyll and Bute Council Audit and Scrutiny Committee

17 September 2018

Argyll and Bute Council Audit of 2017/18 annual accounts

Independent auditor's report

1. Our audit work on the 2017/18 annual accounts is now substantially complete. Subject to the satisfactory conclusion of the outstanding matters referred to later in this letter and a receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report by 28 September 2018 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit and Scrutiny Committee's consideration our draft annual report on the 2017/18 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected. Through our testing of receivables balances, we found Debtors to be overstated by £0.086 million, with a corresponding understatement in net expenditure. We agree this item is not material in the context of the financial statements.

Fraud, subsequent events and compliance with laws and regulations

6. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

7. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.
8. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Outstanding matters

9. We still require component auditor assurances from the respective auditors of Live Argyll and Strathclyde Partnership for Transport. We require these to confirm that the figures included within the group accounts are free from material misstatement.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Argyll and Bute Council and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Argyll and Bute Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Statements of Comprehensive Income and Expenditure, Balance Sheets and Statements of Movement in Reserves, the council-only Expenditure and Funding Analysis, Cash Flow Statement, Council Tax Income Account, and Non-Domestic Rate Income Account, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of 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;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- 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.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Strategic Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Head of Strategic Finance and Argyll and Bute Council's Audit and Scrutiny Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Strategic Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Strategic Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit and Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

The Head of Strategic Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

David McConnell MA CPFA
Audit Director
Audit Scotland
4th Floor, South Suite
8 Nelson Mandela Place
Glasgow
G2 1BT

September 2018

APPENDIX B: Letter of Representation (ISA 580)

David McConnell, Audit Director
Audit Scotland
4th Floor, South Suite
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Audit Director

Argyll and Bute Council Annual Accounts 2017/18

1. This representation letter is provided about your audit of the annual accounts of Argyll and Bute Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Argyll and Bute Council's annual accounts for the year ended 31 March 2018.

General

3. Argyll and Bute Council and I have fulfilled our statutory responsibilities for the preparation of the 2017/18 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Argyll and Bute Council have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (2017/18 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Argyll and Bute Council and its Group at 31 March 2018 and the transactions for 2017/18.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2017/18 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Argyll and Bute Council's circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Argyll and Bute Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Argyll and Bute Council's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2018 does not differ materially from that which would be determined if a revaluation had been carried out at that date.
11. I carried out an assessment at 31 March 2018 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2018.
13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2018 of which I am aware have been recognised in the annual accounts.
16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2018 of which I am aware where the conditions specified in the 2017/18 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2018. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2018 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
18. The accrual recognised in the financial statements for holiday untaken by 31 March 2018 has been estimated on a reasonable basis.
19. The pension assumptions and updated valuations made by the actuary in the IAS 19 report for Argyll and Bute Council have been considered and I confirm that they are consistent with management's own view.
20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 34 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and IAS 37
22. With specific reference to equal pay claims I can confirm that it is not possible to quantify the contingent liability, and there are no known liabilities at this date.

Fraud

23. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

24. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

25. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2017/18 accounting code. I have made available to you the identity of all the Argyll and Bute Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

26. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

27. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

28. I confirm that Argyll and Bute Council has undertaken a review of the system of internal control during 2017/18 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
29. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2018, which require to be reflected.

Group Accounts

30. I have identified all the other entities in which Argyll and Bute Council has a material interest and have classified and accounted for them in accordance with the 2017/18 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Events Subsequent to the Date of the Balance Sheet

31. All events subsequent to 31 March 2018 for which the 2017/18 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Kirsty Flanagan,
Head of Strategic Finance

September 2018

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Argyll and Bute Council

17 September 2017

Charitable Trusts administered by Argyll and Bute Council Audit of 2017/18 annual report and financial statements

Independent auditor's report

1. An audit is required for all registered charities where the local authority is the sole trustee, irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Accounts (Scotland) Regulations 2006. The auditor of Argyll and Bute Council, Audit Scotland, has been appointed as the auditor of the relevant trusts.
2. This report sets out for the Trustees' consideration the matters arising from the audit of the 2017/18 annual report and financial statements that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. However, this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Argyll and Bute Council, as the sole trustees of the registered charitable trusts listed at Appendix A, and no responsibility to any third party is accepted.
3. Our audit work on the 2017/18 financial statements is now substantially complete. Subject to receipt of revised sets of financial statements for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's reports for the eight charitable trusts by 28 September 2018 (the proposed reports are attached at **Appendices B, C and D**).
4. A few presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
5. As in previous years, the council has decided not to recharge any administration costs to the trusts in 2017/18. 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.

Unadjusted misstatements

6. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected. There were no unadjusted misstatements in the audit of the charitable trusts' financial statements.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the financial statements, including the judgements and estimates made.
9. A draft letter of representation is attached at [Appendix E](#). This should be signed and returned to us by the Section 95 Officer with the signed annual report and financial statements prior to the independent auditor's reports being certified.

Significant findings from the audit

10. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
11. **Baillie Gillies Bequest; Kidston Park Trust; Marquess of Bute Silver Wedding Dowry; Miss Annie Dickson Burgh Bequest; Logie Baird Prize Fund; McCaig Trust:** As we reported in the previous years, there has been little or no expenditure incurred by these trusts in the last few years. As the majority of the trusts are dormant, there is a risk that the trustees are not fulfilling the terms of the trust deeds and there may be a perception that these trusts are not being run for the public benefit. Trustees should consider whether these are active funds, or whether they should enter into discussions with the Office of the Scottish Charity Regulator (OSCR) to reorganise or wind up these trusts if they are not meeting their objectives. This exercise should be completed as soon as possible.

Resolution: Argyll and Bute Council is continuing to conduct a review of all its charitable trusts.

12. **Baillie Gillies Bequest; Kidston Park Trust; Miss Annie Dickson Burgh Bequest; Logie Baird Prize Fund; Norman Stewart Institute Trust; Marquess of Bute Silver Wedding Dowry; McCaig Trust; County of Argyll Educational Trust:** In the main, trust assets are either cash balances with Argyll and Bute Council loans fund or bond investments. The return on the investment in the council's loans fund was 0.22% for 2017/18. Notwithstanding the low rates of return generally available, the rate of return appears to be considerably less than that available in the market. While we acknowledge that there is a cost involved in an actively managed portfolio, trustees should assure themselves by means of a costs benefits analysis that they are obtaining, commensurate with risk, the best returns possible.

Resolution: An investment manager should be used to seek to obtain a higher rate of return for trust funds.

Appendix A - Registered Charitable Trusts of Argyll and Bute Council

The following is the list of Trusts which are administered by Argyll and Bute Council:

- Baillie Gillies Bequest (Registered Charity SC013578)
- Kidston Park (Registered Charity SC013600)
- Miss Annie Dickson Bequest (Registered Charity SC018697)
- Logie Baird Prize Fund (Registered Charity SC018698)
- McCaig Trust (Registered Charity SC019599)
- Marquess of Bute Silver Wedding Dowry (Registered Charity SC019607)
- County of Argyll Educational Trust Scheme 1960 (Registered Charity SC020382)
- Oban Common Good Fund (Registered Charity SC021328)

APPENDIX B: Proposed Independent Auditor's Report (McCaig Trust and County of Argyll Educational Trust Scheme 1960)

Independent auditor's report to the trustees of [insert name of charity] and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of [insert name of charity] for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Trustees' Responsibilities Statement, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial

reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

APPENDIX C: Proposed Independent Auditor's Report (Oban Common Good Fund)

Independent auditor's report to the trustees of Oban Common Good Fund and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Oban Common Good Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Trustees' Responsibilities Statement, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial

reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

APPENDIX D: Proposed Independent Auditor's Report (Baillie Gillies Bequest, Kidston Park, Miss Annie Dickson Bequest, Logie Baird Prize Fund and Marquess of Bute Silver Wedding Dowry)

Independent auditor's report to the trustees of [Insert Charity Name] and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of [Insert Charity Name] for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2018 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

APPENDIX E: Letter of Representation (ISA 580)

Ursula Lodge CPFA
Senior Audit Manager
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

Dear Ursula

Charitable Trusts administered by Argyll and Bute Council Financial statements 2017/18

- Baillie Gillies Bequest (Registered Charity SC013578)
 - Kidston Park (Registered Charity SC013600)
 - Miss Annie Dickson Bequest (Registered Charity SC018697)
 - Logie Baird Prize Fund (Registered Charity SC018698)
 - McCaig Trust (Registered Charity SC019599)
 - Marquess of Bute Silver Wedding Dowry (Registered Charity SC019607)
 - County of Argyll Educational Trust Scheme 1960 (Registered Charity SC020382)
 - Oban Common Good Fund (Registered Charity SC021328)
1. This representation letter is provided about your audit of the financial statements of the registered charitable trusts named above, where Argyll and Bute Council is the sole trustee, for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
 2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the trustees of the registered charitable trusts where Argyll and Bute Council is the sole trustee, the following representations given to you in connection with your audit for the year ended 31 March 2018.

General

3. I acknowledge my responsibility and that of Argyll and Bute Council (as the administering authority of the Charitable Trusts) for the financial statements. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the Charitable Trusts have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the eight trusts presented for audit are all the trusts that require an audit, where the sole trustee is Argyll and Bute Council.
5. The information given in the Trustees Reports to the financial statements presents a balanced picture of the Charitable Trusts and are consistent with the financial statements.
6. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

7. The financial statements of Baillie Gillies Bequest, Kidston Park, Miss Annie Dickson Bequest, Logie Baird Prize Fund and Marquess of Bute Silver Wedding Dowry have been prepared in accordance with the requirements of the Charities Accounts (Scotland) Regulations 2006 and directions made thereunder by the Scottish Ministers including all relevant presentation and disclosure requirements.
8. The financial statements of the McCaig Trust, County of Argyll Educational Trust Scheme 1960 and Oban Common Good Fund have been prepared in accordance with the requirements of the Charities Statement of Recommended Practice (SORP): Financial Reporting Standard 102 (FRS 102) and directions made thereunder by the Scottish Ministers including all relevant presentation and disclosure requirements.
9. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view/properly present the transactions and state of affairs of Charitable Trusts for the year ended 31 March 2018.

Accounting Policies & Estimates

10. The Annual Report and Financial Statements of the Baillie Gillies Bequest, Kidston Park, Miss Annie Dickson Bequest, Logie Baird Prize Fund and Marquess of Bute Silver Wedding Dowry have been prepared on a receipts and payments basis as per applicable regulations and the founding documents of each Trust.
11. The Annual Report of the Trustees and Financial Statements of the McCaig Trust, County of Argyll Educational Trust Scheme 1960 and Oban Common Good Fund have been prepared on an accruals basis as per applicable regulations and the founding documents of each Trust.
12. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the financial reporting framework where applicable. Where the financial reporting framework does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to each Trusts' circumstances and have been consistently applied.
13. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

14. A number of the trusts have been dormant in recent years. The Trustees have assessed the ability of the registered charitable trust to carry on as a going concern, and have disclosed in the financial statements, any material uncertainties that have arisen as a result.

Assets

15. The assets shown in the Balance Sheet at 31 March 2018 were owned by Charitable Trusts, other than assets which have been purchased under finance leases.

16. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2018 does not differ materially from that which would be determined if a revaluation had been carried out at that date.
17. I carried out an assessment at 31 March 2018 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
18. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2018.
19. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
20. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

21. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2018.
22. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Fraud

23. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

24. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

25. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2017/18 accounting code. I have made available to you the identity of all the Charitable Trusts' related parties and all the related party relationships and transactions of which I am aware.

Corporate Governance

26. I confirm that there are no issues or deficiencies in internal control that require to be disclosed.

Events Subsequent to the Date of the Balance Sheet

27. There have been no material events since the date of the Statement of Balances/Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
28. Since the date of the Statement of Balances/Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

Kirsty Flanagan
Head of Strategic Finance

September 2018

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****STRATEGIC FINANCE****25 SEPTEMBER 2018**

INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT

1. INTRODUCTION

- 1.1 This paper informs the Audit and Scrutiny Committee of the findings from the recent external quality assessment of the Council's Internal Audit service performed by FTF Audit.

2. RECOMMENDATIONS

- 2.1 Members are requested to review and endorse the findings of the assessment including the agreed action plan.

3. DETAIL

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Council's Chief Internal Auditor (CIA) to develop a Quality Assurance and Improvement Programme (QAIP). The purpose of the QAIP is to enable the evaluation of internal audit's conformance to the PSIAS. The QAIP must include annual internal self-assessments and a five yearly external assessment, carried out by an independent assessor.
- 3.2 The Scottish Local Authorities Chief Internal Auditors' Group has developed an external quality assessment framework to satisfy the requirement for a five yearly external assessment. The attached report sets out the findings from the external quality assessment of Argyll and Bute Council's Internal Audit service, which was recently undertaken by the Chief Internal Auditor of FTF Audit, which provides internal audit services to NHS Fife, NHS Tayside, NHS Forth Valley, NHS Lanarkshire and NHS Health Scotland.
- 3.3 The key points of the report to highlight are:
- Paragraph 9 confirms that the Council's internal audit service demonstrates overall compliance with PSIAS
 - Paragraph 10 identifies areas of strong practice
 - Paragraph 11 highlights four areas of potential improvement with all four largely centred around the theme of risk management and the extent to which internal audit can evidence a link between audit work and the Council's risk management registers
 - Paragraph 13 confirms that the service fully conforms to PSIAS in 9 of the 13 PSIAS standards. For the four where internal audit is graded as 'Generally Conforms' the report recognises that it is the sole issue of risk management which has impacted all four areas
 - Pages 4-8 include an audit action plan showing the agreed actions and associated timescales. The CIA has already added these actions to internal audit's QAIP.

4. CONCLUSION

4.1 The Internal Audit service has been assessed as demonstrating overall compliance with PSIAS. Whilst there were four areas where internal audit were assessed as 'generally conforms' rather than 'fully conforms' it is clear from the report that this is due to one area for improvement which permeates multiple areas of PSIAS rather than four distinct areas where improvement is required. Improvement actions have been agreed with a number of them already in progress. Overall the CIA is of the view that this is a positive report which reflects well on the development work that has been undertaken over the period October 2017 until September 2018.

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 – Closer alignment between audit plans and documentation and the council's revised risk management arrangements will provide greater assurance to the Audit and Scrutiny Committee over the Council's management of key risks.

5.7 Customer Service - None

**Laurence Slavin,
Chief Internal Auditor
25 September 2018**

For further information contact:

Laurence Slavin, Chief Internal Auditor (01436 657694)

APPENDICES

Appendix 1 – Argyll and Bute Council Internal Audit Service External Quality Assessment

FTF
INTERNAL AUDIT SERVICE



**PUBLIC SECTOR INTERNAL AUDIT STANDARDS
EXTERNAL QUALITY ASSESSMENT
ARGYLL AND BUTE COUNCIL**

Issued To: L Slavin, Chief Internal Auditor
C.Sneddon, Chief Executive, Argyll and Bute Council
External Audit- Audit Scotland

Date: 24 August 2018

INTRODUCTION & SCOPE

- 1 Argyll and Bute Council (the Council) has an in-house internal audit function which provides an internal audit service to the Council, based on Public Sector Internal Audit Standards (PSIAS) which were last updated in April 2017. Compliance with these standards is mandatory for all public sector, including local authority, internal audit service providers, whether in-house, shared services or outsourced.
- 2 PSIAS requires external assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 3 The Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) has developed an external quality assessment framework to satisfy this requirement for a five yearly external assessment which includes FTF Audit, who were chosen to review the Council's Internal Audit service.
- 4 This report sets out the findings arising from the external assessment undertaken by the Chief Internal Auditor for FTF Audit, which provides internal audit services to NHS Fife, NHS Tayside, NHS Forth Valley, NHS Lanarkshire and NHS Health Scotland.
- 5 The scope of the review was to establish whether the Council's internal audit function is complying fully with PSIAS and identify any recommendations for improvement.
- 6 The scope of this review is limited to the processes, procedures and practises in place during the tenure of the current Chief Internal Auditor (CIA) which commenced on 24 October 2017. No assurance is provided on any predecessor systems which have not been evaluated as part of this review.

OBJECTIVES

- 7 Our audit work was designed to evaluate whether appropriate systems were in place and operating effectively to mitigate risks to the achievement of the objective identified below:
 - ◇ As required by PSIAS, 'The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.'
- 8 Whilst not part of the formal process, during the course of this review, we looked to identify areas where the service may be able to add further value.

AUDIT OPINION AND FINDINGS

- 9 Based on the extensive evidence provided to us and detailed discussions with the CIA, we have concluded that the Council's internal audit service was able to demonstrate overall compliance with PSIAS requirements.

10 We were provided with a comprehensive and detailed portfolio of evidence encompassing all aspects of PSIAS and identified many areas of strong practice including the following:

- ◇ Robust procedures for compliance with PSIAS and Council ethical standards;
- ◇ A current, comprehensive Audit Charter containing all relevant aspects of PSIAS;
- ◇ A comprehensive audit manual directly related to PSIAS requirements;
- ◇ A CIA with sufficient status and authority with strong links to key officers, the management team and the Audit & Scrutiny Committee (the Committee) and good processes for engagement and consultation;
- ◇ Clear lines of reporting to the Committee and management with very comprehensive communication of departmental performance and individual audit findings;
- ◇ Robust self-assessment procedures;
- ◇ Clear evidence of diligent supervision of audit assignment planning and audit outputs;
- ◇ Clear procedures for follow-up and reporting of internal audit recommendations with very high compliance rates;
- ◇ Positive feedback from Council staff and elected members.

11 We would highlight the following areas of potential improvement:

- ◇ Whilst the planning process is robust, the annual Internal Audit plan does not contain overt reference to the Council's risk register and it is not therefore possible for the Committee to understand how the plan relates to the Council's key risks and controls. In addition, the plan does not demonstrate how coverage is related to other sources of assurance to ensure best use of Internal Audit resources;
- ◇ Although the planning process does take previous year's coverage into account, this is not made available to the Committee when approving the plan and therefore the Committee cannot assess which areas are not being addressed and, as noted above, is not able to assess the extent to which its key risks have been reviewed in this or previous years;
- ◇ Individual assignment plans are not focused on the key risks and controls highlighted within the risk register, although these are taken into account amongst a range of factors when developing an audit programme. Audit reports do not provide overt assurance on key risks and controls where relevant;
- ◇ The CIA's contribution to risk management arrangements within the Council should be undertaken under the auspices of a consultancy audit so that there is clarity over the scope of this work and overt evidence that PSIAS requirements in relation to consultancy appointments are met. This will also facilitate consideration of how best to ensure the independence of formal internal audit reviews of risk management, which are essential for a full understanding of the adequacy and effectiveness of internal control.

12 A number of minor issues are highlighted in the Action Plan to this report; none impact on our assessment of overall compliance with PSIAS.

13 The following chart shows our detailed assessment against each standard, noting that all instances where full compliance is not achieved relate solely to the issue of risk, which permeates a number of the standards:

	PSIAS Assessment Standard	Assessment
1	Definition of internal auditing	Fully Conforms
2	Code of ethics	Fully Conforms
3	Purpose, authority and responsibility	Fully Conforms
4	Independence and objectivity	Generally Conforms
5	Proficiency and due professional care	Fully Conforms
6	Quality assurance and improvement programme	Fully Conforms
7	Managing the internal audit activity	Generally Conforms
8	Nature of work	Generally Conforms
9	Engagement planning	Generally Conforms
10	Performing the engagement	Fully Conforms
11	Communicating results	Fully Conforms
12	Monitoring progress	Fully Conforms
13	Communicating the acceptance of risks	Fully Conforms

ACTION

14 An action plan has been agreed with management to address the identified areas for potential improvement. The Council's CIA has agreed to include all actions in the internal audit quality assurance improvement programme, an update on which is reported to the Committee as part of a standard agenda item. This follow-up process is in accordance with PSIAS.

ACKNOWLEDGEMENT

15 We would like to thank all members of staff for the help and co-operation received during the course of the audit.

A Gaskin, BSc. ACA
Chief Internal Auditor

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
1.	The annual Internal Audit plan does not contain overt reference to the Council's risk register and it is not therefore possible for the Committee to understand how the plan relates to the Council's key risks and controls. In addition, the plan does not demonstrate how coverage is related to other sources of assurance to ensure best use of Internal Audit resources.	<p>The annual plan should contain clear reference to the council's risk register and demonstrate how the plan will provide assurance on key risks and controls. It should also demonstrate how duplication is avoided through reliance on other external and independent assurance sources.</p> <p>Reference to key organisational priorities and objectives would also help the Committee understand the value and relevance of the proposed audits.</p>	<p>2</p> <p>3</p>	<p>A review of the format and content of the internal audit plan is currently underway and both these recommendations will be factored into that review.</p> <p>In particular, where relevant, there will be a clear alignment between identified audit assignments and the Council's strategic and/or operational risk register and a three year projection to show proposed future coverage of key strategic risks.</p> <p>The draft 2019/20 plan will be submitted to the Committee in December 2018 with a final version agreed in March 2019. Committee will be asked to feedback on the revised format presented in December and any feedback received will be factored into the final version.</p>	<p>Chief Internal Auditor</p> <p>23 November 2018</p>

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
2.	Prior year coverage is not presented to the Committee during its approval of the annual Internal Audit plan and therefore the Committee cannot assess which areas are not being addressed and, as noted above, is not able to assess the extent to which its key risks have been reviewed in this or previous years;	<p>As part of the revised planning process described above, the plan should demonstrate how previous coverage has provided assurance on key risks and controls and identify any key risks which will not be subject to internal audit review, with an explanation of the potential consequences to the Council.</p> <p>This information should inform the Committee consideration of the adequacy of internal audit coverage.</p>	<p>2</p> <p>3</p>	As per the response to action plan 1 this will also be considered when revising the format and content of the internal audit plan. The 2019/20 plan will also provide a summary of the key risks which were addressed by the 2018/19 internal audit plan.	<p>Chief Internal Auditor</p> <p>23 November 2018</p>

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
3.	Individual assignment plans are not focused on the key risks and controls highlighted within the risk register, although these are considered amongst a range of factors when developing an audit programme.	In addition to the emphasis on risks in the operational plan, individual audit assignments should demonstrate overt recognition of the risks, controls and assurances recorded in the Council's risk registers which should be a primary focus of the audit wherever relevant.	2	As per the finding box the risk registers are considered when audit terms of reference and audit programmes are drafted and approved. However it is recognised these planning documents could provide a clearer link between the risks identified and the control objectives designed to provide assurances over those risks. A review of the format and content of the terms of reference is currently underway and this recommendation will be factored into that review.	Chief Internal Auditor 23 November 2018
4.	Audit reports do not provide overt assurance on key risks and controls where relevant.	Wherever possible internal audit reports should provide assurance on the accuracy of the risks, controls and risk scores recorded in the risk register.	3	The template audit report will be revised to specifically reference the risks that were identified in the audit planning process and documented in the terms of reference (as per action plan 3). This combined with action plan 1 will provide greater assurance to the Committee over the controls/mitigating actions recorded in the risk registers.	Chief Internal Auditor 22 February 2019

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
5.	<p>Although the CIA made a significant contribution to the renewal of risk management processes, there was no assignment plan to ensure that independence was maintained. Consideration of the adequacy and effectiveness of risk management is one of the key components of the CIA's annual opinion.</p> <p>The 2017/18 review of risk management was an update rather than an overall assessment of the adequacy and effectiveness of risk management arrangements and the Committee did not receive any other assurance on risk management.</p>	<p>Any future contribution by the CIA to risk management arrangements within the Council should be undertaken under the auspices of a consultancy audit so that there is clarity over the scope of this work and overt evidence that PSIAS requirements in relation to consultancy appointments are met.</p> <p>The Committee should receive formal assurance on risk management arrangements at least annually. Consideration should be given to receipt of an annual risk management report from management, in addition to formal assurance from the CIA.</p>	<p>3</p> <p>2</p>	<p>The 2017/18 risk management report reflected the CIA's opinion that risk management procedures needing strengthening and on the activity to deliver those improvements. The Chief Executive reported further to the Committee in June 2018 on the strategic risk register and confirmed the new risk management arrangements.</p> <p>The CIA has agreed that Audit Scotland will provide an opinion on the Council's risk management arrangements in their 2017/18 annual audit report with internal audit focusing on the council's compliance with the risk management procedures. This will provide Committee with the cumulative assurance they require whilst ensuring appropriate independence over each component part.</p> <p>In future years these assurances will be fully provided by the internal audit's annual risk management report unless the CIA is of the view that he has had any material input in implementing further revisions to risk management arrangements.</p>	<p>Chief Internal Auditor / Audit Scotland</p> <p>Audit Scotland's annual audit report will be presented to Committee on 25 September 2018.</p> <p>Internal Audit's review of risk management is currently scheduled to be reported to Committee on 19 March 2019.</p>

Ref.	Finding	Audit Recommendation	Priority	Management Response / Action	Action by/Date
6.	<p>Minor areas for consideration are:</p> <p>The Internal Audit contribution to Best Value and its ability to add value could be made more explicit so that maximum benefit can be derived from the Internal Audit function.</p> <p>The audit plan and annual internal audit report do not detail how the impact of Health and Social care integration on assurance and control has been taken into account. It is not clear how the Terms of Reference of the Committee have been adjusted to allow for HSCI.</p> <p>Chair input into CIA Performance review might be beneficial.</p> <p>The CIA job description requires CCAB but does not recognise the equivalent IIA qualification.</p>	<p>These issues should be discussed with the Committee and/or management to decide whether further action is required.</p>		<p>The CIA will prepare a paper for SMT consideration which incorporates these issues.</p> <p>The terms of reference of the Audit & Scrutiny Committee are subject to annual review as part of a wider review of the Council's constitution. The CIA will engage with the SMT Committee Chair and the internal auditors of Argyll & Bute HSCP to determine an appropriate protocol for obtaining audit assurances and whether there is a need to revise the Committee terms of reference.</p>	<p>Chief Internal Auditor</p> <p>26 November 2018</p>

APPENDIX A

DEFINITION OF ASSURANCE CATEGORIES AND RECOMMENDATION PRIORITIES

Categories of Assurance:

A	Good	There is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives.
B	Broadly Satisfactory	There is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives, although minor weaknesses are present.
C	Adequate	Business objectives are likely to be achieved. However, improvements are required to enhance the adequacy/ effectiveness of risk management, control and governance.
D	Inadequate	There is increased risk that objectives may not be achieved. Improvements are required to enhance the adequacy and/or effectiveness of risk management, control and governance.
E	Unsatisfactory	There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance and to place reliance on the system for corporate governance assurance.
F	Unacceptable	The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Immediate action is required to improve the adequacy and effectiveness of risk management, control and governance.

The priorities relating to Internal Audit recommendations are defined as follows:

Priority 1 recommendations relate to critical issues, which will feature in our evaluation of the Governance Statement. These are significant matters relating to factors critical to the success of the organisation. The weakness may also give rise to material loss or error or seriously impact on the reputation of the organisation and require urgent attention by a Director.

Priority 2 recommendations relate to important issues that require the attention of senior management and may also give rise to material financial loss or error.

Priority 1 and 2 recommendations are highlighted to the Audit Committee and included in the main body of the report within the Audit Opinion and Findings

Priority 3 recommendations are usually matters that can be corrected through line management action or improvements to the efficiency and effectiveness of controls.

Priority 4 recommendations are recommendations that improve the efficiency and effectiveness of controls operated mainly at supervisory level. The weaknesses highlighted do not affect the ability of the controls to meet their objectives in any significant way.

ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****STRATEGIC FINANCE****25 SEPTEMBER 2018**

ALCOHOL/DRUG DEPENDENCY SERVICES CORRESPONDENCE REVIEW

1. INTRODUCTION

- 1.1 In early 2018 Audit Scotland received correspondence from member(s) of the public raising queries about the arrangements for procurement, performance monitoring and governance relating to Argyll & Bute Alcohol and Drug Partnership (ADP).
- 1.2 Audit Scotland reviewed the correspondence and met with Argyll and Bute Council's (the Council) Chief Internal Auditor (CIA) to discuss the content. It was agreed that the Council's internal audit department would conduct a review and Audit Scotland would place reliance on Internal Audit's work and conclusions.
- 1.3 This report presents the final report for the Committee's consideration.

2. RECOMMENDATIONS

- 2.1 Audit and Scrutiny Committee to review and endorse the report.

3. DETAIL

- 3.1 In early 2018 Audit Scotland received correspondence from member(s) of the public raising queries about the arrangements for procurement, performance monitoring and governance relating to Argyll & Bute Alcohol and Drug Partnership (ADP): In particular:
 - Governance in relation to the operation and decision making of the ADP
 - Contract/Service Level Agreement (SLA) management in relation to Addaction Scotland (Addaction) and Argyll and Bute Addictions Team (ABAT) including any contract extensions
 - Procurement and extension of Children 1st contracts.
- 3.2 Audit Scotland reviewed the correspondence and met with Argyll and Bute Council's (the Council) Chief Internal Auditor (CIA) to discuss the content. It was agreed that the Council's internal audit department would conduct a review and Audit Scotland would place reliance on Internal Audit's work and conclusions.
- 3.3 Audit Scotland met with the correspondent(s) to discuss their concerns however, at the request of the correspondents, Audit Scotland have maintained their anonymity. The CIA has not seen the correspondence sent to Audit Scotland. The scope and objectives of this review were informed by the discussion between the CIA and Audit Scotland and e-mail sent to the CIA by Audit Scotland on 31 May 2018 which sets out the 'Heads of the Correspondence' as summarised by Audit Scotland. These terms of reference was agreed with Audit Scotland prior to the fieldwork commencing.

- 3.4 The scope of the audit was to consider and provide an evidence based response to the queries raised by the correspondent(s) as summarised by Audit Scotland. The objectives of the audit were restricted to gathering sufficient audit evidence to form a conclusion on these queries. It does not constitute a wider review of the subject matters of procurement, performance monitoring and governance nor is it a detailed audit of the ADP, Addaction, ABAT or Children 1st. Any audit judgements on compliance with policy and/or procedure were made taking cognisance of the relevant policy and/or procedure at the time the event being queried took place. The audit report provides a response to each of the queries grouped by the associated 'body.' It also, where applicable, provides an audit conclusion on the appropriateness of the evidenced processes and procedures.
- 3.5 Overall the review has been graded as providing substantial assurance meaning the CIA's judgement is that internal control, governance and the management of risk is sound. However, there are some 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. The recommendations are summarised in paragraph 13 of the report with the action plan at appendix 1 of the report providing greater detail.
- 3.5 Subject to the Audit & Scrutiny Committee's endorsement the report will be made available to the ADP Committee for their consideration.

4. CONCLUSION

- 4.1 The appropriate Council officers and NHS officers have accepted the contents of the report and agreed responses and timescales in the associated action plan.

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 Service - None

**Laurence Slavin,
Chief Internal Auditor
25 September 2018**

For further information contact:

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APPENDICES

Appendix 1 – Alcohol/Drug Dependency Services Correspondence Review

Argyll and Bute Council
Internal Audit Report
September 2018
FINAL

Alcohol/Drug Dependency Services
Correspondence Review

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	0	2	3

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1. Executive Summary

Introduction

1. In 2018 Audit Scotland received correspondence from member(s) of the public raising queries about the arrangements for procurement, performance monitoring and governance relating to the Argyll & Bute Alcohol and Drug Partnership (ADP), Addaction Scotland (Addaction), Argyll and Bute Addiction Team (ABAT) and Children 1st.
2. Audit Scotland reviewed the correspondence and met with Argyll and Bute Council's (the Council) Chief Internal Auditor (CIA) to discuss the content. It was agreed that the Council's internal audit department would conduct a review and Audit Scotland would place reliance on their work and conclusions subject to Audit Scotland's satisfaction with the work performed.
3. The audit was conducted in accordance with the Public Sector Internal Audit Standards with our conclusions based on document review and discussions with council and NHS Highland officers.
4. The contents of this report have been discussed with the appropriate council and NHS 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

Alcohol & Drug Partnership

5. The ADP was established in 2009 to agree and manage an Argyll and Bute wide alcohol and drug strategy. As a partnership it incorporates a number of statutory and voluntary organisations with its duties carried out in accordance with an established constitution. The ADP reports into the Argyll and Bute Community Planning Partnership who have overall responsibility for ADP governance. The previous ADP structure was four tiered and included an ADP Executive Group and an ADP Delivery Group. That structure was simplified by the ADP Chair (the Chair) in 2016. There is now an ADP Committee (the Committee) with 21 members representing the NHS, the Council, Police Scotland, the Health and Social Care Partnership, Scottish Fire & Rescue, ADP forums from Cowal, Oban Lorn & The Isles, Helensburgh & Lomond, Islay, Bute, Mid Argyll, and Kintyre and third sector forums.

Addaction

6. Addaction is an external provider of community based adult addiction recovery services in Argyll and Bute. They were awarded a three year contract to deliver services commencing 1 January 2015 with the contract providing for a possible contract extension for up to two years subject to satisfactory performance. The invitation to tender (ITT) issued when the contract was tendered establishes the performance framework against which performance is assessed. An extension until 31 December 2019 was awarded in January 2018. The contract is between Addaction and the Council rather than Addaction and the ADP as the ADP is not a legal entity in its own right. The commissioning process culminating in the award to Addaction was carried out by the Council's procurement team in 2014.

ABAT

7. ABAT is a health and social work addiction team comprising staff employed by NHS Highland and the Council. It consists of nurses, social workers, support staff, office staff and a psychiatrist. The ADP engage ABAT to provide addiction recovery services. There is a service level agreement (SLA) between ABAT and the ADP with a base value of £1,036,407 (based on 2014/15 costs). The SLA establishes the services to be provided and a performance management framework against which performance can be assessed.

Children 1st

8. Children 1st is a national Scottish Charity working with the Council, NHS Highland and Argyll Voluntary Action to support families with children aged 0 to 8. They registered with the Council in 2008 and deliver services relating to advocacy and abuse & trauma recovery. Since 2008 these services have been delivered via an SLA (original SLA was from 2008-2011 however it has been extended annually using the 'Justification of Non Competitive Action' procurement option). The abuse and trauma recovery service element of the contract expired in September 2017 after which funding ceased. The advocacy service element expired in March 2018. From 2008 to 2018, including each extension, there has been a total of ten agreements with Children 1st for the delivery of advocacy and abuse & trauma recovery services. These total £847,357.

Scope

9. The scope of the audit was to consider and provide an evidence based response to the queries raised as summarised by Audit Scotland. The audit was limited to gathering sufficient audit evidence to form a conclusion on those queries. It does not constitute a wider review of the subject matters of procurement, performance monitoring and governance nor is it a detailed audit of the ADP, Addaction, ABAT or Children 1st. Any audit judgements on compliance with policy and/or procedure were made taking cognisance of the relevant policy and/or procedure at the time the event being queried took place. It also, where applicable, provides an audit conclusion on the appropriateness of the evidenced processes and procedures.
10. The scope and objectives were agreed by Audit Scotland prior to the audit commencing.

Audit Opinion

11. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full detail of the five possible categories of audit opinion is provided in Appendix 2 to this report.
12. Our overall audit opinion for this audit is that we can take a **substantial** level of assurance. This means that the internal control and governance is sound. However, there are 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

13. We have highlighted no high priority recommendation, two medium priority recommendations and three low priority recommendations where we believe there is scope for improvement. These are summarised below:
- clarity should be provided regarding authority to award/extend contracts and extension decisions, where required, should be informed by a completed contract review
 - approval to commission services using non-competitive action should be obtained prior to any contracts being awarded
 - engage with the ADP Committee to determine whether they are satisfied with the current performance monitoring and reporting arrangements
 - the Chair should be subject to annual review in compliance with the job specification
 - the ADP constitution should be updated to reflect current structures and practices.
14. Full details of the audit findings, recommendations and management responses can be found in sections 3-5 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

15. The correspondents raised queries focused primarily on the following three areas:
- governance in relation to the operation and decision making of the ADP
 - contract/SLA management in relation to Addaction and ABAT
 - procurement and extension of Children 1st contracts.
16. In agreement with Audit Scotland, 14 specific queries were identified which were grouped into these three areas. For each query we have documented our findings, a conclusion and, where appropriate, areas for improvement. This is detailed in sections three to five of the report.
17. Exhibit 1 provides a summarised assessment against each of the three key areas.

Exhibit 1 – Summary Assessment of Key Area

	Key Area	Assessment	Summary Conclusion
1	ADP Governance	Substantial	<p>Overall there are no material concerns about the governance of the ADP. The processes adopted to appoint the Chair and consider future options for the Chair are transparent and appropriate. The Chair has introduced changes to the ADP structure and consulted on these with relevant partners. The ADP constitution needs to be updated to reflect these changes and ensure it reflects current working practices.</p> <p>The ADP has implemented the recommendations in Audit Scotland's 2015 report and has a Committee approved process for considering applications and awarding funds. There are appropriate mechanisms in place for ADP members to raise concerns about ADP governance and clear evidence that these mechanisms have been utilised in the past. The ADP should ensure that, where required by the job specification, the Chair is subject to annual review.</p>

2	Addaction and ABAT Contract / SLA Management	Substantial	<p>The basis for the award of Addaction's contract extension was consistent with the terms of the original contract in that satisfactory performance had been demonstrated through regular performance monitoring. However there was a lack of clarity regarding responsibility for awarding the extension and the conclusion of the Addaction contract review post-dated rather than pre-dated the decision to award the extension. It is however recognised that the review, once complete, did not highlight any reason not to extend the contract.</p> <p>Whilst it is correct that the sole contractual target established for Addaction and ABAT is for 90% of clients to wait no longer than three weeks to receive drug or alcohol treatment, their performance is assessed against a wider range of factors and there are sound performance monitoring arrangements with regular reporting to the Committee. Performance reporting could be further strengthened if performance reports were closer aligned to the performance management framework however the Committee's view should be sought before making changes to performance management arrangements.</p>
3	Children 1 st - Procurement / Extension	Reasonable	<p>Appropriate approval was in place for each of the seven extensions of the Children 1st contract awarded since 2013/14 however approval was often provided retrospectively. Where required by the Procurement Reform Act (Scotland) 2014 there was documentary evidence to support the extensions.</p> <p>Children 1st led on a bid for external funding between October 2016 and August 2017 however this bid was not completed and therefore no funding was received or benefit obtained by any party. Progress on this bid was reported to the Committee throughout this period.</p>

3. ADP Governance

Q1 – Confirm whether the Chair, first appointed in 2015, has had his appointment extended, the decision making process to agree this and the partners involved in that process.

18. **Findings:** The Chair was appointed in late 2015 for a three year period and chaired his first committee meeting in December 2015. The appointment process was communicated and discussed with the ADP Executive Committee (as it was called in 2015) as evidenced by papers submitted to executive committee meetings. The three year contract is still to expire and, therefore, the appointment has not been extended yet. The Associate Director of Public Health is to present a paper to the Argyll and Bute Health & Social Care Partnership (HSCP) on 26 September to recommend revised governance arrangements for the ADP. This paper will consider the process for appointing the ADP Chair.
19. The current job specification for the Chair confirms the contract was for a three year period with an annual review. These annual reviews were not carried during the period of his appointment.

Action Plan 4

20. **Conclusion:** The process adopted to appoint the Chair was transparent and appropriately discussed with the Committee. The appointment has not been extended as the current appointment has not expired yet. The process for appoint the Chair is to be presented in a paper to be submitted to the HSCP on 26 September 2018. Annual contract reviews as required by the Chair's job specification were not carried out.

Q2 – Confirm whether the Chair has introduced material changes to the way the ADP operates and whether the ADP constitution has been updated to reflect those changes. Confirm whether ADP partners were consulted on those changes.

21. **Findings:** The Chair introduced changes to the structure of the ADP in the second half of 2016. In particular the ADP Executive Group and ADP Delivery Group were merged into the ADP Committee. This structural change was detailed in a paper presented to the Committee on 1 September 2016 as a part of a wider update on the key findings arising from the Chair's review of the ADP. The paper makes reference to engaging with the locality forums and other partner agencies however it does not specifically reference which forums and partners were included. However all locality forums are represented on the Committee and the minutes of the September 2016 meeting do not record any dissatisfaction with the structural change.
22. The ADP constitution has not been updated to reflect these structural changes. It was also noted that a number of the sub-groups named in appendix 4 to the constitution no longer exist. The constitution would benefit from a review to reflect these specific issues but also more generally to ensure it reflects current working practices.

Action Plan 5

23. **Conclusion:** The Chair has introduced material changes to the structure of the ADP and he consulted with relevant partners as part of a wider review of the ADP. It would have been better practice if the paper submitted to the Committee had been more explicit about the engagement carried out however the Committee was provided with appropriate opportunity to comment on the proposals when the paper was presented in September 2016. The ADP's constitution should have been updated to reflect the structural changes implemented.

Q3 - Confirm whether the ADP are applying the recommendations made by Audit Scotland in their 2015 report 'Review of the commissioning process undertaken on behalf of the ADP.'

24. **Findings:** The recommendations in the Audit Scotland 2015 report that related to the ADP were:
- To demonstrate sound governance, minutes should be taken at all important meetings of the ADP and then agreed at the following meeting.
 - Governance arrangements in the ADP should be improved to enhance openness and transparency. Allowing open discussion and debate on strategy, budgetary information, etc. will help members to contribute effectively to the work of the ADP. Delivering a robust improvement plan should help with communication difficulties.
25. Minutes are taken at all Committee meetings and agreed as a standard agenda item at the subsequent meeting (except where the subsequent meeting is not quorate in which case minute agreement is carried forward to the next meeting). Once agreed, minutes are published on the

ADP website. A review of all Committee minutes between 1 September 2016 and 14 May 2018 confirmed this practice is applied consistently and that committee members are provided opportunity to query the accuracy of minutes before they are agreed. The review also confirmed that issues relating to strategy and budgetary / financial information are discussed regularly including having regular agenda items for 'Co-ordinators Report', 'Lead Professional's Report', 'Locality Chair's Report' and 'Third Sector Report.'

26. In addition to the Committee there are seven local area forums all of which are represented on the Committee. The minutes of 25 forum meetings were reviewed with the sample covering all seven local area forums. This confirmed it was standard practice across all the forums for the minute of the previous meeting to be agreed. It also provided evidence that issues of operational, strategic and financial matters are openly discussed.
27. A three year ADP Delivery Plan and one year Improvement Plan were submitted to the Committee in July 2015 and August 2015 respectively. These included a series of actions with associated timescales to deliver improvement.
28. **Conclusion:** The ADP have implemented the recommendations in Audit Scotland's 2015 report.

Q4 – Confirm whether the ADP has appropriate procedures in place to consider funding applications and ensure awards are made in a manner which is transparent and equitable

29. **Findings:** The ADP has an 'algorithm' which is a flowchart showing how ADP funding flows from the Scottish Government, to NHS Highland then to the ADP. The majority of ADP funds are already committed (i.e. for the Addaction and ABAT contracts) however there can be non-committed funds available and the ADP has an established process to manage how they are awarded to applicants.
30. The ADP has a standard application form for potential parties to complete and a decision board is formed which usually consists of three people with at least one non committee member. The Chair and members of the ADP support team do not sit on decision boards. The decision board is responsible for reviewing applications and making a recommendation to the Committee. The process to consider applications was discussed with committee members at the December 2015 committee meeting.
31. This application process was followed in 2016/17 for funding awards. In 2017/18, rather than applying this process, a decision was taken to extend some of the awards made in 2016/17. These extensions were agreed by the Committee on 18 December 2017.
32. **Conclusion:** The ADP has an established process in place to help manage the funds available to it. Whilst this process was not applied in 2017/18 the alternative process adopted was appropriately discussed and agreed by the Committee.

Q5 – Confirm whether there is an appropriate mechanism for partner bodies to raise concerns about ADP governance and whether there is any evidence that partner bodies have such concerns including:

- late provision of minutes
- minutes not accurately reflecting meetings and being subject to inappropriate amendments
- manipulation of meeting attendance to achieve a desired outcome.

33. **Findings:** The mechanism for raising complaints about minutes would be at the subsequent Committee meeting. The review of committee and local forum minutes referenced at paragraphs 25-26 did not highlight any material concerns about late provision of minutes and there was evidence that, at both Committee meetings and local forum meetings, attendees are provided the opportunity to query any inaccuracies with previous minutes before agreeing them. Each forum has representation on the Committee providing them a clear opportunity to raise any concerns about ADP governance either singularly or collectively.
34. The dates and venues for committee meetings are circulated to all committee members with sufficient notice. For example, the meeting dates, times and locations for all meetings between June 2018 and June 2019 were circulated to members by e-mail on 15 May 2018. There are no exclusions in terms of invitations to committee members and members are entitled to send representatives on their behalf in the event they cannot attend.
35. There have been instances in the past where committee members have formally raised concerns about matters relating to the ADP and these have been investigated formally using the NHS Highland complaints procedure.
36. The minute of a forum meeting held in February 2018 highlighted a governance issue raised by an attendee relating to the process to appoint office bearers. In particular it suggested a possible manipulation of the meeting to achieve a desired outcome. The minute confirms the issue was discussed and that it received no support from other committee members. No formal complaint was raised in relation to this issue. The specifics of the issue are outwith the scope of this audit.
37. **Conclusion:** A mechanism exists for complaints to be raised about ADP governance. Committee members can raise issues at committee meetings and, if they deem it necessary, can issue a formal complaint using the NHS Highland complaints process. There is no substantial evidence of material concerns about late provision of minutes, minutes not accurately reflecting meetings or manipulation of meeting attendance.

4. Contract / SLA Management

Addaction

Q6 – The Addaction contract has been extended by two years. Confirm:

- whether this extension was consistent with the terms and conditions of the original contract award
- how the decision to extend the contract was reached including whether appropriate information was made available to assist in that decision making process
- what partners were involved in the decision making process.

38. **Findings:** The terms and conditions of the Addaction contract are adopted from the terms set out in the ITT when the contract was tendered. Section 63 (Contract Review) of the ITT confirms that a contract review will be led by council officers and paragraph 63.4 sets out the options at the end of the review. One of those options is *'Extend the term of this Contract for up to a maximum of two (2) years or such other period as is deemed appropriate in the circumstances*

with regard to the nature of the Services being provided.' This is the option that was adopted with Addaction informed of the extension on 23 January 2018.

39. There is, however, ambiguity in the ITT as section 10 (Duration of the Contract) states that '*The Contract may be extended for up to two further years until 30th September 2019 at the option of Argyll and Bute Council (on behalf of the ADP) subject to satisfactory performance of the contract and product discussions with the successful Tenderer(s).*' This section makes no reference to the need for that extension to be based on the conclusion of a contract review.
40. The Council reviewed the use of the 'Duration of the Contract' clause in ITTs in 2013 however both the duration clause and contract review clause were still in use in 2013 and 2014 which included the period the Addaction ITT was issued. A revised contract review clause which removes this conflict has been in use since 2016. As corrective action has already been taken to address this issue no further action is required.
41. There was a lack of clarity over roles and responsibilities in relation to awarding the contract extension. The ITT states that the contract may be extended '*at the option of Argyll and Bute Council (on behalf of the ADP)*' and the ADP constitution does not make any reference to the Committee having the authority to award contracts. General discussions about the Addaction extension were held at Committee meetings in May 2017, August 2017, October 2017, and December 2017, however the decision to award the extension was primarily taken by the Chair on the basis of the performance reporting provided for Addaction. This decision was communicated to the ADP Coordinator by e-mail on 18 January 2018.
42. The Committee are presented with quarterly scorecard reports for Addaction which reflect trends across a number of key performance measures. The Committee considers the reports and can raise questions as deemed appropriate. As such the Committee is regularly updated on Addaction's performance and minute review does not highlight any material concern about their performance being raised by the Committee.
43. A contract review was carried out however, whilst it commenced prior to the Addaction contract expiring, it was not completed until mid-February 2018, a month after the extension was awarded. Its late completion was due to competing work commitments. It is recognised that the contract review did not highlight any reason why the contract should not be awarded.

Action Plan 1

44. **Conclusion:** The award of Addaction's contract extension was consistent with the terms of the original ITT in that the basis for extension was satisfactory performance which has been demonstrated through regular performance monitoring (refer to paragraphs 48-51). However there was a lack of clarity regarding responsibility for awarding the extension and the conclusion of the Addaction contract review post-dated rather than pre-dated the decision to award the extension. It is however recognised that the review, once complete, did not highlight any reason not to extend the contract.

Q7 – Confirm what quality indicators and/or recovery targets are in place for the Addaction contract. Specifically confirm whether there is a sole contractual target that 90% of clients wait no more than three weeks to receive drug or alcohol treatment.

45. **Findings:** The ITT sets out the performance management framework for the Addaction contract. It details the required outcomes, the actions to take to deliver them and how they are to be measured. There is a total of six overarching outcomes with each of these broken down into more detailed outcomes. As there are no performance targets established in the ITT it can be difficult to determine how the quality of service delivery can be assessed. However it is recognised that setting meaningful performance targets for the delivery of care services can be difficult as, for example, how do you determine what is a 'good' number of referrals or a 'poor' number of referrals? Consequently performance monitoring focuses more on trends over a period of time to identify areas of concern. This is considered to be a reasonable approach to take.
46. The performance management framework in the ITT does make reference to the 'HEAT standard – Waiting Time Target' as being a measurement. This is a national standard which, for alcohol and drug treatment, is that *'90 per cent of clients will wait no longer than three weeks from referral received to appropriate drug or alcohol treatment that supports their recovery'*. Performance against this measure is monitored through the quarterly performance reporting carried out by the ADP as detailed in paragraphs 48-51.
47. **Conclusion:** It is correct that the sole contractual target established by the ITT is for 90% of clients to wait no longer than three weeks to receive drug or alcohol treatment however Addaction's performance is assessed against a wider range of factors than that one target.

Q8 – Confirm how performance against the quality indicators and/or recovery targets is monitored including consideration of whether performance monitoring allows comparison across the geographical areas of Argyll and Bute.

48. **Findings:** Addaction provide quarterly performance monitoring reports which are discussed in meetings attended by the ADP Coordinator, a Council Performance Improvement Officer (PIO) and an Addaction manager. The PIO uses this information to monitor Addaction on a quarterly basis against contractual criteria using a balanced scorecard approach which allocates scores across four component parts (quality, service, delivery and cost). The quarterly scorecard changes if the performance report provided by Addaction highlights a performance issue which would alter the overall risk rating for the contract. If the performance report does not highlight a material change in performance then the scorecard is not changed and it rolls forward into the next quarter. There is also a yearly scorecard which is a consolidation of all activity in year and the quarterly performance reports.
49. A review of Addaction performance reports confirmed they provide some of the information set out as 'measurement' in the ITT (for example service user feedback, a statement on referral numbers, a summary of care inspectorate reports and a sentence on meeting national waiting times and HEAT targets). However, as the format of the performance reports are not aligned to the ITT's performance management framework, it is difficult to assess and evidence whether the outcomes required by the ITT are being delivered.

50. The Committee are presented with quarterly scorecard reports for Addaction which reflect trends across a number of performance measures. These scorecards have not historically broken down performance across the four geographical areas of Argyll and Bute however in May 2018 the Committee were presented with alcohol and drug reports which were specific to each of the four localities. This was the first time these reports had been made available. It would be beneficial to engage with the ADP Committee to determine whether they are satisfied with the current performance reporting and obtain feedback on where it could potentially be strengthened.

Action Plan 3

51. **Conclusion:** There are sound arrangements in place for performance monitoring by the Council and the ADP with regular reporting to Committee. This could potentially be improved by better aligning performance reports to the performance management framework and further exploring the provision of performance information which facilitates the comparison of performance across the four geographical areas of Argyll and Bute to help identify any areas of specific concern. However the ADP Committee should be consulted before making any changes to the current levels of performance reporting to ascertain whether they are of the view that any proposed changes would be of benefit.

ABAT

52. Queries 9 and 10 are duplicates of queries 7 and 8 except they relate to the performance monitoring of services delivered by ABAT rather than the services delivered by Addaction. The process followed by the ADP Coordinator and the PIO for ABAT performance monitoring is identical to that followed for Addaction and the quarterly scorecards presented to the Committee consolidate the Addaction and ABAT information. Therefore the information, actions, conclusions and recommended actions documented in paragraphs 45-51 are equally applicable to ABAT. They have not been documented again to avoid repetition.

Q11 – Confirm whether there is transparency over the manner in which ABAT is funded, the operation of the ABAT SLA and arrangements for monitoring and evaluating performance against the SLA.

53. **Findings:** For the sake of clarity it should be noted there is no formal document in place called the ABAT SLA. However there is a document called the 'ABAT Submission' which acts as an SLA and describes itself as an SLA within its introduction. For ease of reference, in this report, it shall be referred to as the ABAT SLA.

54. The ABAT SLA is funded by ADP, NHS Highland and the Council. The base value of the SLA, based on 2014/15 costs, is £1,036,407 with the funding split as follows:

- ADP - £760,000
- NHS Highland - £134,500
- Argyll and Bute Council - £141,907

55. The ABAT SLA confirms that the funding would be reviewed annually by the three parties taking account of:

- availability of funding

- pay awards and other pay cost adjustments
 - any savings requirements.
56. Funding reviews have taken place with, for example, there being a reduction in funding in the 2016/17 ABAT budget.
57. The 'award' of the ABAT SLA was not subject to competitive tendering as ABAT are a combination of NHS Highland and council officers providing a clinical service. These sorts of service are not subject to competitive tendering as there would be no alternative provider for the ADP to consider. Hence it is unusual for an SLA to be in place to manage the delivery of these type of services. This does not present a material audit concern so no action plan point has been raised however, in future, consideration should be given to whether it is an efficient use of scarce time and resource to establish an SLA for the delivery of services of this nature.
58. ABAT performance monitoring and report has been addressed through the responses to queries 7 and 8 as explained at paragraph 52.
59. **Conclusion:** The manner in which ABAT services are funded is clearly detailed in the ABAT SLA. It is recognised that the SLA is not a public document which may lead to a perception that ABAT funding is not transparent however it would not be normal practice for an SLA to be a public document. It was also noted that the ADP contribution to ABAT is detailed in the minutes for the Committee meeting held on 28 February 2017. This minute is available to the public via the ADP website. Conclusions on performance monitoring and reporting are detailed at paragraph 51.

5. Children 1st - Procurement / Extension

Q12 – Determine the nature of all contracts awarded to Children 1st totalling £847,357 in the period 2008-2018. Confirm, whether the contracts were awarded after competitive tendering and, if not, whether this was justifiable and appropriate.

60. **Findings:** From 2008 to 2018, including extensions, there were a total of ten agreements with Children 1st for the delivery of advocacy and abuse & trauma recovery services. These total £847,357.
61. Under council policy, when procuring services, if only one supplier can undertake the work required the purchasing officer can seek approval for a non-competitive action from the Procurement Team Leader and the relevant department personnel. The Council's procurement manuals (various versions between 2008 and 2018) state that *'Non Competitive Action is an exceptional procedure and should be strictly limited to certain situations and should be documented for audit purposes.'*
62. A review of the available documentation for each of the ten agreements highlighted that:
- There is no documentation for the original award for £60k covering the three year period 01/04/2008 – 31/03/2011. Confirmation has been received by verbal evidence that Children 1st were on the approved providers list when the contract was awarded and that the relevant procurement process at that time meant this was sufficient to award the contract.
 - The first two extensions (01/04/11 – 31/03/12 and 01/04/12 to 31/03/13) were instructed by the relevant service to the commissioning team. There is no documentary evidence to

support this decision as the documents are outwith the period for retention as per the Procurement Reform Act (Scotland) 2014 (refer to paragraph 64).

- The other seven extensions (dated between 01/04/13 and 31/03/2017) for both advocacy and abuse & trauma recovery services were awarded following the non-competitive action process. Documentation was in place to support this approach which had been approved by the appropriate officers in compliance with the relevant procurement manuals at the time the extensions were awarded.

63. The review of the seven extensions where there was approval of the non-competitive action highlighted that the approval was often provided a number of months after the commencement of the extended award. This means that, for those months, the service was being delivered without formal approval.

Action Plan 2

64. **Conclusion:** As the original award was ten years ago and the first two extensions for 2011/12 and 2012/13 are approximately seven and six years ago respectively it is considered acceptable that no supporting documentation was available for audit purposes. The Procurement Reform Act (Scotland) 2014 requires the Council to keep and maintain a contract register and includes provision for deletion of an entry after the contract expires or has been terminated. The current data retention policy for procurement documentation requires retention for a period of five years after the contract terminates. The appropriate approval was in place for each extension since 2013/14 however approval of non-competitive action should be provided prior to the contract extension being awarded rather than retrospectively

Q13 – Confirm whether Children 1st led an ADP external bid for external funding from which Children 1st would then benefit by £285k over a three year period.

65. **Findings:** In 2016 and 2017, Children 1st led on an external funding bid to Lloyds PDI (now Corra Foundation) with the support of the ADP to help finance the delivery of work with young people across Argyll & Bute. If successful the intention was to match fund the Lloyds PDI funding with ADP funds that the ADP had allocated to that area of work. Children 1st were bidding to undertake a coordination, monitoring and developmental role. Verbal evidence was provided that none of the ADP funds were due to go to Children 1st as their element was to be paid from the Lloyds PDI funding. In addition, the Lloyds monies would have provided a small amount of additional funds to local service providers. Progress made on this bid was reported to the Committee as evidenced by committee meeting minutes between October 2016 and August 2017. The August 2017 minute confirms that the bid was not proceeding at that stage.
66. The legality of the application was challenged by a member of one ADP local forum and the ADP Coordinator contacted NHS Highland regarding this matter. The NHS Highland officer confirmed verbally that there was no legal issue with the process adopted however to get this confirmation formally in writing from the Central Legal Office (who provide the public sector with legal advice and assistance) would have incurred a fee and this route was therefore not adopted.
67. **Conclusion:** Children 1st were the lead body in an external bid for funding. The bid was not progressed to the final stage and therefore no award was made. Consequently neither Children 1st, nor any other body, benefited.

Q14 - Confirm whether the contract award associated with the £285k funding was subject to a formal tender process and, if not, whether this was justifiable and appropriate. If the award was not subject to tendering then confirm whether this approach was discussed and cleared with other ADP partners.

68. **Findings/Conclusion:** As per paragraph 67 the Children 1st led bid for external funding was not progressed meaning there was no contract to be subject to formal tendering.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p>Addaction Contract Extension</p> <p>There was a lack of clarity over who was responsible for awarding the Addaction contract extension. The wording of the ITT suggests it should be a Council decision and the ADP constitution does not make any reference to the Committee having the authority to award contracts.</p> <p>The actual decision was primarily taken by the independent ADP Chair on the basis of Addaction’s performance as evidenced by quarterly performance reports presented to the Committee. This decision was taken prior to the completion of the Addaction contract review.</p> <p>Clarity should be provided regarding authority to award contracts, and contract extensions, for services commissioned by the ADP with the text of relevant procurement and/or ADP governance documentation amended accordingly. This decision should be informed by the completion of a contract review as required by the terms of the ITT.</p>	<p>The award of contracts and/or contract extensions may be subject to legal challenge if they were not awarded by a person with the appropriate delegated authority.</p>	<p>Procurement and Commissioning Team Manager to liaise with ADP Co-ordinator to identify the appropriate authorised person in the ADP to award contracts. This authorised signatory will then be incorporated within our contract award recommendation report template.</p> <p>ADP governance structures will provide clarity on the responsibility for all decisions regarding contracts.</p>	<p>Argyll and Bute Council Procurement And Commissioning Manager 31 March 2019</p> <p>ADP Co-ordinator 31 March 2019</p>

Medium	2	<p>Approval of Non-Competitive Action</p> <p>Approval to commission services using a non-competitive action procurement approach is often provided retrospectively.</p>	Services may be commissioned which do not represent value for money.	Procurement and Commissioning Team Manager to instruct PCT at team meeting to ensure all non-competitive action procurement approaches are completed in advance of contract award date.	Argyll and Bute Council Procurement And Commissioning Manager 31 October 2018
Low	3	<p>Performance Reporting</p> <p>Addaction and ABAT provide performance monitoring reports which are reviewed by the ADP Coordinator and a Council Performance Improvement Officer and used to inform the quarterly performance scorecards reported to Committee.</p> <p>The performance reports provide some of the information set out as 'measurement' in the Addaction ITT and ABAT SLA however the formats of the reports are not aligned to the performance management frameworks in the ITT and SLA which can make it difficult to assess and evidence whether the outcomes required by the ITT are being delivered. In May 2018 the Committee were presented with alcohol and drug reports which were specific to each of the four localities. This was the first time these reports had been made available.</p> <p>It would be beneficial to engage with the ADP Committee to determine whether they are satisfied with the current performance reporting and obtain feedback on where it could potentially be strengthened.</p>	Failure to deliver against the outcomes established in the ITT and SLA may not be identified by performance monitoring.	ADP Committee will be consulted on the level of performance reporting they require from ABAT and Addaction.	ADP Co-ordinator 31 March 2019

Low	4	<p>Annual Review of Chair</p> <p>Annual reviews of the Chair, as required by the job specification, were not carried out over the three year period of his appointment.</p>	<p>Failure to conduct an annual review may lead to ineffective decision making.</p>	<p>The appointment process for the Chair is to be considered by the IJB in September 2018 as part of a wider review of the ADP's governance arrangements. Once agreement is reached on the process to be adopted consideration will be given to the need for annual reviews.</p>	<p>ADP Co-ordinator 31 December 2018</p>
Low	5	<p>ADP Constitution</p> <p>The Chair has introduced material changes to the structure of the ADP which are not reflected in the ADP's constitution. It also names a number of sub-groups which no longer exist. The constitution would benefit from a review to reflect these specific issues but also more widely to ensure it reflects current working practices.</p>	<p>There may be a lack of clear guidance for Committee members on the operation and internal management of the ADP.</p>	<p>Constitution will be reviewed, amended and agreed by the ADP.</p>	<p>ADP Co-ordinator 31 March 2019</p>

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

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

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 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 AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****STRATEGIC FINANCE****25 SEPTEMBER 2018**

AUDITED ACCOUNTS 2017-18

1. EXECUTIVE SUMMARY

- 1.1 The external auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2018. The audited accounts incorporating the audit certificate for 2017-18 are attached.
- 1.2 The accounts were completed and submitted by the statutory date of 30 June 2018. The audit has been completed within the timescale of 30 September 2018, set by Audit Scotland. The audit certificate includes no qualifications. External Audit was able to conclude that the accounts represented a true and fair view of the Council's financial position at the 31 March 2018.
- 1.3 The main adjustments to the accounts, in addition to some presentational adjustments, are noted below:
- An adjustment was required to the accounts as a result of the pension scheme actuary providing an updated valuation of the Council's share of the Strathclyde Pension Fund assets.
 - Live Argyll was consolidated as an associate in the draft accounts, however, Live Argyll is a wholly owned subsidiary of the Council and this has been reflected in the audited accounts.
 - There were adjustments to the reclassification of assets.
 - There was a small adjustment of £0.031m in respect of NDR income in respect of the Lorn Arc TIF that should have been transferred to the General Fund.
- 1.4 The only adjustment that had an effect on the General Fund balance was the NDR TIF. This reduced the deficit on the Provision of Services by £0.031m which increased the General Fund Balance by the same amount.
- 1.5 The audit identified an error where it was agreed not to amend the accounts as it was considered not material. This was in relation to short-term debtors being overstated by £0.09m, with a corresponding understatement of expenditure in the Comprehensive Income and Expenditure Statement.
- 1.6 The financial position of the Council based on the audited accounts can be summarised as follows:
- Accounting Deficit on the provision of services for 2017-18 £15.410m
 - Underspend against budget for 2017-18 £2.298m
 - Total assets less liabilities at 31 March 2018 £297.145m
 - General fund balance at 31 March 2018 £50.342m.

1.7 The Committee are asked to approve the audited accounts for signature.

ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

25 SEPTEMBER 2018

AUDITED ACCOUNTS 2017-18

2. INTRODUCTION

2.1 The external auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2018. The audited accounts incorporating the audit certificate for 2017-18 are attached.

3. RECOMMENDATIONS

3.1 The Committee are asked to approve the audited accounts for signature.

4. DETAIL

4.1 The audited accounts including the audit for the 2017-18 audits in respect of the Council and Charities are attached. There is a separate item on the agenda containing the External Annual Audit Report.

4.2 The accounts were completed and submitted by the statutory date of 30 June 2018. The audit has been completed within the timescale of 30 September 2018, set by Audit Scotland.

4.3 The audit certificate on the Council's accounts for the year ended 31 March 2018 contains no qualification. External audit are able to conclude that the Council's accounts present a true and fair view of its financial position as at 31 March 2018.

4.4 The main adjustments to the accounts, in addition to some presentational adjustments, are noted below:

- An adjustment was required to the accounts as a result of the pension scheme actuary providing an updated valuation of the Council's share of the Strathclyde Pension Fund assets.
- Live Argyll was consolidated as an associate in the draft accounts, however, Live Argyll is a wholly owned subsidiary of the Council and this has been reflected in the audited accounts.
- There were adjustments to the reclassification of assets.
- There was a small adjustment of £0.031m in respect of NDR income in respect of the Lorn Arc TIF that should have been transferred to the General Fund.

4.5 The only adjustment that had an effect on the General Fund balance was the NDR TIF. This reduced the deficit on the Provision of Services by £0.031m

which increased the General Fund Balance by the same amount.

4.6 The audit identified an error where it was agreed not to amend the accounts as it was considered not material. This was in relation to short-term debtors being overstated by £0.09m, with a corresponding understatement of expenditure in the Comprehensive Income and Expenditure Statement.

4.7 The committed funds within the General Fund Balance are £43.717m per the audited accounts. This leaves an unallocated General Fund Balance of £6.625m. This equates to 2.8% of the Council's budgeted net expenditure for 2018-19 and exceeds the agreed contingency level of 2% of approved budget as agreed as part of the 2018-19 budget.

5. CONCLUSION

5.1 This report advises members on the conclusion of the audit of the accounts. The external auditor's certificate is unqualified. The audit was completed within the required timescales. Minimal adjustments were made to the accounts during the audit process.

6. IMPLICATIONS

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

Kirsty Flanagan, Head of Strategic Finance

Councillor Gary Mulvaney, Policy Lead for Strategic Finance and Capital Regeneration Projects

Appendices:

Appendix 1 – Summary of Main Changes to Financial Statements Arising from Audit

Appendix 2 – Argyll and Bute Council Audited Accounts 2017-18

Appendix 3 – Charities Accounts 2017-18

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APPENDIX 1 – SUMMARY OF MAIN CHANGES TO FINANCIAL STATEMENTS ARISING FROM AUDIT

Section of Financial Statements Changes	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comments / Explanation
Comprehensive Income & Expenditure Account (Pages 52-53 of audited accounts)				
Non-Domestic Rates TIF	(223)	(192)	31	Correction to NDR income in respect of TIF
(Surplus) / Deficit on Provision of Services	15,410	15,441	31	Net effect of above
Balance Sheet (Pages 54-55 of audited accounts)				
<i>Impact on Assets and Liabilities:</i>				
Total Property, Plant and Equipment	603,503	604,346	(843)	Net effect of moving assets from/to Assets Under Construction to complete
Short Term Debtors	20,686	20,655	31	Correction to NDR debtor in respect of TIF
Assets Held for Sale	3,061	2,118	943	Re-categorising of an asset
Other Short Term Liabilities	(4,420)	(4,407)	(13)	Correction to Finance Lease Repayments
Other Long Term Liabilities	(124,961)	(124,974)	13	Correction to Finance Lease Repayments
Other Long Term Liabilities (Pensions)	(56,442)	(68,251)	11,809	Change to Pension Liability Valuation as per revised Actuarial Report
<i>Impact on Council Reserves:</i>				
Unusable Reserves	240,962	229,053	11,909	Net effect of above
Usable Reserves	56,183	56,152	31	Net effect of above
Statement of Movement in Reserves (Pages 56-57 of audited accounts)				
(Surplus) / Deficit on Provision of Services	15,410	15,441	31	Additional NDR Income in respect of TIF
(Surplus)/Deficit on revaluation of Long Term Assets	(52,880)	(52,780)	100	Re-categorising of assets
Other Post Employment	(108,111)	(96,302)	11,809	Change to Pension Liability Valuation as per revised

Benefits				Actuarial Report
Balance on General Fund Carried Forward	50,342	50,311	31	Net effect of above
Revaluation Reserve	108,820	108,720	100	Net effect of above
Pensions Reserve	(56,442)	(68,251)	11,809	Net effect of above

Argyll and Bute Council



Comhairle Earra Ghàidheal agus Bhòid



Audited Annual Accounts
for the year ended 31 March 2018

LANGUAGE OPTIONS

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

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

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

本文件可以翻译为另一语文版本，或制作成另一格式，如有此需要，或需要传译员的协助，请与我们联系。

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

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

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

**Strategic Finance
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Kilmory
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Argyll
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Management Commentary

1. INTRODUCTION

What is the Management Commentary?

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

Argyll and Bute: The Geography

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



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

Argyll and Bute: Population and Demographics

The total population of Argyll and Bute was 88,166 based on the 2011 census. This compares to a total population for the area of 91,306 in the 2001 census, a reduction of 3.4%. Argyll and Bute was one of only 4 local authority areas to show a decrease in population. The mid-year estimate as at the end of June 2017 was 86,810, a further decline from the census figure for 2011 and a decline from the previous mid-year estimate in 2016 of 0.4%. The net in-migrations has shown an increase for the second year in a row (2016 and 2017) and this means that there are more people coming into the area than are leaving it by choice, however, this is offset by more deaths than births hence the overall decline. Having a positive in-migrations is encouraging in reversing population decline.

In terms of overall projections, the decline is projected to continue. The latest National Records of Scotland projection up to 2041 is reported as 78,504, a decrease of 8,626 (9%) based on the 2016 based population projections. There is a national trend of an ageing population, however, proportionately, Argyll and Bute has a much older population than the national average. These changes in population will have significant implications for the delivery of Council services now and into the future. The change in population has particular challenges in relation to the provision of care, the future sustainability of Argyll and Bute's workforce and the economic sustainability of the area. Population projections are based on past trends – growing the population through economic development is the Council's overarching priority.

Argyll and Bute: Key Challenges

- Our geography – A highly rural area with many small communities, often separated by water. Access to the area and to key services is a perennial challenge.
- Reducing population – The projected decline in total population is a real threat to the viability of the area with a potential to adversely impact on the economy/wealth creation, workforce availability and efficient service delivery.

Management Commentary

- Changing population – With more extremes than most of Scotland we face increasing costs and challenges to deliver services to older people and we need to encourage younger people to move to the area so that our economy can grow.
- Economy – Unlocking the opportunities offered by its significant, sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish, UK economies.
- Employment – Developing education, skills and training to maximise opportunities for all and create a workforce to support economic growth.
- Infrastructure – Improving and making better use of infrastructure in order to promote the conditions for economic growth including enhancing the built environment and our town centres.
- Sustainability – Ensuring a sustainable future by protecting the natural environment and mitigating climate change.
- Health – Improving health and wellbeing and reducing health inequalities.
- Deprivation – Inequalities exist in Argyll and Bute so we need to improve how we identify and implement action to address them.
- People on the fringe – Many of our communities are very isolated and risk collapsing as population change takes affect alongside urban communities where deprivation can create real hardships.

Argyll and Bute Council

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

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

The management of the Council is led by the Chief Executive, Cleland Sneddon. The operational structure is divided into the Chief Executive's Unit and three directorates: Customer Services (this now includes Education from April 2018), Development and Infrastructure and Health and Social Care Partnership. From 1 April 2016, Adult Care and Children and Families Services transferred over to the Health and Social Care Partnership and the responsibility for strategic decisions lies with the Integration Joint Board.

At the Council meeting on 24th November 2016 the Council approved the full business case and the next steps to implementation of a Charitable Trust for leisure and libraries. The Trust, called "Live Argyll" went live on 2 October 2017. The first 6 months of the leisure and libraries service is included within the comprehensive income and expenditure in detail and thereafter a management fee is paid over to the Trust to run these services.

Management Commentary

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

Annual Accounts 2017-18

The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2018. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The 2017-18 Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council also produces a set of summary accounts for 2017-18 and these can be accessed on the Council's website.

2. OBJECTIVES AND STRATEGY OF THE COUNCIL

Argyll and Bute Outcome Improvement Plan (ABOIP) 2013-2023

Our geography, coupled with a declining population presents us with unique challenges. The Argyll and Bute Outcome Improvement Plan (ABOIP) sets out the shared vision, priorities and objectives for Argyll and Bute over the next ten years. These are wholly consistent with the Council's Corporate Plan. The overall objective of the plan for the 10 years to 2023 is:

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

This outcome is entirely supportive of the 6 national policy priorities set out in the national guidance on community planning and will also see Argyll and Bute contribute to the national outcomes for Scotland. To achieve the overall objective set out above, 6 long term outcomes have been identified. These outcomes will support the overall objective of "Argyll and Bute's economic success is built on a growing population" and also address the 6 national policy priorities for community planning.

The 6 long term outcomes are set out below:

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

The ABOIP can be accessed at the following web-link:

https://www.argyll-bute.gov.uk/sites/default/files/aboip_v1_2018.pdf

Management Commentary

Corporate Plan 2018-22

The landscape in which we deliver our services is changing. We must transform how we work so that we can deliver the services our communities need and the prosperity the future of Argyll and Bute depends upon. We have considerable challenges to meet – declining funding for our services, economic dependence on the public sector, and an ageing population.

Argyll and Bute is recognised as one of Scotland’s most promising regions, and we are ambitious for our future and for the future of our young people in Argyll and Bute.

In February 2018 the Corporate Plan 2018-2022 was approved. This sets out our Mission, Vision and Priorities for the next 4 years. It emphasises that we must transform how we work to deliver services our communities need against a backdrop of some considerable challenges. Embedded within the Corporate Plan are the new values which were developed by the Culture Steering Group. The new values of Committed, Creative, Caring and Collaborative (the 4Cs) will be actively promoted across the organisation.

Our Corporate Plan illustrates the “Golden Thread” from each individual, through teams, services and departments - everything aligns with the Argyll and Bute Outcome Improvement Plan – to improve the Outcomes for our Communities.

Our mission:

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

Our Corporate Plan 2018-2022 can be accessed at the following web-link:

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

Service Plans

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

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

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

Performance Reporting

A new Performance and Improvement Framework (PIF) was introduced and approved by Council in April 2017. Previously, to help identify how the Corporate Outcomes were being delivered the Council used a suite of 63 Service Outcomes which were developed and owned by individual Heads of Service. As of the 2017-18 financial year a suite of 32 Business Outcomes owned and endorsed by the Strategic Management Team (SMT) were developed and used. The Business Outcomes now create a corporate overview, cutting across all services and departments. They help remove silo working and identify duplication and efficiencies. They also illustrate the “Golden Thread” from the individual Performance Review and Development (PRD) to the Argyll and Bute Outcome Improvement Plan.

The format of the Service Plans also changed from one year to three year plans, noting that the budget is currently set for one year. The Service Plans are built in Pyramid and illustrated as Service Scorecards, which when combined are the basis of the Departmental and Council Scorecards. As a result each Corporate Outcome is supported by a number of Business Outcomes, which in turn are supported by a number of success measures from across the Council.

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To further tie together linkages between successes, progress and challenges new performance reporting templates have been developed. These are quarterly for Departments and 6-monthly for the Council and were in use from FQ3 2017/18 onwards. The new templates identify Successes; Progress; Challenges and Improvements. For Departments this is done by Business Outcome and for the Council by Corporate Outcome.

Continuous Improvement approach is applied to the PIF. The current report illustrates that Business Outcomes 7 and 8 currently have no success measures aligned to them. A more appropriate and balanced suite of 21 Business Outcomes is being developed for implementation in 2019-20. These align to the ABOIP, Corporate Plan and the Council's political priorities. Once agreed HROD will work with Services and Departments with a view to improving the nature and number of success measures aligned to the Business Outcomes. This may result in an overall reduction of success measures but provide a clearer picture of the work, achievements and challenges through the use of more appropriate success measures. To allow time for this important piece of work to be undertaken the start of the Service Planning process is being brought forward to July 2018.

Budget Strategy

At the Council meeting on 11 February 2016, Members were asked to make a decision on all Service Choices policy options that were subject to public consultation irrespective of whether the saving was due to be delivered in 2016-17, 2017-18 or beyond. This was to assist in planning beyond 2016-17 and to allow for preparation time particularly in areas where significant redesign of services to deliver longer term savings was proposed. The increase in savings between 2016-17 and 2017-18 amounted to £2.522m rising to £3.823 in 2018-19. This budget strategy ensured that the Council were well placed to deliver a balanced budget in 2017-18.

Regular medium term budget outlook reports were reported to the Policy and Resources Committee and in assessing the potential budget gap, another option to assist in balancing the budget for 2017-18 was the setting of an efficiency saving target with officers identifying management/operational savings that had no policy implications, to meet the target. In terms of the target, 2% was deemed to be an acceptable level of efficiency saving.

Savings options identified for 2017-18 were reported to Council on 24 November 2016 and amounted to £1.403m (full year), with £1.377m deliverable in 2017-18. The savings options identified had no policy implications and officers implemented these as part of normal business.

The Scottish Government made a late announcement on 2 February 2017 to allocate additional funding to Councils for 2017-18. Due to the strategy adopted for our Council, we were already in a balanced position, however, this funding allowed the Council to allocate additional funding to the Health and Social Care Partnership to assist in supporting transformational change and smoothing their projected budget gap.

In terms of looking beyond 2017-18, a three-year financial outlook covering the period 2018-19 to 2020-21 was kept up to date during the financial year and presented to Members at the Policy and Resources Committee on 17 August 2017, 19 October 2017, 8 December 2017 and a further update at the Members Seminar held on 25 January 2018. There was early identification of management efficiencies, agreed by Council on 26 October 2017, in advance of the 2018-19 budget setting process to assist in balancing the budget. The Transformation Board also identified a number of new policy savings that were reported to Council on 26 October 2017 and were subject to the Council's budget consultation exercise. The savings options were then considered by Council as part of balancing the 2018-19 budget.

Budget Monitoring

Management Commentary

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

- Financial Monitoring Pack Summary – an executive summary.
- Revenue Budget Monitoring - this report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.
- Monitoring of Service Choices savings - this report provides an update on the implementation and delivery of the Service Choices policy savings options agreed by Council in February 2016. The savings options are reported as being delivered, on track to be delivered, still to be implemented, being developed or delayed. As the majority of Service Choices savings are now delivered and a number of new policy options were agreed at the Council meeting in February 2018, a new report will be created, similar to this report to monitor these new savings.
- Monitoring of Financial Risks - this report outlines the process and approach developed in carrying out a financial risks analysis and provides an update on the current assessment of financial risks.
- Capital Plan Monitoring - this report provides a summary of the current capital plan monitoring position. Information is provided in terms of monitoring year to date budget, current full year budget, future years total budget and funding and non-financial in terms of project performance.
- Treasury Monitoring - this report provides information on the current levels and recent transactions in relation to the capital financing limit, total borrowing, temporary borrowing and long term borrowing and investments.
- Reserves and Balances - this report summarises the overall level of reserves and balances and monitors the spending of the earmarked reserves, providing detailed information on the unspent budget earmarked balances.

Risk Strategy

The Council has a risk management strategy in place that is subject to regular review and has been assessed as “embedded and integrated” as per CIPFA benchmarking.

The Strategic Risk Register (SRR) and the Operational Risks Registers (ORR) have been subject to regular review and updated over the last few years with the format of both being subject to periodic change to reflect audit recommendations. Updates to the Performance Improvement Framework and the introduction of business outcomes and Service Plan challenges resulted in a need to further review the ORRs.

In early 2018 the Chief Internal Auditor reviewed the SRR and ORR process and proposed changes which were discussed and agreed by the Strategic Management Team (SMT). The Council’s risk management manual has been revised to reflect these operational decisions, formalise the risk management process and provide guidance to officers on risk management. The SRR will be updated on a bi-annual basis by the SMT and ORRs will be updated on a quarterly basis by Departmental Management Teams (DMTs).

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

The Strategic Risk Register has 9 strategic risks that include Population and Economic decline, Financial Sustainability, Health and Social Care Partnership and Welfare Reform. Where appropriate there are actions in place to treat risks. There are also risks facing the council in respect of equality, disability

Management Commentary

issues, employee involvement and green issues. The Council have developed a new Equality and Socio Economic Impact Assessment as part of the Fairer Scotland Duty which will be used to assess the impact of all strategic decisions. In terms of employee engagement our biggest challenge is ensuring engagement with our non-networked frontline employees and our Communications and Engagement group is exploring the use of IT and social media to better engage with these type of employees. We also have a Climate Change Board who have a Climate Change Action plan and risks associated with this are reviewed routinely.

Treasury Strategy

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

3. PERFORMANCE AGAINST OUR PRIORITIES

The Performance and Improvement Framework (PIF) sets out the process for presentation of the Council's quarterly performance reports. Performance is reviewed by the Strategic Committees and then the Council and departmental performance reports and scorecards are presented to the Audit and Scrutiny Committee on a half-yearly basis. New performance reporting templates have been developed. These are quarterly for departments and 6-monthly for the Council and were in use from FQ3 2017/18 onwards. The new templates identify Successes; Progress; Challenges and Improvements. For Departments this is done by Business Outcome and for the Council by Corporate Outcomes.

Performance for FQ3 and FQ4, October 2017 to March 2018 was presented to the Audit and Scrutiny Committee on 19 June 2018. Key successes and challenges reported for this period are noted below and are linked to both Corporate Outcomes and Business Outcomes.

Corporate Outcome 1 – The economy is diverse and thriving

Business Outcome 23 – Economic growth is supported

The Economic Growth Team attended the BBC Good Food Show for the first time at the SECC in Glasgow to showcase Argyll and Bute food and drink businesses. The stand attracted more than 700 people with 9 Argyll and Bute Food and Drink businesses directly participating in the show with their products generating a lot of interest from show visitors.

Corporate Outcome 2 – We have infrastructure that supports sustainable growth

Business Outcome 15 – Argyll and Bute Is open for business

There has been a significant step change in the percentage of Argyll and Bute covered by the digital network with 86.8% of premises now connected to the fibre network in Argyll and Bute. Of this, 78.1% of premises can access speeds greater than 24Mbps.

Corporate Outcome 3 - Education, skills and training maximise opportunities for all

Business Outcomes 19 - All children and young people are supported to realise their potential.

The Education Vision – Our Children Their Future, was awarded a silver award at the Council Employee Awards for tackling inequalities and improving health.

Corporate Outcome 5 - People live active, healthier and independent lives

Business Outcome 5 - Information and support are available for everyone

Currently the most followed Local Authority in Scotland on Instagram with 1886 followers having only launched in November 2017.

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Business Outcome 26 – People have a choice of suitable housing

Seventy-Five affordable housing units have been completed in 2017/18 with the assistance of the Argyll and Bute Council Strategic Housing Fund (SHF). The SHF has contributed £900,000 towards the delivery of the 75 units which creates a greater choice of housing options across the Local Authority area.

Successful award of £1.9m Housing Infrastructure Funding from the Scottish Government to enable the upgrade of Kirk Road, Dunbeg. This will in turn facilitate the delivery of 300 affordable houses in the area.

Corporate Outcome – Making it happen (enablers)

Business Outcome 28 - Our processes and business procedures are efficient, cost effective and compliant

The Energy and Building Services Team successfully concluded and arranged the sign off of a Heat Supply Agreement for the Heat from Sewer Project at Aqualibrium. This project is now likely to be the first Heat from Sewer project to be delivered in Scotland that has been funded by the Scottish Government. The project will ultimately deliver annual revenue savings for the heating at Aqualibrium.

Council Scorecard

The Councils scorecard illustrates progress against all 32 Business Outcomes. The progress is identified using the RAG (Red; Amber; Green) status to track performance. The 2 Business Outcomes with no success measures aligned have no RAG indication alongside them. Of the remaining Business Outcomes 9 are Green and 21 Amber.



In relation to the ABOIP's objective of "Argyll and Bute's Economic Success is built on a growing population", the regeneration work highlighted in the FQ3 and FQ4 report and noted below demonstrates ongoing progress.

- Oban Maritime Visitor Centre completed and handed over on 30 March 2018. Complimentary to the recent Oban berthing facility project, this completes the infrastructure required to promote Oban as the primary marine tourism destination for the West of Scotland.

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- Inveraray Conservation Area Scheme was completed at the end of March 2018 whilst the new Rothesay Townscape Heritage regeneration project was launched.
- The Full Business Case was approved for phase 1 of the Gleaner site at Ardrishaig and all external funding secured; this is in relation to the Lochgilphead and Tarbert Regeneration Programme.
- Infrastructure improvements to Kirk Rd/Lorn Rd, Dunbeg as part of the Lorn Arc commenced in the final quarter of 2017-18 following securing £1.93m of Scottish Government Grant funding. These works will enable the building of 300 new houses and phases 2 and 3 of the European Marine Science Park.
- The final funding element required for the ambitious £14m restoration of the Grade A Rothesay Pavilion was secured.

4. FINANCIAL PERFORMANCE 2017-18

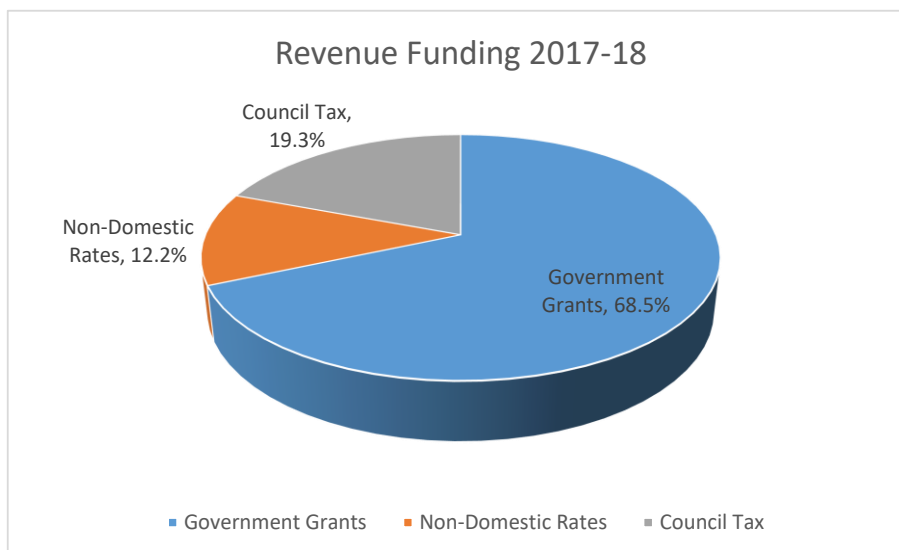
Revenue and Capital Expenditure

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

Annual Budget and Setting of Council Tax for 2017-18

The Council set a one year revenue budget in February 2017 which set the budget for 2017-18. The budget was balanced with a small rounding surplus.

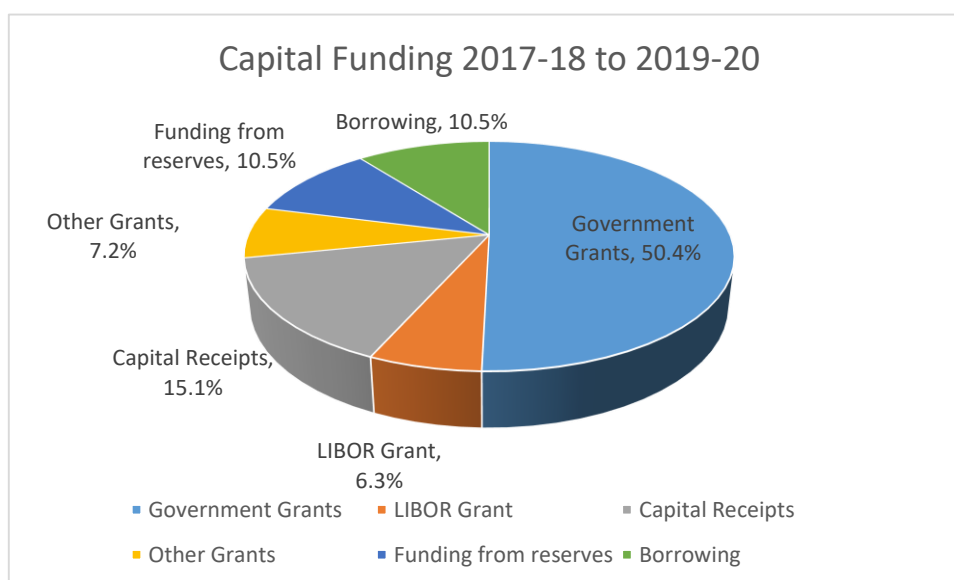
The funding at the beginning of financial year 2017-18 for revenue expenditure was £235.873m. This was funded from Government Grants (£161.449m), Council Tax (£45.476m) and Non-domestic rates (£28.948m).



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The Council approved a capital programme amounting to £79.744m covering the years 2017-18 to 2019-20 in February 2017. The capital programme was based on assumptions on the level of General Capital Grant from the Scottish Government and the likely capital receipts over the period. The major capital projects included in the programme were CHORD, the replacement of Campbeltown Grammar School, Oban High School and Kirn Primary School and the refurbishment of Dunoon Primary Schools, Helensburgh Waterfront, and asset sustainability projects in respect of roads reconstruction and property refurbishment.

The capital budget between 2017-18 and 2020-21 is funded by Government Grants (£40.169m), borrowing (£8.379m), grants from other organisations (£5.781m), LIBOR grant (£5.000m), contributions from revenue (£8.397m), and receipts from sale of assets (£12.018m).



Revenue: Outturn against Budget

The performance against budget for financial year 2017-18 was an overall underspend of £2.598m, 1.04% (2016-17 underspend of £3.243m, 1.56%), after adjusting to reflect the new amounts earmarked by departments at the year end and taking account of the social work element of the Health and Social Care Partnership overspend. There was a net underspend of £0.958m in relation to departmental expenditure and a net underspend of £0.877m in relation to other central/non-departmental costs. The remainder of the underspend of £0.763m is in relation to funding and the over-recovery of Council Tax income. The main reasons for the year-end underspend are noted below:

- Additional savings were generated during the year as a consequence of deliberate decisions not to fill posts which became vacant during the year and had been identified for removal as part of savings options in future years.
- Non Profit Distributing Organisation (NPDO) costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs and contract management arrangements which are in place.
- Savings in pensions costs due to a superannuation budget no longer required (removed from the 2018-19 budget) and lower than anticipated pension costs.
- Loans charges were underspent by £0.500m as a decision was taken to defer some of the special repayments of principal to allow some underspend to be transferred to the General Fund balance.
- Additional funding received as part of the budget announcement in 2018-19, but paid in 2017-18.

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- Council Tax income was better than expected partly due to better than expected collection of double Council Tax Income on empty homes and growth in the tax base. This has also been reflected in the 2018-19 budget.
- These underspends were partly offset by an overspend on winter maintenance, lower than expected income from planning fees and increased demand for Additional Support Needs and placements in residential schools.

2017/18				
Department	Actuals	Budget	Variance	% age
		Adjusted for Earmarkings	(Overspend) Underspend	
Chief Executive's Unit	2,409,184	2,479,125	69,940	2.82%
Community Services	79,766,285	79,435,211	(331,073)	(0.42%)
Customer Services	40,037,393	41,343,626	1,306,233	3.16%
Development and Infrastructure Services	34,181,985	34,095,168	(86,817)	(0.26%)
Total Departmental Expenditure	156,394,847	157,353,130	958,283	0.61%
Integration Services	57,579,226	56,424,128	(1,155,098)	(2.05%)
Joint Boards	1,352,303	1,374,371	22,068	1.61%
Loans Charges	18,583,976	19,083,976	500,000	2.62%
Pension Costs	2,358,705	2,727,399	368,694	13.52%
Other	7,632,489	8,773,813	1,141,324	13.01%
Total Non-Departmental Expenditure	87,506,699	88,383,687	876,988	0.99%
Total Expenditure	243,901,546	245,736,817	1,835,271	0.75%
Total Funding	251,287,253	250,524,053	763,200	0.31%
UNDERSPEND			2,598,471	

Capital: Outturn against Budget

Net expenditure for the full financial year is £31.094m compared to a capital budget of £38.537m giving rise to an underspend for the year of £7.443m. The underspend is as a result of net slippage of projects between financial years, with a significant element being in respect of the CHORD projects, Street Lighting LED Replacement and Dunoon CARS. The slippage was as a result of actual timing of the works being carried out which was not known when the budget was profiled across the life of the projects.

In terms of project performance 82% were completed on time and within budget tolerances.

Health and Social Care Partnership (HSCP)

The Argyll and Bute Integration Joint Board (IJB) with responsibility for Social Work and a range of health services was established and came into effect on 1 April 2016. The Council approved the 2017-18 budget on 23 February 2017 and the amount approved for Social Work services transferring to the Integrated Joint Board for 2017-18 was £56.360m. This included £2.137m of one-off budget to assist the HSCP towards transformational change and the smoothing of the projected budget gap. The budget figures quoted in the previous outturn table include additional earmarked budget drawn down during financial year 2017-18.

In terms of the outturn position, there is an overspend on Social Work Services of £1.155m. The HSCP are required to repay this amount back to the Council, as per the Scheme of Integration, and a www.argyll-bute.gov.uk

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repayment plan was agreed by Policy and Resources Committee on 24 May 2018. Repayments are £0.100m in 2018-19, £0.300m in 2019-10 with the balance of £0.755m due in 2020-21 and the funding to the HSCP will be reduced by these amounts in these years. Within the accounts, the repayment is not recognised as a debtor as it is a commitment against future funding and as a result the overspend of £1.155m has a direct impact on the Council's General Fund balance until such times as it has been repaid.

Expenditure and Funding Analysis Statement

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

The service expenditure noted in the column headed "Net Expenditure Chargeable to the General Fund" can also be compared to the service expenditure noted in the Council's revenue budget monitoring, except for where there are items in the Comprehensive Income and Expenditure Account that are reported below the net cost of service.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost of providing services rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2017-18. These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2018.

The Comprehensive Income and Expenditure Statement presentation changed last year to reflect the management structure of the Council instead of CIPFA's SeRCOP (Service Reporting Code of Practice) structure, which enhances comparability with the presentation of management reports during the year.

Reconciliation of Comprehensive Income and Expenditure Statement to Budget Outturn

The table below, sets out a reconciliation of the Deficit on the Provision of Services of £15.410m as noted in the Comprehensive Income and Expenditure Statement to the revenue budgetary outturn of £2.598m (underspend).

	£000	£000
Deficit on Provision of Services		15,410
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(21,378)	
Impairments of Asset charged to services	(7,581)	
Capital Funding	17,243	
CFCR	4,135	
Pension Adjustment	(14,776)	
Statutory Repayment of Debt	10,361	
Repayment of Finance Leases	2,042	
Transfers to/from Other Statutory Reserves	629	
Other Adjustments	(2,938)	(12,263)
Movement In General Fund Balance		3,147
Adjust for earmarkings:		
Released sums earmarked to service budgets 2017-18	(10,602)	
Supplementary estimates agreed during 2017-18	(123)	
Budgeted Surplus in 2017-18 transferred to General Fund	193	
Contributions to earmarked reserves 2017-18	4,787	(5,745)
Revenue Budget Outturn		(2,598)

Balance Sheet

The Balance Sheet summarises the Council's assets as at 31 March 2018 and it is accompanied by explanatory notes. The net worth of the Council has increased to £297.145m compared to a net worth at 31 March 2017 of £151.564m. The main reason for this increase relates to an increase in the land and buildings value due to the valuation of four new schools added into the Balance Sheet, Campbeltown, Oban, Kirn and Dunoon refurbishment, a reduction in the pension liability offset by an increase in long term liabilities due to the leases for the two new schools that are financed through the Design, Build, Finance and Maintain (DBFM) model (Campbeltown and Oban).

Long Term Assets: total Long Term Assets includes property, plant and equipment as well as other intangible assets. They have increased by £105.505m from £509.123m as at 31 March 2017 to £614.628m as at 31 March 2018. The main reason for the increase is in relation to the valuation of four new schools, Campbeltown, Oban, Kirn and Dunoon refurbishment.

Current Assets: total Current Assets has increased by £12.042m from £77.672m as at 31 March 2017 to £89.714m at 31 March 2018. The main reason for this increase relates to a small increase in short term investments, cash held and debtors at the end of the year.

Management Commentary

Current Liabilities: total Current Liabilities have decreased by £1.396m from £48.461m as at 31 March 2017 to £47.065m as at 31 March 2018. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year. Further details on the current provisions are noted later within the commentary.

Long Term Liabilities: total Long Term Liabilities have decreased by £26.638m from £386.770m as at 31 March 2017 to £360.132m as at 31 March 2018. The main reason for this decrease relates to a reduction in the pension liability offset by the finance lease liabilities for the two new schools under the DBFM model. Further detail on the pension liability is noted later within the commentary.

Provisions

The Council has provisions totalling £3.113m on the balance sheet as detailed in Note 28 to the Accounts. The larger provisions, those over £0.250m are summarised below:

- £0.291 - Redundancy costs. Liabilities have arisen in respect of employees who will be made redundant as a result of restructuring and also as part of the savings options processes. The cost for any employee, whose contract has been terminated on or before 31 March 2018, had been incurred in year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2018, a provision has been created.
- £1.162m - Landfill sites. A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. These have been provided for based on the net present value of estimated future costs.
- £0.370m - Utilities. The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.099m has been reversed during 2017-18 reducing the provision to £0.370m.
- £0.887m - NPDO payments and utilities. This provision has been created for two purposes. Firstly, the Council withholds sums from the Unitary Charge paid to ABC Schools which relate to disputed performance deductions. These sums are then negotiated after the event and a commercial position reached. The second element relates to NPDO utilities and the provision is based on periods, beyond 2013 (assuming a 5 year non-enforceable cut-off) where the Council has not been billed for the utilities.

Contingent Liabilities

The contingent liabilities are included within Note 34. There are contingent liabilities in respect of a small number of equal pay claims where there is insufficient information to allow the potential cost of these claims to be provided for. There was a recent legal case in respect of holiday pay and at this stage the extent of any liability is unknown. There was a contingent liability noted in last year's accounts and this remains in respect of the Limitation (Childhood Abuse)(Scotland) Act 2017 removing the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of any potential liability is unknown.

Management Commentary

Pension Liability

The Council is required to account for its share of the Strathclyde Pension Fund assets and liabilities. The information included in the Accounts is provided by the Pension Fund actuaries following the annual valuation of the Fund. The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2018.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used.

The pension liability can fluctuate significantly year on year. The table below shows the pension liability over the last three years.

	2017-18	2016-17	2015-16
	£'000	£'000	£'000
Pension Liability	(56,442)	(149,777)	(94,441)

Most of the changes each year can be attributed to the change in financial and demographic assumptions. The following table shows the movement in financial assumptions over the last three years:

	2017-18	2016-17	2015-16
	%	%	%
Rate of Inflation	2.4	2.4	2.2
Rate of Increase in Salaries	3.6	4.4	4.2
Rate of Increase in Pensions	2.4	2.4	2.2
Rate for Discounting Scheme Liabilities	2.7	2.6	3.5

Of the four financial assumptions above, the change in discount rate has the most significant financial impact on the pension liability. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future, the opposite is also true, a decrease in the discount rate will increase the liability.

At 31 March 2018 the change in financial assumptions (discount rate increased to 2.7%) meant that the liability decreased by around £33m. In addition "Other Experience" reduced the liability by a further £57m and there was a net return on assets of £17m. ("Other Experience" is a measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular cost method.)

Further detail on the pension estimates are within Note 30.

Management Commentary

Borrowing

During 2017-18 the Council's External Borrowing increased by £8.0m from £170.5m at 31 March 2017 to £178.5m at 31 March 2018. The increase was due to new borrowing from the Public Works Loans Board (PWLB) of £20.0m at historically low rates, offset by repayments of £8.9m to the PWLB and a reduction in temporary borrowing of £3.1m.

Statement of Movement in Reserves

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

The balance of usable reserves has decreased by £2.266m from £58.449m as at 31 March 2017 to £56.183m as at 31 March 2018. This is mainly as a result of the decrease to the General Fund Balance of £3.147m in addition to a small increase to the Capital Fund outlined in Note 33.1 and the Repair and Renewals Fund outlined in Note 33.2.

In respect of the General Fund Balance movement, there were £10.602m of earmarked reserves released to services and spent during 2017-18 and a supplementary estimate of £0.123m drawn down to meet the increased cost of the settled pay award. The contributions to earmarked reserves amount to £4.787m and there was a small surplus from the 2017-18 budget of £0.193m. The overall underspend on the revenue budget amounted to £2.598m. All these factors contribute to the decrease in the General Fund balance as summarised within the table below:

	£000
Balance on General Fund 31 March 2017	53,489
Released sums earmarked to service budgets 2017-18	(10,602)
Supplementary Estimates agreed during 2017-18	(123)
Contributions to earmarked reserves 2017-18	4,787
Budgeted contribution to General Fund 2017-18	193
Overall budget underspend as above	2,598
Balance on General Fund 31 March 2018	50,342

The balance of unusable reserves has increased by £147.847m from £93.115m as at 31 March 2017 to £240.962m as at 31 March 2018. The main reasons for this increase relates to the increase in the revaluation reserve due mainly as a result of the two new schools offset by a decrease in the pension fund reserve which matches the pensions liability which is explained earlier in the commentary.

Management Commentary

General Fund Balance

The General Fund Balance includes balances that the Council has agreed to earmark for specific purposes. Some of these earmarked balances were due to be spent during 2017-18 and some of them will be held over and spent in later years. The Council has agreed a policy where some unspent balances are automatically carried forward where they meet specific criteria, for example, unspent grants, income in relation to Strategic Housing Fund, legal commitments. One new automatic carry forward category has been approved in relation to additional fees and charges income generated from Piers and Harbours operations to meet the costs of the prudential borrowing required to develop and maintain the Council's harbour assets and infrastructure.

Outwith the previously agreed automatic carry forwards, other requests for carry forward will be reported to Council for approval and supported by a business case. There are 10 new unspent budget earmarked proposals for consideration:

- Car Parking Kilmory including Equality Act 2010 Requirements - £0.138m.
- Living Wage Consolidation Team - £0.094m
- Transformation and Budget Reconstruction Team - £0.050m
- Business Development Training - £0.077m
- Inveraray Arches Re-tender - £0.050m
- Continuation of Transformation Project Managers in DIS - £0.060m.
- Housing Case Management System - £0.024m
- Cardross Crematorium Essential DDA Works- £0.103m
- Dalinlongart Forestry Plan - £0.011m
- Oban Strategic Development Framework - £0.075m.

The General Fund balance at 31 March 2017 was £53.489m; of this a total of £41.519m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2018 amounts to £43.717m and Note 5 provides further detail of the movement.

The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2018-19. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The unallocated General Fund balance amounts to £1.899m.

Capital Finance

The resources to fund the Council's capital plan has a number of sources, there are grants from the Scottish Government and other bodies, capital receipts from the disposal of assets, contributions from reserves and the revenue budget, borrowing funded by the loans charges budget and in respect of the replacement schools revenue funding from the Scottish Futures Trust.

Group Accounts

Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Live Argyll (Leisure Trust)

Management Commentary

In addition, the Council's Common Good Funds have been fully consolidated into the Group Accounts, Note 37 gives further details on the Council's Common Good Funds.

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £10.329m. This gives an overall net asset position for the Group of £307.474m, an increase of £149.356m from the previous year. As with the single entity Balance Sheet, the increase is mainly due to annual revaluations and new schools as well as a reduction in the pension liability.

The Argyll and Bute Integration Joint Board was established as a body corporate by order of Scottish Ministers on 27 June 2015. The partnership between Argyll and Bute Council and NHS Highland has been established in accordance with the provisions of the Public Bodies (Joint Working)(Scotland) Act 2014 and associated Regulations. The Integration Joint Board has responsibility for all health and social care functions relating to adults and children and will oversee the Strategic Planning and budgeting of these, together with corresponding service delivery for the residents of Argyll and Bute. Argyll and Bute Council contributed £57.579m towards the Argyll and Bute Integration Joint Board in the 2017-18 financial year. All transactions are accounted for and shown within the single entity statements and therefore there is no material impact on the group accounts.

5. KEY FINANCIAL INDICATORS

The following financial indicators have been developed to assist the reader in assessing the performance by the Council over the last financial year and the affordability of its ongoing commitments.

Financial Indicator	2017-18	2016-17	Comment
Unallocated General Fund Balance as a proportion of next year's Annual Budgeted Net Expenditure	2.80%	3.39%	Reflects the level of funding available to manage financial risk/unplanned expenditure. This includes the 2% contingency. There are sufficient reserves to meet any unplanned expenditure.
Movement in the Unallocated General Fund Balance	Decrease £1.4m	Decrease £1.1m	Reflects the extent to which the Council is using its Unallocated General Fund Balance (excluding contingency).
In-year collection rate	95.80%	95.79%	Reflects the Council's effectiveness in collecting Council Tax debt, and although slightly below Scottish average, is pleasing given that we are in the lowest quartile of cost for Council Tax collection. Reason for being below average is due mainly to level of double charges applied for long term empty properties which is hard to collect. Income exceeded budget by £0.692m.
Ratio of Council Tax Income to Overall Level of Funding	18.64%	17.47%	Reflects the capacity of the Council to vary expenditure by raising Council Tax income. Council Tax increased by 3% in 2017-18.
Actual Outturn compared to budgeted expenditure	£2.598m 1.04%	£2.883m 1.16%	A measure of how the final outturn compares to the budgeted position and is a reflection of the effectiveness of financial management.
Capital Financing Requirement (CFR) for the current year	£306.433m	£253.483m	Measurement of requirement to borrow for capital purposes.

Management Commentary

Financial Indicator	2017-18	2016-17	Comment
External Debt Levels for the current year	£178.488m	£170.503m	Actual borrowing for capital investment levels.
Ratio of financing costs to net revenue stream	7.40%	7.77%	Measures the percentage of income that has been committed towards meeting the costs of borrowing. The more income needed to fund financing costs the less available to meet other revenue expenditure.

6. PLANS FOR THE FUTURE

2018-19 Budget Strategy

As previously noted, a three-year financial outlook covering the period 2018-19 to 2020-21 was kept up to date during the financial year and presented to Members at the Policy and Resources Committee on 17 August 2017, 19 October 2017, 8 December 2017 and a further update at the Members Seminar held on 25 January 2018.

In view of future savings requirements, a Transformation Board was established to take forward further transformational change. A significant area of work for the Board during 2017-18 was to challenge services to deliver savings from 2018-19 onwards. Phase 1 was for front line services to consider savings via four operating principles: business cost reduction, income maximisation, service re-design and self-funding. Each service was given a savings target taking into consideration savings already delivered via service choices.

Officers worked on identifying savings for their service to match the minimum target set by the Transformation Board. The aim was for the savings options to be transformational in nature and these options would be viewed as the first stages of an ongoing programme. Some of the savings options identified by the Transformation Board had no policy implications, did not result in voluntary or compulsory redundancy and were in effect management/operational savings that management will go ahead and implement as part of normal business during 2018-19, these were noted by Council on 26 October 2017. Other options, which did have policy implications were the subject of public and Trade Union consultations.

In addition to the service savings, a detailed review of the current loan charges assumptions was carried out and £2.2m was removed from the base budget in order to rebalance the Council's debt and to protect front line services. The savings came from a number of factors, including lower interest rates, use of cash balances and delays in borrowing.

Similar to 2017-18, there was a late announcement by the Scottish Government on 31 January 2018 that it was their intention to allocate additional funding to Council's for 2018-19, this was agreed by Parliament on 21 February 2018. Due to our budget strategy and the savings options already identified by services, our draft budget was in a balanced position for 2018-19, however, this additional money allowed the Council some flexibility and they were able to reflect on the views of the public from the budget consultation and agree savings and allocate resource accordingly. In looking to the medium term, rather than focusing on 2018-19 only, the savings options agreed increase in value across 2018-19 to 2020-21 and therefore contribute to the financial challenges facing the Council from 2019-20 onwards. The budget strategy for 2019-20 and beyond is based on the work of the Transformation Board which is outlined later in this commentary.

In terms of capital expenditure the Council invested an additional £13.448m into the capital plan over 2018-19 and 2019-20 by using £8.240m of reserves, the revenue budget surplus in 2018-19 of £2.408m

Management Commentary

and £2.800m of additional borrowing (in 2019-20). These additional monies will be used for roads capital improvement works, property high risks areas, Live Argyll properties and additional IT infrastructure.

Medium to Longer Term Financial Strategy

Creating a financial outlook is challenging, as a number of assumptions need to be made anticipating changes. The Council accepts the current financial climate we are in. The Council is in a period of one year settlements which doesn't provide any degree of certainty into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, puts financial pressures on Councils. Furthermore progress with Brexit negotiations are ongoing but uncertainty still remains as to what the economic implications are.

In 2017-18 the Council developed a medium to longer term financial strategy designed to ensure the Council addresses the challenges it faces effectively. It covers the period 2018-19 to 2020-21 in detail and provides high level estimates for the period 2021 to 2028. The principal objectives of the financial strategy are:

- Outline Argyll and Bute Council's high level financial position over the years 2018-2028 based on a range of assumptions.
- Highlight the key issues that have been considered in developing the strategy.
- Ensure that available resources are focused on delivery of the Council's key priorities.
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's key priorities.
- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in a strong position to continue to deliver the best possible quality and range of services within available resources.
- Increase the wider community's understanding of the Council's financial position and the challenges it is facing over the next ten years in balancing its budget.

The financial strategy can be accessed on the following web link:

<https://www.argyll-bute.gov.uk/moderngov/documents/s120989/Financial%20Strategy%20v3.pdf>

Rural Growth Deal

Argyll and Bute Council and key stakeholders are in the process of negotiating a Rural Growth Deal with the Scottish and UK Governments which will follow similar principles to the City Deals either agreed or in development for other Local Authority areas in Scotland. The focus of the deal has to be delivering innovative and inclusive economic growth for Argyll and Bute.

Following discussions with the UK and Scottish Governments, a draft vision, key themes and potential projects have been developed/identified which we believe support economic transformation. These will form the basis for continued negotiation for the Rural Growth Deal. The vision and themes will continue to evolve as further information is gathered and consultation with our key stakeholders continues, and further project proposals will be developed.

The emerging overarching vision of the Rural Growth Deal is "Argyll, the natural place to live, learn, visit and do business".

The intention is to have finalised Rural Growth Deal proposals approved by Members in October prior to submission to the respective Governments for their consideration. Following this, it is hoped that a Heads of Terms Agreement will be negotiated with both Governments.

Management Commentary

Transformation Board

The Council is committed to driving forward change through transformation and innovation. The Council has previously demonstrated that it is able to work in innovative ways in order to improve service delivery, make savings or generate income.

A Transformation Board was established to take forward further transformational change. The Board is chaired by the Executive Director of Customer Services and membership consists of a number of senior managers across the Council as well as Trade Union representation.

The Transformation Board has identified a number of areas which they would propose to explore for future years and this was reported to Council in February 2018.

Reconstructing the Council Budget: Beginning in March 2018, Heads of Service will be tasked with looking at all of the activities currently undertaken by their service, and categorising these into 3 broad types.

- Duties – activities which the Council must provide (e.g. Education)
- Powers – activities which the Council may provide (e.g. Economic Development)
- Others – activities which support the Council as an organisation or the carrying out of powers/duties (e.g. Strategic Finance)

Services will be asked to define a minimum level of service to comply with statutory duties, or to exercise statutory powers, and how this minimum level could then be built on. The purpose of this work is to enable the Council to take informed decisions, link budget more clearly to political priorities whilst having regard to the future availability of finance and the requirement to identify substantial reductions in expenditure for 2019-20 and beyond about the future shape of the organisation.

Review of Fleet Management: The Council operates a fleet of around 600 vehicles which are mainly based at 5 mainland workshops and 6 island locations. Review work is being undertaken of current practices including an overview of existing management controls and systems, the cost of providing the service, vehicle acquisition and funding policy, internal charging mechanisms and service levels provided to users. Fleet utilisation will be analysed and a policy prepared in relation to purchasing, whole life costing and disposal processes. Consideration is also being given to industry standard budgeting methods and more pro-active reviews of management information. Potential savings options resulting from this work will be reviewed by the Board.

Procurement: The procurement and commissioning team through their work with the Transformation Board are benchmarking with other Local Authorities the level of centralisation of their procurement function and the financial cost savings benefits as a result of this centralisation. The benchmarking exercise will allow us to review what we are currently delivering via procurement support and savings and what could further be achieved by redesigning our systems, processes, procedures and methods of purchasing and contract management across Council services.

Adult Learning/Youth Work: These services are delivered on a pan Argyll basis and provide learning and development opportunities for adults and young people outwith the classroom environment. Work will be undertaken to propose re-designed delivery options at less cost.

Music Tuition: The Music Tuition service focuses on three groups of instruments, piping, woodwind and brass and is offered free for one year to all P4/5 pupils. Thereafter, the service can be purchased unless a pupil is in an exempt for payment category of receiving free school meals or SQA candidate. Work will be carried out to provide options to reduce the cost of provision for this non-statutory service which is unique in offering subsidised tuition outwith routine class timetabling.

Management Commentary

One Council Approach to Property: The “One Council Approach” was approved and endorsed by the Council at its budget meeting on 22 February 2018 providing £0.260m over a 2 year period with that sum being on a self-financing basis after that point. The proposal was for a change in approach to the management of the Council’s land and buildings from a static or reactive position, where properties are considered to be held or owned by an individual service, to a proactive property development service. This means that all heritable property owned by the Council will be held corporately and not by individual “holding” departments, as has been the case to date, to enable the Council to take a more consistent and strategic corporate view across all heritable property it owns. The Council also needs to become more commercial in relation to all forms of asset management by maximising opportunities to proactively save money, generate income, invest, reform and generally become more entrepreneurial in relation to the use of land and property. This closely aligns to the Council’s corporate plan.

Our journey towards achieving this is called the ‘One Council Approach’ and we seek to create a model which creates a single property team to take the strategic lead for assets across the organisation on a consistent and informed basis. This approach seeks to drive value from non-operational properties while assisting services to utilise operational properties more effectively.

The One Council Approach is designed to:

- Help focus operational services on “services not buildings”;
- Stimulate commercial opportunities through review of all assets – disposals, development or rental;
- Stimulate transfers to third sector to generate or save resource;
- Provide consistent and informed property management services;
- Focus on property development on all land – services to focus on operational activities;
- Stimulate property investment opportunities using skills and knowledge of diverse property team;
- Provide members and senior management with transparency on the Council’s properties, their commercial performance and commercial return;
- Ensure that windfall returns for properties held by services are not released to them and lost in their general expenditure, but are clearly identified, captured and held at the centre to be used in support of Council priorities to provide more flexibility in budgeting.

Loans Charges

A detailed review of loans charges was carried out during 2017-18 and £2.2m was removed from the 2018-19 base budget in order to rebalance the Council’s debt and to protect front line services. The loans charges budget is a particularly complex area, with many assumptions and different approaches. For example, length of repayment periods in respect of capital advances, borrowing decisions, use of cash balances and cash flow. The review in 2017-18 took into consideration:

Management Commentary

- The current maturity profile of the principal repayments.
- The anticipated level of new advances (based on the current capital plan), the timing of the advances and the type of asset being procured to determine the annual repayment to be charged to revenue.
- The current external loans to determine the interest which is payable in respect of these loans.
- The likely levels of new borrowing and the interest rates which may be payable.
- The estimated level of investments and the estimated rate of return.

This is an area that officers will continue to keep under review. There is scope to carry out a review on useful asset life and what the repayment period should be – this is something that the Council now have discretion over. Our Council policy on useful asset life has been in place since 1975 and we would need to justify any reason for changing this. Increasing the period of repayment would lower the level of loans charges.

Waste Strategy

Argyll and Bute Council is both a waste collection and waste disposal Authority. Waste collection is carried out by council staff with assistance from third sector groups for recycled materials. Waste disposal is dealt with by 3 separate models across the council. These are:

- Island sites which are operated directly by the council.
- A 25 year PPP contract covering the mainland other than Helensburgh and Lomond – this runs until 2026.
- Helensburgh and Lomond where collected waste is disposed of at third party sites outside Argyll and Bute.

Waste to landfill is environmentally unsound and legislation and guidelines have been put in place to reduce material to landfill. One of the measures introduced nationally is a landfill tax which currently costs the council £88.95 per tonne (2018-19). National guidance is expected with regards to the ban on biodegradable waste going to landfill from 2021. The landfill sites operated by the Council and those returning to the Council in 2026 will have an ongoing maintenance requirement. This will include monitoring for leachate and gas, restoration works and environmental compliance as well as general health and safety.

A revised waste strategy is required to deal with the known requirements over the coming years and also to shape service delivery over the next 25 year period. Whilst the current delivery model is working and was contained within budget for 2016-17 and 2017-18 this is not a sustainable position in the longer term. Work is ongoing on revising the waste strategy and this is due to go out to consultation towards the end of 2018-19.

Health and Social Care Partnership (HSCP)

The Argyll and Bute Integration Joint Board (IJB) with responsibility for Social Work and a range of health services was established and came into effect of 1 April 2016. It was clear at the beginning of financial year 2017-18 that there were challenges in balancing the HSCP budget and a financial recovery plan was put in place. The Chair of the IJB provided assurance to the Council's Chief Executive during 2017-18 that plans were in place to address the projected overspend. The final outturn of the HSCP for 2017-18 was an overspend of £2.528m: £1.155m for Social Work and £1.373m for Health related services.

Management Commentary

The IJB have not balanced their budget for 2018-19 and at their latest meeting held on 30 May 2018 a remaining budget gap of £1.6m was reported after taking into consideration the payback arrangements agreed with NHS Highland and the Council in respect of the 2017-18 overspend. There is a high financial risk associated with the 2018-19 IJB budget and the scale of the savings planned to be delivered lead to a high risk in terms of deliverability of these savings. Plans have been put in place for 2018-19 including revision of the financial recovery plan. This includes three main themes: reviewing expenditure, controls and authorisation escalation and workforce costs. A budget challenge process is to be carried out across the partnership to ensure that the base budget is set at correct levels and budget holders are signed up to deliver on budget.

There is a risk to the Council that the HSCP are not in a position to repay their 2017-18 overspend. A further risk is that the HSCP don't balance their budget in 2018-19, overspend again and the outstanding balance increases.

Due to the accounting treatment for the HSCP overspend and the impact that this has on the Council's General Fund balance, the Council will be monitoring and reporting the Social Work position more closely and will integrate into the Council's revenue budget monitoring report during 2018-19.

7. CONCLUSION

The Council has continued to demonstrate sound financial management in 2017-18 by delivering services within the resources available. The operating environment going forward remains very challenging from the combined effect of reduced resources and increasing demand and expectation for our services. The Council, despite these challenges, remains financially sound and is well placed to deliver services to the people of Argyll and Bute in the future.

8. ACKNOWLEDGEMENTS

We would take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record our thanks to both Elected Members and staff for their continued hard work and support.

Cllr Aileen Morton
Leader

Cleland Sneddon
Chief Executive

Kirsty Flanagan
Head of Strategic Finance

25 September 2018

Statement of Responsibilities for the Annual Accounts



THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Audit and Scrutiny Committee at its meeting on 25 September 2018.

Signed on behalf of Argyll and Bute Council:

Councillor Aileen Morton
Leader
25 September 2018

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (The Code).

In preparing the Annual Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code of Practice 2017-18 (in so far as it is compatible with legislation).

The Head of Strategic Finance has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2018.

Kirsty Flanagan
Head of Strategic Finance
25 September 2018

BACKGROUND / SCOPE OF RESPONSIBILITY

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

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

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

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

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies. The six key principles of our governance arrangements in 2017/18 are described in the Code, along with our supporting principles and key aspects of our arrangements to ensure compliance. Key features of our arrangements are summarised below.

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

Our Corporate Plan sets out our, and our Community Planning Partner's, vision for Argyll and Bute's economic success to be built on a growing population. It also defines our mission "To make Argyll and Bute a place people choose to live, learn, work and do business" and establishes our outcomes, priorities and approach to delivering on our shared ambition with our community partners.

We have a Performance Improvement Framework (PIF) that ensures performance is integral to the work of the Council. The PIF is focused not just on measuring what we do but on measuring the difference we make in terms of our outcomes.

Councillors and senior managers review and scrutinise the Council's performance at all levels to ensure our services are having the desired impact on our communities and customers. At a strategic level, performance is scrutinised through our strategic committees and, more locally, at our Area Committees. The Audit and Scrutiny Committee, which meets four times a year, has a key role in reviewing and scrutinising how we are meeting our strategic objectives as well as promoting good internal control, financial and risk management, governance and performance management, in order to provide reasonable assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and Accounting Codes of Practice.

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

We updated our Constitution in April 2018 to define the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.

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

Best Value will now be assessed over the five year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once during this five year period. The BVAR report for Argyll and Bute is not planned for 2018/19.

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

We have four values, which underpin all that we do and provide a sound basis to achieve transformation to ensure we meet the challenges of the future and deliver quality services. These values are that we have a workforce which is:

- Caring
- Committed
- Collaborative
- Creative

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

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

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

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

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

Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer and we ensure that our independent Audit and Scrutiny Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. The Audit and Scrutiny Committee receive an annual risk management overview report and have developed a Scrutiny Framework and Manual to support the performance of scrutiny reviews which will be rolled out in 2018/19.

The anti-fraud strategy was reviewed and there are effective arrangements for whistle-blowing and for receiving and investigating complaints from the public and partners.

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

Elected Member Development

We have signed up to the Improvement Service's Continuing Professional Development Framework for elected members. We are in contact with all elected members about progressing and maintaining their personal development plans and work on this continues apace to ensure that their training needs and aspirations are quickly identified and solutions provided where possible. This work complements the elected member seminar programme which is in place for 2018/19 and which also picks up, where possible, any particular training needs highlighted through the PDP process. Following the election in May, all Members of the new Council were provided with a full induction programme.

The Audit and Scrutiny Committee held a development day in 2017/18 focusing primarily on the development of scrutiny but also to introduce new members of the Committee to some of the fundamental principles of internal audit and risk management.

Officer Development

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

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

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

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

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

Annual Budget Consultation

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

Consultation Diary

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

Public Performance Reporting

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

Community Engagement

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

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

The Area Governance section of the Council supports community engagement by providing the staff resource to support three Area Community Planning Groups which act as a forum to enable local groups and organisations to participate in community planning at a local area level throughout Argyll & Bute. The fourth (Helensburgh and Lomond) is supported by Scottish Fire and Rescue on a partnership basis as agreed by the management committee.

It also supports community engagement by resourcing Community Council Liaison activities, including a training programme, which helps to build the capacity of Community Councils.

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

A strong Community Planning Partnership (CPP) is in place with partners leading each of the outcomes. This enhances the shared sense of accountability and ownership of working towards realising the priorities of the CPP.

Council/Committee Meetings

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

GOVERNANCE ROLES AND RESPONSIBILITIES

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

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

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

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

FINANCIAL SUSTAINABILITY

Creating a financial outlook is challenging, as a number of assumptions need to be made anticipating changes. The Council accepts the current financial climate we are in. The Council is in a period of one year settlements which doesn't provide any degree of certainty into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, puts financial pressures on councils. Furthermore progress with Brexit negotiations are ongoing but uncertainty still remains as to what the economic implications are.

In 2017/18 the Council developed a medium to longer term financial strategy designed to ensure the Council addresses the challenges it faces effectively. It covers the period 2018/19 to 2020/21 in detail and provides high level estimates for the period 2021 to 2028. The principal objectives of the financial strategy are:

- Outline Argyll and Bute Council's high level financial position over the years 2018-2028 based on a range of assumptions.
- Highlight the key issues that have been considered in developing the strategy.
- Ensure that available resources are focused on delivery of the Council's key priorities.
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's key priorities.
- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in a strong position to continue to deliver the best possible quality and range of services within available resources.
- Increase the wider community's understanding of the Council's financial position and the challenges it is facing over the next ten years in balancing its budget.

The Council's Transformation Board has, to date, focused on identifying savings across front line delivery services based on four operating principles of business cost reduction, income maximisation, service redesign and self-funding. The Transformation Board are continuing their transformation journey and in February 2018, as part of the budget pack, reported on their transformation activities for 2018/19 and beyond including a comprehensive root and branch review of the delivery of services to inform the future shape of the Council for 2019/20 and beyond.

INTERNAL FINANCIAL CONTROL

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

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

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In particular the system includes:

- comprehensive budgeting systems;
- regular reviews by the Council and the named bodies (mentioned below) of periodic and annual financial reports which indicate financial performance against forecast;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against forecast;
- clearly defined capital expenditure guidelines;
- project management disciplines;
- guidance relating to financial processes, procedures and regulations; and
- an effective Internal Audit Section.

Internal controls cannot eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

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

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

RISK MANAGEMENT

The Council's Risk Management processes are well developed. In particular the:

- Head of Strategic Finance submits an annual risk management overview report to the Audit and Scrutiny Committee.
- Strategic Risk Register is updated twice a year and approved by the Strategic Management Team (SMT).
- Operational Risk Registers are updated quarterly by Departmental Management Teams (DMT).

The Council's Risk Management Manual and Risk Registers were refined in early 2018 and further improvements to the risk management process were agreed by the SMT. Key improvements were:

- risks are no longer categorised as 'supply' or 'demand'
- risks are aligned to the service plan challenges
- key actions, with timescales, for risks to be 'treated' are documented
- all red risks identified in Operational Risk Registers are escalated to the SMT for consideration

Internal Audit will perform an audit of risk management in 2018/19 to provide assurances that the revised processes are operating effectively.

INTERNAL AUDIT

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

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

Internal Audit provides Members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. External Audit has and continues to place reliance on the work of Internal Audit. The Chair of the Audit and Scrutiny Committee is an independent lay member.

During 2017/18, 1 of the 26 audit reports presented to the Audit & Scrutiny Committee had an overall audit opinion of 'limited' assurance. This report focused on ensuring there were appropriate controls and governance over the management of the Council's PPP waste management contract and financial model. An action plan has been agreed with the service and progress against its delivery is routinely monitored by Internal Audit. Management have accepted 100% of audit recommendations and a robust follow-up system is in place with progress reports presented to the SMT on a monthly basis.

During 2017/18 the following developments were made within Internal Audit:

- A new Chief Internal Auditor was appointed in October 2017.
- Introduction of new working practices, reporting templates and a revised Internal Audit Charter and Manual.
- Introduction of team development days to ensure internal audit continues to develop the necessary skills and knowledge to carry out their role effectively.
- Audit reports are presented to the Audit and Scrutiny Committee in their entirety, replacing the previous process to remove recommendations classified as 'low' priority.
- Audit reports are presented to the SMT.
- Introduction of a new Scrutiny Framework and Scrutiny Manual to provide governance over the roll out of scrutiny during 2018/19.

HEALTH AND SOCIAL CARE INTEGRATION

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

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

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

The Integration Joint Board has proportionate Internal Audit arrangements in place to provide independent assurance on risk management, corporate governance and the system of internal control. The Chief Internal Auditor provides the Audit Committee with an annual report on Internal Audit activity for the Integration Joint Board. The annual report includes an independent opinion on the adequacy and effectiveness of the systems of governance and internal control. The report for 2017-18 concludes that the Integration Joint Board has a framework of controls in place that provide reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.

UPDATE ON AREAS FOR DEVELOPMENT IN 2016/17 ANNUAL GOVERNANCE STATEMENT

The 2016/17 Annual Governance Statement identified a number of areas for further development. A summary update for each area is provided in the table below.

Area	2017/18 Update
Financial Strategy	A medium to long term financial strategy (2018/19 – 2027/28) was approved by the Policy and Resources Committee in October 2017. The strategy will be subject to annual review to reflect any changes to underlying assumptions.
Transformation Board	The Transformation Board focus of attention in 2017/18 was on identifying savings across front line delivery services based on four operating principles of business cost reduction, income maximisation, service redesign and self-funding. Some of the savings options identified were efficiency in nature and were reported to Council in October. Others were agreed by the Council in February 2018 to be delivered from 2018/19. The Transformation Board are continuing their transformation journey and in February 2018, as part of the budget pack, reported on their transformation activities for 2018/19 and beyond.
Strategic Workforce Planning	The Strategic Workforce Plan 2018-22 was approved by Council in April 2018. The plan aligns with the Council's Corporate Plan, Transformation Agenda and medium to long term financial strategy. The plan highlights the overall challenges facing the organisation in terms of workforce and identifies key risks in specific service areas for future workforce needs. The plan will be monitored through updates to the Policy and Resources Committee.
Strategic Risk Register and Risk Management Arrangements	The Strategic Risk Register was reviewed and updated by the SMT and reported to the Policy and Resources Committee in August 2017. Risk management arrangements were updated in early 2018 as per the 'Risk Management' section of this Annual Governance Statement.
Health & Social Care Partnership	During the year the frequency of information reporting to the IJB has been reviewed including performance, staff and clinical governance information. In addition a new subcommittee to support the financial governance of the IJB was established. These areas will continue to be kept under review to ensure they meet the requirements of the partnership.

Area	2017/18 Update
Education	In partnership with Education Scotland, the Education Service had a follow through inspection in September 2017 with the published report available in December 2017. The report indicated that the Education Service had made positive improvements across the five main action points. A return visit is planned for May 2018.
Community Engagement and Local Empowerment	Training has been completed and there is continued opportunity for matters relating to community led action plans to feature in Area Community Planning meetings.
Local Scrutiny Plan	The Council's 2018/19 Local Scrutiny Plan was reported to the Audit & Scrutiny Committee in June 2018. It confirms that the Local Area Network has not identified any additional risk areas for the Council where specific scrutiny is required.
Performance and Improvement Framework	Since the approval of the PIF in 2017 there have been specific improvements implemented including alignment of quarterly reporting templates with the Business Outcomes, further revision of the Business Outcomes to simplify them further and engagement with the Chair of the Audit and Scrutiny Committee which resulted in a new mechanism for presenting performance information to Members and to enable more effective scrutiny.
Open and Transparent Culture	In 2018/19 Internal Audit will be carrying out an audit of organisational culture. This will include input from both Council Officers and Elected Members.
New Legislation	The SMT continues to review new legislation as a standing agenda item.
Political Management Arrangements	Council considered the report and introduced revised Political management arrangements adopting many but not all of the suggestions from the SLWG. The Constitution has been through its annual review in April 2018 and some minor adjustments were made. The Council continues to proactively review its Constitution including its political management arrangements.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2018/19, particularly in the context of continuous improvement within the Council:

- Implementation of the new approach to scrutiny with scrutiny reviews reported to the Audit and Scrutiny committee.
- Full implementation of the requirements of GDPR and the new Data Protection Act.
- Improving efficiency and accuracy in payroll processing through full roll out of electronic payslips, greater automation of payroll processing.
- Establishing a control hub within Roads and Amenity Services with responsibility for programming, delivering and monitoring roads and amenity activities.
- Implementation of new capital monitoring processes and a revised capital prioritisation process.
- Extend equality impact assessments to include a socio-economic impact assessment to ensure that all major decisions taken by the Council have regard to the Fairer Scotland duty.

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- The Council have requested a review of the Integration Scheme with a particular focus on risk sharing arrangements, this review will be carried out in partnership with NHS Highland.
- 2018-19 will be the last year of the current Strategic Planning period and the IJB are required to consult and engage on the next 3 year Strategic Plan, this will require to be agreed by Argyll and Bute Council and NHS Highland.

ASSURANCE

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

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

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2017-18 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.

Cllr Aileen Morton
Leader

Cleland Sneddon
Chief Executive

Kirsty Flanagan
Head of Strategic Finance

25 September 2018

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2014 (SSI No.2014/200) require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. All information disclosed in the tables in this Remuneration Report will be audited by Audit Scotland. All other sections within the Remuneration Report will be reviewed by Audit Scotland to ensure it is consistent with the Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2017/66). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2017-18 the salary for the Leader of Argyll and Bute Council is £33,857. The Regulations permit the Council to remunerate one civic head. The Regulations set out the maximum salary that may be paid to that civic head. The Council's civic head is the Provost and their remuneration is set at £25,392 which is the maximum allowed for local authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £0.296m. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay a salary of £23,982 to each appointed policy lead. Chairs of Area Committees without a policy lead remit are paid a salary of £19,955.

In 2017-18 Argyll and Bute Council had 10 senior councillors in the administration (excluding the Provost and the Leader). The total salary remuneration for senior councillors (including the Provost and the Leader) during 2017-18 was £0.283m. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

Senior Employees

The salary of senior employees is set by reference to national arrangements as well as local decisions on management structures and their associated remuneration levels. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services (Chief Officials) sets the salary levels for the Chief Executives of Scottish Local Authorities and also sets out the spinal column salary points for Chief Officers which local authorities can utilise in setting the salary levels for posts within their authority. Circular CO/148 sets the amount of salary for the Chief Executive of Argyll and Bute Council for 2017-18.

The Remuneration Report

The salaries of Executive Directors are paid at (SCP) 43 with Heads of Service being paid at (SCP) 29.

COUNCILLORS' REMUNERATION

Councillors' payments are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

The total amount of councillors' remuneration paid by the Council during the year was:

Members Allowances	2017-18	2016-17
	Actual	Actual
	£'000	£'000
Basic Councillor Salaries	408	402
Leader and Provost's Salary	58	59
Senior Councillor Salaries	225	227
Other Expenses and Allowances paid to Members	88	88
Total Allowances	779	776

The annual return of councillors' salaries and expenses for 2017-18 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

The Remuneration Report

SENIOR COUNCILLORS' REMUNERATION

Additional disclosures are required for senior councillors' remuneration. Senior councillors' remuneration is in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 which for the purpose of remuneration, grades Councillors as either the Leader of the Council, The Civic Head (Provost), senior councillors or councillors. Details of senior councillors' remuneration are as follows:

Senior Members	Responsibility	2017-18			2016-17
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Councillor Rory Colville	Policy Lead for Corporate Services from 18 May 2017 (<i>Lead Councillor for Education and Lifelong Learning, Chair of Mid Argyll, Kintyre & the Islands Area Committee - previous Administration</i>)	23,715	-	23,715	23,914
Councillor Maurice Corry	<i>Lead Councillor for Health and Social Care Integration from 21/01/16 to 30/06/16 - previous Administration</i>	-	-	-	10,960
Councillor Robin Currie	Policy Lead for Communities, Housing, Islands and Gaelic and Chair of Mid Argyll, Kintyre & the Islands Area Committee from 18 May 2017 (<i>Lead Councillor for Community & Culture and Strategic Housing - previous Administration</i>)	23,669	56	23,725	24,262
Councillor Bobby Good	Chair of Bute & Cowal Area Committee from 18 May 2017	17,155	-	17,155	-
Councillor Kieron Green	Policy Lead for Health and Social Care from 18 May 2017 (<i>Lead Councillor for Health and Social Care Integration - previous Administration</i>)	23,669	-	23,669	12,954
Councillor David Kinniburgh	Policy Lead for Planning and Regulatory Services from 18 May 2017 (<i>Depute Provost and Chair of Planning, Protective Services and Licensing Committee - previous Administration</i>)	23,669	-	23,669	23,914

Senior Members	Responsibility	2017-18			2016-17
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Councillor Alistair MacDougall	<i>Lead Councillor for Strategic Transportation - previous Administration</i>	3,175	-	3,175	23,914
Councillor Robert E MacIntyre	<i>Chair of Bute and Cowal Area Committee to 29/09/16 - previous Administration</i>	-	-	-	11,459
Councillor Roddy McCuish	Depute Provost and Policy Lead for Roads and Amenity Services from 18 May 2017 (<i>Chair of Oban, Lorn and the Isles Area Committee - previous Administration</i>)	23,141	177	23,318	19,939
Councillor Alex McNaughton	<i>Chair of Bute and Cowal Area Committee from 29/09/16 - previous Administration</i>	2,647	-	2,647	8,438
Councillor Yvonne McNeilly	Policy Lead for Education from 18 May 2017	20,495	-	20,495	-
Councillor Aileen Morton	Leader and Policy Lead for Economic Development from 18 May 2017	28,175	-	28,175	-
	Lead Councillor for Sustainable Economic Growth - previous Administration	3,684	-	3,684	23,914

Senior Members	Responsibility	2017-18			2016-17
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Councillor Ellen Morton	Chair of Helensburgh & Lomond Area Committee from 18 May 2017 (<i>Depute Leader, Lead Councillor for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects - previous Administration</i>)	20,362	-	20,362	23,914
Councillor Gary Mulvaney	Depute Leader and Policy Lead for Strategic Finance and Capital Regeneration Programme from 18 May 2017 (<i>Chair of Helensburgh and Lomond Area Committee - previous Administration</i>)	23,141	-	23,141	19,939
Councillor Elaine Robertson	Chair of Oban, Lorn & the Isles Area Committee from 18 May 2017	16,678	-	16,678	-
Councillor Len Scoullar	Provost from 18 May 2017 (<i>Provost and Lead Councillor for Island Affairs - previous Administration</i>)	25,024	-	25,024	25,961
Councillor Dick Walsh	<i>Leader and Lead Councillor for Strategic Finance, (IT Services, Improvement, HR and Customer Support, Facility Services, Governance and Law) - previous Administration</i>	4,482	-	4,482	35,094

Senior Councillors' remuneration in the above tables does not include non-taxable expenses.

The Remuneration Report

EMPLOYEES' REMUNERATION

The Regulations require that local authorities provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made to the employee in respect of agreed employment terminations or retirements. However, employer pension contributions are excluded from the definition.

Readers should be aware when making comparisons between years that, due to contractual incremental pay increases, the number of employees covered by this disclosure will increase each year. In addition, payments made in respect of agreed employment terminations or retirements can also distort the number and/or banding of employees.

The number of employees whose remuneration, excluding employer pension contributions and including redundancy/retirement payments, was £50,000 or more in bands of £5,000 was:

Range £	2017-18 Number of Officers	2016-17 Number of Officers
£50,000 - £54,999	71	80
£55,000 - £59,999	22	13
£60,000 - £64,999	9	6
£65,000 - £69,999	1	2
£70,000 - £74,999	9	13
£75,000 - £79,999	3	1
£80,000 - £84,999	3	2
£85,000 - £89,999	-	-
£90,000 - £94,999	-	1
£95,000 - £99,999	3	2
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	1
£125,000 - £129,999	2	-
Total	123	121

SENIOR EMPLOYEES' REMUNERATION

The table below provides details of the remuneration paid to the Council's senior employees (defined by the regulations) as those forming part of the Council's senior management team, or holding certain statutory posts and any additional employee whose salary is over £150,000. In 2017-18 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2017-18 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Taxable Expenses £	Total Remuneration 2017-18 £	Total Remuneration 2016-17 £
Chief Executive (from 9-5-16), Executive Director of Community Services (to 8-5-16) - Cleland Sneddon	124,765	5,071	129,836	120,147
<i>(Full year equivalent as Chief Executive)</i>	-	-	-	118,251
Chief Executive - Sally Loudon (to 8-5-16)	-	-	-	21,340
<i>(Full year equivalent)</i>	-	-	-	119,903
Executive Director of Customer Services - Douglas Hendry	99,214	604	99,818	98,659
Acting Executive Director of Community Services - Ann Marie Knowles (from 13-5-16)	98,769	-	98,769	77,451
<i>(Full year equivalent)</i>	-	-	-	97,799
Executive Director of Development and Infrastructure Services - Pippa Milne	98,769	425	99,194	97,867
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan	73,646	611	74,257	73,590
Head of Children & Families (Section 3 Social Work Officer) - Louise Long (to 07-05-17))	8,318	299	8,617	73,347
<i>(Full year equivalent)</i>	71,723	-	71,723	-
Head of Adult Care - East (Section 3 Social Work Officer) - Allan Stevenson (from 08-05-17 to 11-09-17)	25,193	-	25,193	-
<i>(Full year equivalent)</i>	72,440	-	72,440	-
Head of Children & Families (Section 3 Social Work Officer) - Alex Taylor (from 12-09-17)	40,175	6,278	46,453	-
<i>(Full year equivalent)</i>	72,440	-	72,440	-

During 2016-17 the Chief Executive, Sally Loudon, left the organisation and Cleland Sneddon (Executive Director of Community Services) was appointed Chief Executive. Ann Marie Knowles was appointed Acting Executive Director of Community Services.

The Chief Executive's salary in 2017-18 included £5,047 of remuneration for acting as Returning Officer. In 2016-17 the former Chief Executive's (Sally Loudon) salary included £2,906 of remuneration for acting as Returning Officer.

During 2017-18 Louise Long, Head of Children & Families and the Council's Section 3 Social Work Officer, left the organisation and the responsibility of Section 3 Social Work Officer was transferred to Allan Stevenson, Head of Adult Care - East. Allan Stevenson left the organisation in September 2017 and the responsibility of Section 3 Social Work Officer was transferred to Alex Taylor, Head of Children and families.

The Remuneration Report

PENSION BENEFITS

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

Local government employees had a final salary pension scheme prior to 1 April 2015. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. As of 1 April 2015, local government employees are now part of a defined benefit pension scheme worked out on a career average basis. Benefits accumulated are calculated using pensionable pay each scheme year, rather than final salary. All benefits accumulated prior to 1 April 2015 are protected.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2017-18 are as follows:

Whole time pay	Contribution Rate 2017-18
On earnings up to and including £20,700	5.50%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.50%
On earnings above £34,700 and up to £46,300	9.50%
On earnings above £46,300	12.00%

From 1 April 2015, if a person works part-time their contribution is worked out on their part-time pay rate for the job. Prior to this, if a person worked part-time, their contribution rate was worked out on the whole-time pay rate for the job with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum up to the limit set by the Finance Act 2004.

From 1 April 2015, benefits are calculated on the basis of a revalued annual pension built up of 1/49th of pensionable pay each year, plus inflation to keep up with the cost of living. Prior to this date, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The Remuneration Report

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2018 £	For year to 31 March 2017 £		As at 31 March 2018 £	As at 31 March 2017 £
Councillor Rory Colville	4,578	4,617	Pension	4,248	3,615
			Lump Sum	1,590	1,529
Councillor Maurice Corry (left Scheme 04-05-17)	432	3,889	Pension	-	1,577
			Lump Sum	-	-
Councillor Robin Currie	4,569	4,617	Pension	4,092	3,476
			Lump Sum	830	801
Councillor Kieron Green	4,569	3,292	Pension	-	1,599
			Lump Sum	-	-
Councillor Bobby Good	3,310	-	Pension	-	-
			Lump Sum	-	-
Councillor David Kinniburgh	4,569	4,617	Pension	4,175	3,538
			Lump Sum	1,544	1,480
Councillor Roddy McCuish	4,467	3,850	Pension	4,159	3,439
			Lump Sum	1,638	1,517
Councillor Yvonne McNeilly	3,955	-	Pension	-	-
			Lump Sum	-	-
Councillor Aileen Morton	6,150	4,617	Pension	2,860	2,051
			Lump Sum	-	-
Councillor Ellen Morton	3,931	4,617	Pension	4,299	3,784
			Lump Sum	1,656	1,622
Councillor Gary Mulvaney	4,467	3,849	Pension	3,830	3,204
			Lump Sum	1,447	1,380
Councillor Elaine Robertson	3,750	-	Pension	3,512	3,067
			Lump Sum	1,383	1,350

Councillors Len Scoullar, Dick Walsh, Robert E McIntyre, Alex McNaughton and Alistair MacDougall are not members of Strathclyde Pension Fund.

Councillors Bobby Good, Kieron Green and Yvonne McNeilly are members of Strathclyde Pension Fund, however the Pension Fund has been unable to provide us with figures for their accrued pension benefits.

The Remuneration Report

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2018 £	For year to 31 March 2017 £		As at 31 March 2018 £	As at 31 March 2017 £
Chief Executive - Cleland Sneddon	24,052	22,214	Pension	47,456	44,430
			<i>Lump Sum</i>	85,527	84,582
Acting Executive Director of Community Services - Ann Marie Knowles	18,904	17,719	Pension	43,256	40,611
			<i>Lump Sum</i>	83,845	82,918
Executive Director of Customer Services - Douglas Hendry	18,904	18,717	Pension	48,684	46,033
			<i>Lump Sum</i>	98,215	97,129
Executive Director of Development and Infrastructure Services - Pippa Milne	18,904	18,717	Pension	42,653	40,070
			<i>Lump Sum</i>	80,122	79,236
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan	13,997	13,859	Pension	18,556	16,792
			<i>Lump Sum</i>	20,967	20,735
Head of Adult Care - East (Section 3 Social Work Officer) - Allan Stevenson	6,876	-	Pension	-	-
			<i>Lump Sum</i>	-	-
Head of Children and Families (Section 3 Social Work Officer) - Alex Taylor	13,794	-	Pension	38,090	27,812
			<i>Lump Sum</i>	81,785	60,787
Head of Children and Families (Section 3 Social Work Officer) - Louise Long	1,988	13,859	Pension	-	6,593
			<i>Lump Sum</i>	-	-

The Remuneration Report

EMPLOYEE EXIT PACKAGES

The numbers of exit packages with cost per band for compulsory and other redundancies are set out in the table below:

No	2016/17			Exit Package Cost Band	No	2017/18		
	Cash Value					Cash Value		
	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £			Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £
45	106,794	225,776	332,570	£0 - £20,000	13	1,470	112,397	113,867
5	0	137,480	137,480	£20,001 - £40,000	8	29,049	212,841	241,890
4	44,304	123,899	168,203	£40,001 - £60,000	-	-	-	-
2	0	127,484	127,484	£60,001 - £80,000	1	-	60,783	60,783
3	98,802	168,669	267,471	£80,001 - £100,000	4	97,457	284,867	382,324
-	-	-	-	£100,001 - £150,000	2	-	248,562	248,562
59	249,900	783,308	1,033,208		28	127,976	919,450	1,047,426

Exit package costs include redundancy payments, pension strain and compensatory lump sum payments for all retirees. The costs should also include the capitalised cost of compensatory added years ("CAY"), which will be payable to the pension fund until the retiree ceases to claim their pension. For employees with pensions provided by the Strathclyde Pension Fund (the provider for all employees other than teachers) the notional cost of added years is noted separately in the table as costs are based on an assessment by the pension's provider of the present value of all future payments to the retiree. These amounts are not based on actual costs but instead use actuarial assumptions on pensioner longevity and other factors and as such will be subject to change and will not reflect the actual costs incurred.

The Cash Value costs noted in the table represent the actual costs incurred by the Council for the agreed exit packages. The capitalised added years pension element for members of the Teachers' Pension Scheme is included in the cash value cost as payment is made in advance to the teachers' pension fund to settle this liability.

The total cost of £1.057m in the previous table includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2018 of £0.272m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 35 on page 117 provides more information on the exit packages agreed in the last two financial years.

Cllr Aileen Morton
Leader

Cleland Sneddon
Chief Executive

25 September

Expenditure and Funding Analysis

2016-17			Service	2017-18		
Net Expenditure Chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis (Note 31) £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis (Note 31) £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
2,041	100	2,141	Chief Executive and Strategic Finance	2,409	316	2,725
			Community Services:			
310	15	325	Executive Director of Community Services	189	43	232
11,170	2,021	13,191	Community and Culture	4,469	1,951	6,420
72,298	8,690	80,988	Education	72,841	14,956	87,797
			Customer Services			
12,932	(182)	12,750	Executive Director of Customer Services	6,314	18	6,332
8,310	2,408	10,718	Customer and Support Services	8,082	1,838	9,920
11,907	2,291	14,198	Facility Services	11,656	2,032	13,688
2,083	94	2,177	Governance and Law	2,043	253	2,296
3,177	124	3,301	Improvement and HR	3,081	344	3,425
			Development and Infrastructure Services			
1,268	54	1,322	Executive Director of Development & Infrastructure Services	1,479	145	1,624
3,886	566	4,452	Economic Development	4,202	766	4,968
3,003	224	3,227	Planning, Regulatory & Housing Services	8,021	814	8,835
20,855	9,858	30,713	Roads and Amenity Services	20,134	10,808	30,942
56,208	3,184	59,392	Health and Social Care Integration	57,579	3,955	61,534
(48)	518	470	Other Non-Departmental Costs	8,189	423	8,612
209,400	29,965	239,365	Net Cost of Services	210,688	38,662	249,350

Expenditure and Funding Analysis

(210,472)	(24,255)	(234,727)	Other Income and Expenditure	(207,541)	(26,399)	(233,940)
(1,072)	5,710	4,638	(Surplus) / Deficit	3,147	12,263	15,410
(52,417)			Opening General fund Balance	(53,489)		
(1,072)			Plus (Surplus) or Deficit on General Fund Balance	3,147		
(53,489)			Closing General Fund Balance at 31 March 2017	(50,342)		

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on pages 52 to 53.

Statement of Comprehensive Income and Expenditure

2016-17			Service	Note	2017-18		
Gross Expenditure £'000	Gross Income (Note 6.2) £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income (Note 6.2) £'000	Net Expenditure £'000
2,268	127	2,141	Chief Executive and Strategic Finance		2,897	172	2,725
			Community Services:				
325	-	325	Executive Director of Community Services		232	-	232
19,057	5,866	13,191	Community and Culture		7,630	1,210	6,420
84,614	3,626	80,988	Education		93,319	5,522	87,797
			Customer Services				
15,001	2,251	12,750	Executive Director of Customer Services		9,167	2,835	6,332
36,081	25,363	10,718	Customer and Support Services		34,842	24,922	9,920
27,223	13,025	14,198	Facility Services		26,360	12,672	13,688
2,551	374	2,177	Governance and Law		2,652	356	2,296
3,379	78	3,301	Improvement and HR		3,456	31	3,425
			Development and Infrastructure Services				
1,322	-	1,322	Executive Director of Development & Infrastructure Services		1,763	139	1,624
5,519	1,067	4,452	Economic Development		6,412	1,444	4,968
5,797	2,570	3,227	Planning, Regulatory & Housing Services		14,042	5,207	8,835
65,894	35,181	30,713	Roads and Amenity Services		67,599	36,657	30,942
136,580	77,188	59,392	Health and Social Care Integration		137,580	76,046	61,534
1,557	1,087	470	Other Non-Departmental Costs		9,149	537	8,612
407,168	167,803	239,365	Net Cost of Services	6.3	417,100	167,750	249,350

Statement of Comprehensive Income and Expenditure

		Other Operating Income and Expenditure:	
	266	Net (Gain)/loss on Disposal of Long Term Assets	3,544
	1,339	Other Operating Income and Expenditure	1,430
	1,605	Total Other Operating Income and Expenditure	4,974
		Financing and Investment Income and Expenditure:	
	16,133	Interest Payable and Similar charges	16,021
	(3,627)	Interest and Investment Income	(970)
	3,367	Net Pension Interest Expense	4,033
	15,873	Total Financing and Investment Income and Expenditure	19,084
		Taxation and Non-Specific Grant Income:	
	(166,251)	General Government Grants	(162,798)
	(11,375)	Government Capital Grants and Other Capital Contributions	(17,243)
	(30,446)	Non-domestic Rates Redistribution	(29,615)
	(82)	Non-domestic Rates TIF	(223)
	-	Non-domestic Rates BRIS	(39)
	(44,051)	Council Tax Income	(48,080)
	(252,205)	Total Taxation and Non-Specific Grant Income	(257,998)
	4,638	Deficit on Provision of Services	15,410
	(1,290)	(Surplus)/Deficit on revaluation of Long Term Assets	(52,880)
	48,407	Other Post Employment Benefits (Pensions)	(108,111)
	47,117	Other Comprehensive Income and Expenditure	(160,991)
	51,755	Total Comprehensive Income and Expenditure	(145,581)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 56 to 57.

Balance Sheet



31 March 2017		Note	31 March 2018	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment	14	
250,590		- Other Land and Buildings		321,827
9,207		- Vehicles, Plant, Furniture and Equipment		8,716
200,944		- Infrastructure Assets		202,628
2,271		- Community Assets		2,324
2,907		- Surplus Assets		1,156
24,366		- Assets Under Construction		66,852
	490,285	Total Property Plant & Equipment		603,503
	1,671	Heritage Assets	15	1,804
	728	Intangible Assets	16	633
	11,021	Investment Property	17	2,260
	492	Long Term Investments	26	492
	4,926	Long-Term Debtors	21	5,936
	509,123	Total Long Term Assets		614,628
		Current Assets		
529		Inventories		539
16,063		Short Term Debtors (Net of Impairment)	22	20,686
691		Assets Held for Sale	23	3,061
52,500		Short Term Investments		55,002
7,889		Cash and Cash Equivalents	24	10,426
	77,672	Total Current Assets		89,714
		Current Liabilities		
(14,298)		Short-term Borrowing	26	(8,477)
(29,770)		Short-term Creditors	25	(32,334)
(567)		Capital Grant Receipts in Advance	29	(21)
(1,818)		Provisions	28	(1,813)
(2,008)		Other Short Term Liabilities	27	(4,420)
	(48,461)	Total Current Liabilities		(47,065)
		Long-term Liabilities		
(157,937)		Borrowing Repayable within a Period in Excess of 12 Months	26	(172,429)
(72,801)		Other Long-term liabilities	27	(124,961)
(1,255)		Provisions	28	(1,300)
(5,000)		Capital Grant Receipts in Advance	29	(5,000)
(149,777)		Other Long-term liabilities (Pensions)	30	(56,442)
	(386,770)	Total Long-term Liabilities		(360,132)
	151,564	Total Assets less Liabilities		297,145

Balance Sheet



31 March 2017			Note	31 March 2018	
£'000	£'000			£'000	£'000
56,033	93,115	Unusable Reserves	32	108,820	240,962
195,007		- Revaluation Reserve		196,126	
(3,836)		- Capital Adjustment Account		(3,506)	
(149,777)		- Financial Instruments Adjustment Account		(56,442)	
(4,312)		- Pensions Reserve		(4,036)	
		- Accumulated Absences Account			
4,064	58,449	Usable Reserves	33	4,326	56,183
896		- Capital Funds		1,515	
53,489		- Repairs and Renewals Funds		50,342	
		- General Fund Balance			
	151,564	Total Reserves			297,145

The Balance Sheet is a snapshot of the value as at the 31 March 2018 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported as follows:

- **Unusable Reserves:** are reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".
- **Usable Reserves:** are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

The Unaudited Annual Accounts were issued on 29 June 2018 and the Audited Annual Accounts were authorised for issue on 25 September 2018.

Kirsty Flanagan
Head of Strategic Finance
25 September 2018

Statement of Movement in Reserves

Movements in 2017-18	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						Total Reserves
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves	
Balance at 31 March 2017	(53,489)	(896)	(4,064)	(58,449)	(56,033)	(195,007)	149,777	3,836	4,312	(93,115)	(151,564)
(Surplus)/Deficit on Provision of Services	15,410			15,410						-	15,410
Other Comprehensive Income and Expenditure					(52,880)		(108,111)			(160,991)	(160,991)
Total Comprehensive Income and Expenditure	15,410	-	-	15,410	(52,880)	-	(108,111)	-	-	(160,991)	(145,581)
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost					93	(93)				-	-
Amortisation of Intangible Assets				-		-				-	-
Depreciation of Non-current Assets	(21,378)			(21,378)		21,378				21,378	-
Impairment of Non-current Assets	(7,581)			(7,581)		7,581				7,581	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	17,243			17,243		(17,243)				(17,243)	-
Capital Expenditure Charged to the General Fund	4,135			4,135		(4,135)				(4,135)	-
Net Gain or Loss on Sale of Non-current Assets	(3,544)		(5,677)	(9,221)		9,221				9,221	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	330			330				(330)		(330)	-
Employee Benefits	276			276					(276)	(276)	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(14,776)			(14,776)			14,776			14,776	-

Statement of Movement in Reserves

Movements in 2017-18	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						Total Reserves	
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves		
												£'000
Statutory Repayment of Debt - Loans Fund Advances	10,361			10,361		(10,361)					(10,361)	-
Statutory Repayment of Debt - Finance Leases	34			34		(34)					(34)	-
Statutory Repayment of Debt - NPDO Finance	2,008			2,008		(2,008)					(2,008)	-
Total Statutory Adjustments	(12,892)	-	(5,677)	(18,569)	93	4,306	14,776	(330)	(276)	18,569	-	
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	2,518	-	(5,677)	(3,159)	(52,787)	4,306	(93,335)	(330)	(276)	(142,422)	(145,581)	
<i>Other Transfers required by Statute</i>												
Transfer to/from Other Statutory Reserves	629	(619)	5,415	5,425		(5,425)					(5,425)	-
(Increase)/Decrease in Year	3,147	(619)	(262)	2,266	(52,787)	(1,119)	(93,335)	(330)	(276)	(147,847)	(145,581)	
Balance at 31 March 2018 Carried Forward	(50,342)	(1,515)	(4,326)	(56,183)	(108,820)	(196,126)	56,442	3,506	4,036	(240,962)	(297,145)	

This Statement shows the movement in the 2017-18 financial year on the different reserves held by the Council, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and "Unusable Reserves". The '(Surplus)/Deficit on the Provision of Services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the Statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Movement in Reserves

Comparative Movements in 2016-17	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						Total Reserves £'000
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves	
Balance at 31 March 2016	(52,417)	(671)	(4,027)	(57,115)	(54,847)	(194,492)	94,441	4,165	4,529	(146,204)	(203,319)
(Surplus)/Deficit on Provision of Services	4,638			4,638						-	4,638
Other Comprehensive Expenditure and Income					(1,290)		48,407			47,117	47,117
Total Comprehensive Expenditure and Income	4,638	-	-	4,638	(1,290)	-	48,407	-	-	47,117	51,755
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	104	(104)				-	-
Amortisation of Intangible Assets	(111)			(111)		111				111	-
Depreciation and of Non-current Assets	(22,872)			(22,872)		22,872				22,872	-
Impairment of Non-current Assets	(1,993)			(1,993)		1,993				1,993	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	11,375			11,375		(11,375)				(11,375)	-
Capital Expenditure Charged to the General Fund	229			229		(229)				(229)	-
Net Gain or Loss on Sale of Non-current Assets	(266)		(1,613)	(1,879)		1,879				1,879	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	329			329				(329)		(329)	-
Employee Benefits	217			217					(217)	(217)	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(6,929)			(6,929)			6,929			6,929	-

Statement of Movement in Reserves

Comparative Movements in 2016-17	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						Total Reserves
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Statutory Repayment of Debt - Loans Fund Advances	12,105			12,105		(12,105)				(12,105)	-
Statutory Repayment of Debt - NPDO Finance	1,935			1,935		(1,935)				(1,935)	-
Total Statutory Adjustments	(5,981)	-	(1,613)	(7,594)	104	1,107	6,929	(329)	(217)	7,594	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(1,343)	-	(1,613)	(2,956)	(1,186)	1,107	55,336	(329)	(217)	54,711	51,755
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	271	(225)	1,576	1,622		(1,622)				(1,622)	-
(Increase)/Decrease in Year	(1,072)	(225)	(37)	(1,334)	(1,186)	(515)	55,336	(329)	(217)	53,089	51,755
Balance at 31 March 2017 Carried Forward	(53,489)	(896)	(4,064)	(58,449)	(56,033)	(195,007)	149,777	3,836	4,312	(93,115)	(151,564)

This Statement shows the movement in the 2016-17 financial year on the different reserves held by the Council, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and "Unusable Reserves". The '(Surplus)/Deficit on the Provision of Services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the Statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amounts of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2016-17 £'000		Note	2017-18 £'000
4,638	Net Deficit on the Provision of Services		15,410
(19,151)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(29,635)
3,777	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		4,986
(10,736)	Net Cash OutFlow from Operating Activities	39	(9,239)
18,915	Investing Activities	40	11,438
(8,128)	Financing Activities	41	(4,767)
51	Net (Increase)/Decrease in Cash and Cash Equivalents		(2,568)
(7,940)	Cash and Cash Equivalents at the beginning of the Reporting Period		(7,889)
(7,889)	Cash and Cash Equivalents at the end of the Reporting Period	24	(10,457)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2017-18 financial year and its position at the year-end of 31 March 2018. The Council must ensure that its Annual Accounts are prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded for the income that might not be collected.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is

Notes to the Financial Statements

applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with loans fund principal charges.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance loans fund principal, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These benefits are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognised costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.6.3 Post-Employment Benefits

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

a) Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the Balance Sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

b) Local Government Pension Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This pension scheme is accounted for as a defined benefits scheme:

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.7% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in the net pension's liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years' service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to the Non Distributed Costs in the Comprehensive Income and Expenditure Statement.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council – The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising
 - The return on plan assets – excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve
 - Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

1.6.4 Post Employment Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirements benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material impact disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.8 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Notes to the Financial Statements

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9 Financial Assets

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for the identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Notes to the Financial Statements

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

1.11 Heritage Assets

The main heritage assets held by the Council are two art collections and a historic jail and courthouse which is operated as a “living” museum. The “Argyll Collection” is an art collection which was set up to provide the young people of Argyll and Bute with direct access to a wide range of quality art recognising that they had limited access to museums and galleries. In addition the Council holds other works of art which are held at various libraries and the Campbeltown Museum. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council’s main heritage assets are accounted for as follows:

The Art Collections

The collections cover a range of media including acrylic, charcoal, embroidery, engraving, etching, gouache, lithography, oil, pastel, pencil, procion dye, screenprint, monoprint, watercolour, woodcut, ceramic, bronze and woodcarving. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These valuations are updated periodically. The assets within the art collections are deemed to have indeterminate lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant and recent information from sales at auctions.

Notes to the Financial Statements

Inveraray Jail and Courthouse and “Other” Historic Buildings

The building is owned by Argyll and Bute Council and leased out to an organisation which runs it as a “living museum”. The building is valued in accordance with its property, plant and equipment policy. Other buildings included in this category are McCaig’s Folly in Oban and Castle Lodge in Dunoon.

Archaeology and “Other” Museum Exhibits

The Council does not consider that reliable cost or valuation information can be obtained for archaeological items and “other” museum exhibits outwith the art collections. This is because of the diverse nature of the assets held and lack of comparable values. Consequently, the Council does not recognise these assets on the Balance Sheet.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council’s general policies on impairment (see note 1.19.3 in this summary of significant accounting policies). The proceeds of any disposals are accounted for in accordance with the Council’s general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory requirements relating to capital expenditure and receipts (see note 1.19.4 in this summary of significant accounting policies).

1.12 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council’s goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare Group Accounts. In the Council’s own single entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

1.14 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Notes to the Financial Statements

1.15 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.16.1 The Council as Lessee

a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Notes to the Financial Statements

b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.16.2 The Council as Lessor

a) Finance Leases

Where the Council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt on disposal of the asset is used to write down the debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

b) Operating Leases

Where the Authority grants an operating lease over a property or an item of plant and equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, with the exception of rental income from investment property which is credited to Interest and Investment Income. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads and Support Services

The costs of overheads and support services are not charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

1.18 Assets Held for Sale

Property, land and buildings are classified as *Assets Held for Sale* when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.

Notes to the Financial Statements

- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of *Property, Plant and Equipment* will be reclassified as *Assets Held for Sale*.

1.19 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administrative purposes that are expected to be used during more than one financial year are classified as *Property, Plant and Equipment*.

1.19.1 Recognition

Expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.19.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Accounts. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- School buildings – current value, but because of their specialist nature, are measured at depreciated cost which is used as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Notes to the Financial Statements

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of an impairment loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.19.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.19.4 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an *Asset Held for Sale*. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Non-Departmental Costs line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as *Assets Held for Sale*.

Notes to the Financial Statements

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Disposal receipts are categorised as capital receipts. All capital receipts are credited to the Capital Fund, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the costs of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.19.5 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. land and certain Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction).

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance Cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Notes to the Financial Statements

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.21 Provisions, Contingent Liabilities and Contingent Assets

1.21.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

1.21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.21.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.22 Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 32 to the accounts.

Notes to the Financial Statements

1.23 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable.

1.24 Accounting for the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the third year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to the following new or amended accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2018 for 2018/19). For this disclosure the standards introduced by the 2018/19 code include:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 and clarifications to IFRS 15 *Revenue from Contracts with Customers*
- Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*

For this disclosure there are no new standards, introduced by the 2018/19 Code of Practice, which will impact on the 2018/19 Financial Statements.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below:

Government Funding: There is a high degree of uncertainty about future levels of funding for local government. However, the Council had determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Service Concessions: The Council currently operates three Private Finance Initiative (PFI), or similar, contracts which are accounted for as Service Concession arrangements under IFRIC12 – *Service Concession Arrangements*. The Council has determined that in the case of the Schools NPDO contract and the new Schools DBFM contract, the Council has control over the services provided through use of the schools and that a qualifying asset has been created. The appropriate accounting treatment is to bring the assets "on Balance Sheet" along with a finance lease liability.

The Council also operates a Waste Management PPP contract. In this case the Council determined that a "qualifying asset" had not been created and that the Council did not have significant control over the services being provided. The appropriate accounting treatment was therefore determined to be "off Balance Sheet" and that payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account.

Notes to the Financial Statements

Holiday Pay Accrual: Unused holiday entitlement earned at 31 March 2018 but not taken at that date has been quantified on the basis of a 5% sample of all non-term time Council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement as at 31 March and no estimation is required for these staff. The liability shown in the 2017-18 financial statements in respect of the holiday pay accrual is £4.036m.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follow:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions												
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.2m for every year that useful lives had to be reduced.</p>												
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	<p>The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:</p> <table border="1" data-bbox="1218 895 2125 1321"> <thead> <tr> <th data-bbox="1218 895 1630 1066">Sensitivities at 31 March 2018</th> <th data-bbox="1635 895 1877 1066">Approximate % Increase to Employer Obligation</th> <th data-bbox="1881 895 2125 1066">Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1218 1069 1630 1150">0.5% decrease in real discount rate</td> <td data-bbox="1635 1069 1877 1150">9%</td> <td data-bbox="1881 1069 2125 1150">65,272</td> </tr> <tr> <td data-bbox="1218 1153 1630 1235">0.5% increase in salary increase rate</td> <td data-bbox="1635 1153 1877 1235">2%</td> <td data-bbox="1881 1153 2125 1235">10,874</td> </tr> <tr> <td data-bbox="1218 1238 1630 1319">0.5% increase in pension increase rate</td> <td data-bbox="1635 1238 1877 1319">7%</td> <td data-bbox="1881 1238 2125 1319">53,346</td> </tr> </tbody> </table>	Sensitivities at 31 March 2018	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	9%	65,272	0.5% increase in salary increase rate	2%	10,874	0.5% increase in pension increase rate	7%	53,346
Sensitivities at 31 March 2018	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000												
0.5% decrease in real discount rate	9%	65,272												
0.5% increase in salary increase rate	2%	10,874												
0.5% increase in pension increase rate	7%	53,346												

Arrears	At 31 March 2018, the Council had a balance of sundry debtors of £3.001m. A review of significant balances suggested an allowance of 22.8% (£0.684m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increase of the allowance by 10% would increase the bad debt provision required by £0.300m.
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Notes to the Financial Statements

5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £43.717m of the balance on the General Fund.

Ring-fenced Balances	Balance 1 April 2017 £'000	Funds Used £'000	Contributions to/from Funds £'000	New Earmarking agreed 2017-18 £'000	New Earmarking at end of 2017-18 £'000	Balance 31 March 2018 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	6,177	(2,190)	-	-	1,913	5,900
Unspent Grants	544	(247)	122	-	904	1,323
Contributions Carried Forward	291	(133)	-	-	26	184
Unspent Budget Carried Forward	7,720	(2,816)	(149)	-	682	5,437
School Budget Carry Forwards	1,033	(848)	-	-	566	751
Unspent Budget Required for Existing Legal Commitments	1,042	-	(122)	-	-	920
CHORD	240	-	-	-	93	333
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	2,805	(2,805)	-	-	-	-
Investment in Affordable Housing	5,000	-	-	-	-	5,000
Severance Costs	2,321	(1,083)	-	-	-	1,238
Helensburgh Waterfront	5,579	-	-	-	-	5,579
Argyll, Lomond and the Islands Regeneration Initiative	4,453	-	(4,453)	-	-	-
Asset Management	2,492	15	-	-	-	2,507
Energy Efficiency Fund	136	-	-	-	-	136
Transformation	83	-	-	-	-	83
Scottish Government Initiatives	674	(258)	-	-	150	566
Lochgilphead and Tarbert Regeneration	-	(5)	3,000	-	-	2,995
Inward Investment Fund	-	-	960	-	-	960
Rural Resettlement Fund	-	(165)	493	-	-	328
Piers and Harbours Investment Fund	-	-	-	-	107	107
Other	929	(68)	(425)	8,588	346	9,370
Total Ring-fenced	41,519	(10,603)	(574)	8,588	4,787	43,717
Contingency	4,671	-	55	-	-	4,726
Budget Smoothing in 2019-20	4,000	-	(4,000)	-	-	-
Unallocated	3,299	-	(1,400)	-	-	1,899
Total General Fund Balance	53,489	(10,603)	(5,919)	8,588	4,787	50,342

The contingency balance of £4.726m is 2% of the Council's budgeted net expenditure for 2018-19.

6. SUPPLEMENTARY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

6.1 Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

Expenditure/Income	2017-18 £'000	2016-17 £'000
Expenditure		
Employee benefits expenses	148,394	140,953
Other services expenses	182,057	187,725
Contribution to Argyll and Bute Integration Joint Board	57,579	60,787
Depreciation, amortisation, impairment	29,070	17,703
Interest payments	20,054	19,500
Precepts and levies	1,281	1,316
Other operating expenditure	149	23
Net Loss/(Gain) on the disposal of assets	3,544	266
Total Expenditure	442,128	428,273
Income		
Fees, charges and other service income (External) - <i>Note 6.2</i>	(78,302)	(75,988)
Fees, charges and other service income (Internal) - <i>Note 6.2</i>	(31,869)	(31,028)
Income to fund social care services (Argyll and Bute Integration Joint Board)	(57,579)	(60,787)
Interest and investment income	(970)	(3,627)
Income from council tax and non-domestic rates	(77,957)	(74,579)
Government grants and contributions	(180,041)	(177,626)
Total Income	(426,718)	(423,635)
Deficit on the Provision of Services	15,410	4,638

6.2 Income Analysis based on Management Structure

Income received by the Council on its management structure is analysed below:

2016-17			Service	2017-18		
Fees, Charges & Other Service Income				Fees, Charges & Other Service Income		
External £'000	Internal £'000	Total £'000		External £'000	Internal £'000	Total £'000
-	127	127	Chief Executive and Strategic Finance	41	131	172
			Community Services:			
5,792	74	5,866	Community and Culture	1,150	59	1,209
3,263	363	3,626	Education	4,998	524	5,522
			Customer Services			
37	2,215	2,252	Executive Director of Customer Services	513	2,322	2,835
25,017	346	25,363	Customer and Support Services	24,598	324	24,922
5,130	7,895	13,025	Facility Services	5,025	7,647	12,672
373	-	373	Governance and Law	356	-	356
78	-	78	Improvement and HR	31	-	31
			Development and Infrastructure Services			
4	122	126	Executive Director of Development & Infrastructure Services	2	137	139
749	192	941	Economic Development	1,253	192	1,445
2,534	36	2,570	Planning, Regulatory & Housing Services	5,175	32	5,207
15,912	19,269	35,181	Roads and Amenity Services	16,519	20,138	36,657
			Health and Social Care Integration			
76,799	389	77,188	Social Care Services	75,683	363	76,046
1,087	-	1,087	Other Non-Departmental Income	537	-	537
136,775	31,028	167,803	Total Income analysed on a management structure basis	135,881	31,869	167,750

Notes to the Financial Statements

6.3 Net Cost of Service Analysis based on Service Reporting Code of Practice (SeRCOP)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is based on the Council's Management Structure, this was a new requirement under the 2016-17 Accounting Code of Practice. In previous years the Comprehensive Income and Expenditure Account's Net Cost of Service analysis has been based on CIPFA's Service Reporting Code of Practice (SeRCOP). This note provides an additional analysis based on SeRCOP to aid comparability across previous accounting years.

2016-17			Service	2017-18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
113,276	6,922	106,354	Education Services	121,657	9,072	112,585
33,782	27,428	6,354	Housing Services (Non-HRA)	33,015	26,083	6,932
12,064	2,143	9,921	Cultural and Related Services	12,195	1,389	10,806
23,724	4,724	19,000	Environmental Services	24,027	5,193	18,834
25,391	6,850	18,541	Roads and Transport Services	26,046	6,968	19,078
8,716	5,637	3,079	Trading Services	8,786	6,042	2,744
7,806	2,724	5,082	Planning and Development Services	7,427	2,149	5,278
80,191	17,378	62,813	Social Work	83,805	18,800	65,005
			Central Services:			
4,717	167	4,550	- Corporate and Democratic Core	4,629	178	4,451
1,985	4	1,981	- Non Distributed Costs	1,687	2	1,685
2,989	1,299	1,690	- Central Services to the Public	3,261	1,309	1,952
314,641	75,276	239,365	Net Cost of Services	326,535	77,185	249,350

Notes to the Financial Statements

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.430m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure can be analysed as follows:

Other Operating Income and Expenditure	2017-18 Actual £'000	2016-17 Actual £'000
Dunbartonshire and Argyll & Bute Valuation Joint Board Requisition	1,281	1,316
Equal Pay Settlements and Legal Costs	152	15
Other Operating Income and Expenditure not attributable to Services	(3)	8
Total	1,430	1,339

8. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2017-18 income from this agreement amounted to £0.309m (2016-17 £0.309m).

The Council also acts as agent for the Scottish Government in the collection of non-domestic rate income. Further information on the collection of non-domestic rate income can be found on pages 124 to 125.

9. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

From 1 April 2016 health and social care services were fully integrated as part of the new Health and Social Care Partnership.

During 2017-18 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.

During 2017-18 income received by the Council from this source amounted to £6.192m and the related expenditure was £8.450m. This can be analysed as follows.

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,488	3,851
Provision of Services for People with Learning Disabilities	2,412	3,075
Provision of Services for People with Mental Health Needs	1,292	1,524
Total	6,192	8,450

10. FEES PAYABLE TO AUDIT SCOTLAND

In 2017-18 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2017-18 £'000	2016-17 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	255	256
Total Remuneration	255	256

The fee for 2017-18 includes £3,300 for the audit of the Council's charitable trusts.

Notes to the Financial Statements

11. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

The Council has entered into a Public Private Partnership for the provision of its waste disposal service. This agreement requires the provider to upgrade or replace three waste disposal sites, two transfer stations and five civic amenity sites. In addition, the provider will also provide composting facilities to meet waste diversion targets. When the agreement ends in September 2026 the provider will hand back to the Council the waste disposal facilities with a life of 5 years.

The Council has paid a service charge of £5.045m (2016-17 £5.042m) which represents the value of the service provided from 1 April 2017 to 31 March 2018. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2018 - 2019	5,984
2019 - 2022	25,017
2022 - 2027	23,207
Total	54,208

The average service charge equates to £5.328m per annum over the life of the contract.

12. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2017-18:

Grant Income	2017-18 £'000	2016-17 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	162,798	166,251
Non Domestic Rates	29,615	30,446
Specific Capital Grant	45	76
General Capital Grant	12,747	9,465
Heritage Lottery Fund	617	600
Scottish Timber Transport Strategy	345	-
Scottish Government	986	300
Strathclyde Partnership for Transport (SPT)	419	171
Other Grants	890	746
Other Government Capital Grants	1,194	17
Total	209,656	208,072
Credited to Services		
Scottish Government Specific Grants	3,107	365
General Capital Grant - Private Sector Housing Improvement Grants	1,000	1,409
General Capital Grant - Economic Development	744	157
Housing Benefit Subsidy	22,468	22,983
Other Revenue Government Grants	2,782	1,569
Total	30,101	26,483

Notes to the Financial Statements

13. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

13.1 Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 12 – Grant Income on page 83.

13.2 Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017-18 is shown in the Remuneration Report on page 40.

During the year there were two organisations in which members had a significant interest and where the total of transactions exceeded £10,000.

Transactions in which Members have a significant interest	Expenditure £'000
Trident Taxis	10
South Kintyre Development Trust	88

Notes to the Financial Statements

13.3 Other Related Bodies

This category relates to transactions with entities which are controlled or significantly influenced by the Authority.

During the year transactions with other related bodies were as follows:

Related Bodies	Expenditure £'000
Transactions with related bodies during the year totalled	3,503
<i>Of these, transactions with the following exceeded £10,000:</i>	
Dunbritton Housing Association Ltd	941
Oban and Lorn Community Enterprise - Atlantis Leisure	459
Fyne Homes Ltd	456
Argyll Community Housing Association (ACHA)	382
Kintyre Recycling	162
Islay and Jura Community Enterprise	154
Fyne Futures	146
West Highland Housing Association Ltd	144
Mid Argyll Community Enterprise	115
Argyll and the Isles Tourism Ltd	96
SEEMIS	83
Scotland Excel	72
Convention of Scottish Local Authorities (COSLA)	70
Argyll and Bute Citizens Advice Bureau	60
Bute Advice	57
RE-JIG (Recycling)	26
South Kintyre Development Trust	18
Oban Addiction Support and Information Services (OASIS)	15
Mull & Iona Community Trust (MICT)	12
Kintyre Alcohol and Drugs Advisory Service (KADAS)	11
Total	3,479

Given the relationships the Council has with other organisations and partners it is possible that some related party transactions may exist. However, the purpose of the requirement to complete the disclosure is to provide additional information to the users of the Annual Accounts and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

Notes to the Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT

14.1 Movement in Property, Plant and Equipment

Movements in 2017-18	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2017-18 £'000
Cost or Valuation							
At 1 April 2017	273,916	34,148	269,553	2,280	2,911	24,366	607,174
Additions	4,158	1,429	5,820	53	-	23,866	35,326
Additions financed under a new leasing arrangement	23,527	607	-	-	-	32,480	56,614
Revaluation increases/(decreases) recognised in the Revaluation Reserve	38,094	-	-	-	44	-	38,138
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,980)	-	-	-	(169)	-	(8,149)
Derecognition - Disposals	(4)	(486)	-	-	-	-	(490)
Assets reclassified (to)/from Held for Sale	(203)	-	-	-	-	-	(203)
Other movements in cost or valuation	10,931	348	2,571	-	(1,626)	(13,860)	(1,636)
At 31 March 2018	342,439	36,046	277,944	2,333	1,160	66,852	726,774
Depreciation and Impairments							
At 1 April 2017	(23,326)	(24,941)	(68,609)	(9)	(4)	-	(116,889)
Depreciation Charge for 2017-18	(11,611)	(2,863)	(6,707)	-	(43)	-	(21,224)
Depreciation written out to the Revaluation Reserve	13,748	-	-	-	1	-	13,749
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	481	-	-	-	22	-	503
Derecognition - Disposals	-	474	-	-	-	-	474
Other movements in depreciation and impairment	96	-	-	-	20	-	116
At 31 March 2018	(20,612)	(27,330)	(75,316)	(9)	(4)	-	(123,271)
Balance Sheet amount at 31 March 2018	321,827	8,716	202,628	2,324	1,156	66,852	603,503
Balance Sheet amount at 1 March 2017	250,590	9,207	200,944	2,271	2,907	24,366	490,285

Comparative Movements in 2016-17	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2016-17 £'000
Cost or Valuation							
At 1 April 2016	277,214	31,517	263,226	1,870	2,821	15,486	592,134
Additions	12,826	1,463	5,805	397	-	6,256	26,747
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(6,006)	-	-	-	345	116	(5,545)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,734)	-	-	-	(17)	-	(4,751)
Derecognition - Disposals	(75)	(408)	-	-	-	(41)	(524)
Assets reclassified (to)/from Held for Sale	(195)	-	-	-	-	-	(195)
Other movements in cost or valuation	(5,114)	1,576	522	13	(238)	2,549	(692)
At 31 March 2017	273,916	34,148	269,553	2,280	2,911	24,366	607,174
Depreciation and Impairments							
At 1 April 2016	(18,729)	(20,830)	(62,062)	(2)	(4)	-	(101,627)
Depreciation Charge for 2016-17	(11,781)	(4,485)	(6,547)	-	(60)	-	(22,873)
Depreciation written out to the Revaluation Reserve	6,778	-	-	-	22	-	6,800
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	294	-	-	-	27	-	321
Derecognition - Disposals	-	374	-	-	-	-	374
Other movements in depreciation and impairment	112	-	-	(7)	11	-	116
At 31 March 2017	(23,326)	(24,941)	(68,609)	(9)	(4)	-	(116,889)
Balance Sheet amount at 31 March 2017	250,590	9,207	200,944	2,271	2,907	24,366	490,285
Balance Sheet amount at 31 March 2016	258,485	10,687	201,164	1,868	2,817	15,486	490,507

Notes to the Financial Statements

14.2 Valuation of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment has been adapted for the public sector by IPSAS 17 – Property, Plant and Equipment. Under IPSAS 17 each category of Property, Plant and Equipment is valued as follows:

- Infrastructure, community assets and assets under construction are valued at historical cost.
- Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value.
- All other classes of assets are valued at fair value. Where there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold then an estimate of fair value is made using a depreciated replacement cost approach..

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured is re-valued at least every five years. Assets identified as Corporate Surplus Assets are valued in accordance with IFRS 13 - Fair Value Measurement. The Balance Sheet value of Corporate Surplus assets at 31 March 2018 was £1.156m. Corporate Surplus assets are valued at their fair value on 31 March each year. Level 3 inputs were used for most Corporate Surplus asset valuations.

Revaluations of Council owned land and property were carried out at 31 March 2018 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by external valuers, Ryden LLP. Valuations of land and buildings were carried out in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following table shows the progress of the Council's rolling programme for the revaluation of Other Land and Buildings:

Valued at Fair Value as at:	Other Land & Buildings £'000
31 March 2018	194,337
31 March 2017	26,224
31 March 2016	41,969
31 March 2015	26,383
31 March 2014	32,914
Total Cost or Valuation	321,827

Notes to the Financial Statements

14.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer (20 to 50 years)
- Infrastructure – straight-line allocation over 40 years
- Vehicles, Plant and Equipment - straight-line allocation over the useful life of the asset as determined by a suitably qualified officer (3 to 20 years)
- Vessels – straight line allocation over 25 years

14.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and Council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2017-18 total spending on capital projects was £92.311m.

	2017-18 £'000	2016-17 £'000
Opening Capital Financing Requirement	253,483	253,896
Capital Investment:		
Property Plant and Equipment:		
Other Land and Buildings	4,158	12,826
Vehicles, Plant, Furniture and Equipment	1,429	1,463
Infrastructure Assets	5,820	5,805
Community Assets	53	397
Assets Under Construction	23,866	6,256
Property Plant and Equipment acquired under Finance Leases:		
Other Land and Buildings - DBFM Schools	56,007	-
Vehicles, Plant, Furniture and Equipment	607	-
Heritage Assets	133	32
Intangible Assets	238	282
Total Capital Investment	92,311	27,061
Sources of Finance:		
Capital Receipts	(5,677)	(1,613)
Government Grants	(17,243)	(11,375)
Capital Financed from Current Revenue	(4,135)	(229)
Repayment of External Loans	(10,361)	(12,105)
Capital Element of Finance Lease Payments	(34)	-
Capital Element of Schools NPDO Payments	(2,008)	(1,935)
Capital Receipts transferred to Capital Fund	5,677	1,613
Capital Receipts Used from Capital Fund	(5,415)	(1,576)
Other	(165)	(254)
Total Funding	(39,361)	(27,474)
Closing Capital Financing Requirement	306,433	253,483

Notes to the Financial Statements

14.5 Commitments under Capital Contracts

At 31 March 2018, the Council had commitments on capital contracts of £33.429m. This expenditure will be funded from a combination of Government Grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2017 were £32.449m. The major commitments are:

	£'000
Dunoon Queens Hall	10,760
Dunoon Primary School Refurbishment	7,524
Campbeltown New Quay Expansion	5,563
Kirk Road, Dunbeg	1,872
Rothesay Pavilion	1,118
Oban High School Replacement	943
Kirn Primary School Replacement	565
Clyde Cottage Nursery Extension	482
Campbeltown Flood Scheme	404
Artificial Pitches	358
Kilcreggan Primary School Early Learning Upgrade	355
Lismore Point & Port Appin Repairs	290

15. HERITAGE ASSETS

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the Balance Sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 66.

Reconciliation of the carrying value of heritage assets held by the Council:

Movements in 2017-18	Art Collections	Heritage Property	Total
	£'000	£'000	£'000
Cost or Valuation			
Net Book Value at 1 April 2017	1,316	355	1,671
Additions	-	133	133
Disposals	-	-	-
Revaluations	-	-	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-	-	-
Transfer from Assets Under Construction	-	-	-
At 31 March 2018	1,316	488	1,804

Notes to the Financial Statements

16. INTANGIBLE ASSETS

Intangible assets comprise software licences and carbon reduction commitment allowances purchased in advance. Purchased software licences are shown at cost and this cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Statement over the economic life of the licences, assessed as five years.

The carbon reduction commitment allowances relate to allowances purchased in advance as part of the Carbon Reduction Energy Efficiency Scheme (Phase 2). These allowances will be surrendered in October of each year on the basis of emissions, i.e. carbon dioxide produced as energy is used.

The movement in intangible assets during the year was:

Movements in 2017-18	Carbon Reduction Commitment Allowance	Purchased Software Licences	Total Intangible Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1 April 2017	282	1,499	1,781
Additions	172	66	238
Disposals	(230)	-	(230)
Reclassifications	-	51	51
At 31 March 2018	224	1,616	1,840
Depreciation and Impairments			
At 1 April 2017	-	(1,053)	(1,053)
Charge for 2017-18	-	(154)	(154)
Disposals	-	-	-
At 31 March 2018	-	(1,207)	(1,207)
Balance Sheet amount at 31 March 2018	224	409	633
Balance Sheet amount at 31 March 2017	282	446	728

Notes to the Financial Statements

Comparative Movements in 2016-17	Carbon Reduction Commitment Allowance	Purchased Software Licences	Total Intangible Assets
	£'000	£'000	£'000
Cost or Valuation			
At 1 April 2016	242	1,277	1,519
Additions	282	-	282
Disposals	(242)	-	(242)
Reclassifications	-	222	222
At 31 March 2017	282	1,499	1,781
Depreciation and Impairments			
At 1 April 2016	-	(942)	(942)
Charge for 2016-17	-	(111)	(111)
Disposals	-	-	-
At 31 March 2017	-	(1,053)	(1,053)
Balance Sheet amount at 31 March 2017	282	446	728
Balance Sheet amount at 31 March 2016	242	335	577

17. INVESTMENT PROPERTY

Investment property has been accounted for in accordance with IAS 4 - Investment Property, except where interpretations or adaptations to fit the public sector are detailed in the Code. The definition of an investment property in the context of the public sector is one that is used solely to earn rentals or for capital appreciation or both.

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2018. Revaluations of investment properties were carried out at 31 March 2018 by external valuers, Ryden LLP.

17.1 Movement in Investment Property

The movement in investment property during 2017-18 was:

Movements in 2017-18	Investment Properties £'000
Cost or Valuation	
At 1 April 2017	11,021
Acquisitions	-
Disposals	(8,905)
Net Gains/Losses from fair value adjustments	111
Transfers	33
At 31 March 2018	2,260

Notes to the Financial Statements

17.2 Investment Property Income and Expenditure

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2017-18 £'000	2016-17 £'000
Rental income from investment property	192	214
Direct operating expenses arising from investment property	(62)	(101)
Net gain/(loss)	130	113

18. SCHOOLS BUILT UNDER PUBLIC PRIVATE PARTNERSHIP CONTRACTS (PPP)

Argyll and Bute Council have two schemes:

Schools Non-Profit Distributing Organisation (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the Non-Profit Distributing Organisation (NPDO) variant of a Public Private Partnership (PPP), became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

Schools Hub Design, Build, Finance and Maintain Contract (DBFM)

Campbeltown and Oban High Schools have been built under this type of arrangement which reached Financial Close in March 2016.

Campbeltown Grammar School Construction Phase 1 was completed on 19 February 2018 and provided a new secondary school for pupils aged between 12 and 18. The new school has capacity for 500 pupils and replaces the existing Campbeltown Grammar School on the current school site at Hutcheon Road, Campbeltown. Phase 2 includes the demolition of the existing school buildings, provision of a car park, landscaping and 3G artificial turf pitch and is scheduled to complete in November 2018.

Oban High School Construction Phase 1 was completed on 5 April 2018 and provided a new secondary school for pupils between 12 and 18. The new school has capacity for 1300 pupils and replaces the existing Oban High School, on the current school site at Soroba Road, Oban. Phase 2 includes the demolition of the existing school buildings, provision of a car park, landscaping and a pedestrian footway with lighting from the new school facilities to the grass pitches owned by the Council at Glencruitten, Oban and is scheduled to complete in January 2019.

Notes to the Financial Statements

18.1 Assets Held under Schools NPDO and DBFM Contracts

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2018 and depreciation to date are included as part of Operational Land and Buildings.

As noted above two schools were completed under the Schools DBFM Contract. Campbeltown Grammar has been included within Other Land and Buildings at its actual construction cost. Oban High School has been included within Assets Under Construction at its actual construction cost.

Movements in 2017-18	Buildings Under Construction £'000	Schools DBFM - Other Land & Buildings £'000	Schools NPDO - Other Land & Buildings £'000	Total Schools Built under PFI Contracts £'000
Cost or Valuation				
At 1 April 2017	-	-	93,567	93,567
Additions at Cost	32,480	23,527	(75)	55,932
Revaluations	-	-	37,190	37,190
At 31 March 2018	32,480	23,527	130,682	186,689
Depreciation and Impairments				
At 1 April 2017	-	-	(6,805)	(6,805)
Charge for 2017-18	-	-	(1,706)	(1,706)
Revaluations	-	-	8,505	8,505
At 31 March 2018	-	-	(6)	(6)
Balance Sheet amount at 31 March 2018	32,480	23,527	130,676	186,683
Balance Sheet amount at 31 March 2017	-	-	86,762	86,762

Notes to the Financial Statements

18.2 Schools NPDO Finance Lease Liability

The finance lease liability arising from the Schools NPDO contract is as follows:

Movements in 2017-18	Schools DBFM £'000	Schools NPDO £'000	Total Schools Finance Lease Liability £'000
Balance at 1 April 2017	-	(74,059)	(74,059)
Additions	(56,007)	-	(56,007)
Repayments	-	2,008	2,008
Schools NPDO Finance Lease Liability at 31 March 2018	(56,007)	(72,051)	(128,058)
Split:			
Obligations payable within 1 year	(2,240)	(2,117)	(4,357)
Obligations payable after 1 year	(53,767)	(69,934)	(123,701)
Schools NPDO Finance Lease Liability at 31 March 2018	(56,007)	(72,051)	(128,058)

18.3 Payments due to Operator under Schools NPDO Contract

The Council is committed to paying the following sums under the Schools NPDO contract:

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2018 - 2019	2,117	-	7,309	5,074	14,500
2019 - 2023	10,595	-	27,193	21,826	59,614
2023 - 2028	18,412	2,667	26,819	30,570	78,468
2028 - 2033	28,824	3,396	15,701	35,473	83,394
2033 - 2035	12,103	828	2,271	10,901	26,103
Total	72,051	6,891	79,293	103,844	262,079

Notes to the Financial Statements

18.4 Payments due to Operator under Schools DBFM Contract

The Council is committed to paying the following sums under the Schools DBFM contract:

Future Repayment Periods	Repayment of Liability	Service Charges & Interest	Total Payments
	£'000	£'000	£'000
2018 - 2019	2,240	2,446	4,686
2019 - 2024	8,961	11,307	20,268
2024 - 2029	11,201	14,760	25,961
2029 - 2034	11,201	15,541	26,742
2034 - 2039	11,202	16,425	27,627
2039 - 2044	11,202	16,627	27,829
Total	56,007	77,106	133,113

19. OPERATING LEASES

19.1 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2017-18 were as follows:

	2017-18 £'000	2016-17 £'000
Land and Buildings	229	198
Vehicles	270	367
Plant and Equipment	168	162
Total	667	727

19.2 Assets Held Under Operating Leases

The Council was committed at 31 March 2018 to making payments of £0.535m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Due within 1 year	143	288
Due between 1 and 5 years	505	322
Due after 5 years	1,084	1
Value at 31 March 2018	1,732	611

Notes to the Financial Statements

20. FINANCE LEASES

20.1 Finance Leases – Amounts Paid to Lessors

During 2017-18 the Council purchased a new cremator for Cardross Crematorium under a finance lease arrangement. The amount paid under this arrangement in 2017-18 was as follows:

	2017-18 £'000	2016-17 £'000
Plant and Equipment	34	-
Total	34	-

20.2 Assets Held Under Finance Leases

Assets purchased under a finance leases are included within the assets of the Council and depreciated over the life of the asset as follows:

Movements in 2017-18	Vehicles, Plant and Equipment £'000
Value at 1 April 2017	-
Additions	607
Depreciation	(27)
Value at 31 March 2018	580

20.3 Finance Lease Liability

The Council was committed at 31 March 2018 to making payments of £0.573m under finance leases comprising the following elements:

Movements in 2017-18	£'000
Balance at 1 April 2017	-
Additions	(607)
Repayments	34
Finance Lease Liability at 31 March 2018	(573)
Split:	
Obligations payable within 1 year	(63)
Obligations payable between 1 and 5 years	(251)
Obligations payable after 5 years	(406)
Finance Lease Obligations at 31 March 2018	(720)
Less Interest element of lease	147
Finance Lease Liability at 31 March 2018	(573)

Notes to the Financial Statements

21. LONG TERM DEBTORS

	31st March 2018 £'000	31st March 2017 £'000
House Loans	18	27
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	1,214	1,103
Strategic Housing Fund Loans to Registered Social Landlords	3,854	2,946
Other Long Term Debtors	100	100
Total Long Term Debtors	5,936	4,926

22. DEBTORS

	31 March 2018		31 March 2017	
	£'000	£'000	£'000	£'000
Arrears of Local Taxation	15,699		14,563	
Council Tax				
Less: Provision for Bad Debts	(12,980)		(12,002)	
		2,719		2,561
Housing Benefits Overpayments	1,063		1,192	
Less: Provision for Bad Debts	(883)		(1,030)	
		180		162
Debtor Accounts	3,001		2,930	
Less: Provision for Bad Debts	(684)		(703)	
		2,317		2,227
Net Debtor to Scottish Government for Non Domestic Rates		2,152		945
VAT Recoverable from HMRC		3,657		3,016
Strategic Housing Fund Loans due within 1 Year		570		584
Other Debtors		9,091		6,568
Total Debtors		20,686		16,063

Notes to the Financial Statements

23. ASSETS HELD FOR SALE

The movement in assets held for sale during 2017-18 was:

Movements	2017-18 £'000	2016-17 £'000
Balance outstanding at start of year	691	2,381
Assets newly classified as "Held for Sale" (Property, Plant and Equipment)	2,624	134
Revaluation losses	-	(45)
Revaluation gains	46	-
Impairment losses	-	-
Assets declassified as "Held for Sale" (Property, Plant and Equipment)	-	-
Assets Sold	(300)	(1,779)
Balance outstanding at year-end	3,061	691

24. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2018 £'000	31 March 2017 £'000
Cash held by the Authority	49	57
Cash in transit	269	125
Short term deposits with banks	914	1,722
Short term deposits in Money Market Funds	14,000	9,500
Bank Current Accounts (Overdraft)	(4,806)	(3,515)
Total Cash and Cash Equivalents	10,426	7,889

25. CREDITORS

	31 March 2018 £'000	31 March 2017 £'000
Accrued Payrolls and Superannuation	6,279	6,288
Accrued Employer's National Insurance Contributions and PAYE	2,899	2,397
Accrual for Short Term Accumulating Absences	4,036	4,312
Creditors System Liability	2,806	4,382
Accrued Expenditure	5,365	4,442
Other Creditors	10,949	7,949
Total Creditors	32,334	29,770

Notes to the Financial Statements

26. FINANCIAL INSTRUMENTS DISCLOSURES

26.1 Types of Financial Instruments

Accounting regulations require the “Financial Instruments” (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of “Financial Instruments”:

	31 March 2018		31 March 2017	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending				
Loans and Receivables	6,428	86,114	5,418	76,452
Borrowing				
Financial Liabilities at amortised cost	297,433	45,188	230,736	46,077

26.2 Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2018 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2018		31 March 2017	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	92,542	92,648	81,870	82,079
Borrowing				
Financial Liabilities	342,621	420,465	276,813	357,378

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to receive interest above the current market rates increases the amount the Council would receive if it agreed the early repayment of loans.

Notes to the Financial Statements

26.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to Financial Instruments.

26.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

26.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, money market funds, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and money market funds whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2018 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2018 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks and Money Market Funds	14,914	-	-

The information in respect of the Council's debtors can be found in note 21 and 22 on page 98. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 22 represents the Council's assessment of the likely recoverability of the debt outstanding.

The credit risk around unprovided for debt is considered to be low. Debtors relate to the normal business of the Council and credit is issued on the Council's standard credit terms. There are no significant amounts past due but not impaired where recoverability is considered to be an issue.

26.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under Financial Instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

Notes to the Financial Statements

The maturity analysis of financial liabilities is as follows:

	31 March 2018 £'000	31 March 2017 £'000
Maturity analysis of financial liabilities		
Less than one year	45,188	46,077
Between one and two years	10,757	7,460
Between two and five years	24,345	18,698
More than five years	262,331	203,578
	342,621	275,813

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

26.7 Market Risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

Changes in market rates also affect the notional "fair value" of lending and borrowing. For example, a rise in interest rates would reduce the "fair value" of both lending and borrowing at fixed rates. Changes in "fair value" of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government's grant distribution mechanism that automatically adjusts for changes in interest rates in the Government Grant support the Council receives for "loan charges".

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2018, with all other variables held constant:

	31 March 2018 £'000
Impact on tax-payer	
Increase on interest payable on variable rate borrowings	3
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
Net effect on Statement of Comprehensive Income & Expenditure	3

Notes to the Financial Statements

	31 March 2018 £'000
Other accounting presentational changes	
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	46,977

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

26.8 Price Risk

The Council has no investment classified as "available-for-sale".

26.9 Foreign Exchange Risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

26.10 Short-Term Deposits

The short-term deposits arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The Council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31 March 2018 £'000	31 March 2017 £'000
Banks and Money Market Funds	14,914	11,222

26.11 Soft Loans

Two non-material soft loans totalling £0.025m were paid out during 2017-18 on which no interest is being charged.

26.12 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2018 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 36 and 37 on pages 117 to 118.

	31 March 2018 £'000	31 March 2017 £'000
Common Good	117	110
Trust Funds	738	728

Notes to the Financial Statements

27. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £129.381m as at 31 March 2018 and comprise the following:

Movements in 2017-18	Opening Balance 31 March 2017 £'000	Movement in Year £'000	Closing Balance 31 March 2018 £'000
Finance Lease Liability (See note 20.3)	-	(573)	(573)
Schools Finance Lease Liability (See note 18.2)	(74,059)	(53,999)	(128,058)
Land Contamination	(750)	-	(750)
Total Other Liabilities	(74,809)	(54,572)	(129,381)
Split:			
Short Term Liabilities (due within 1 year)			(4,420)
Long Term Liabilities (due after 1 year)			(124,961)
Total Other Liabilities			(129,381)

28. PROVISIONS

	Opening Balance 31 March 2017 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2018 £'000
VAT Misdeclaration Provision	(253)	(24)	205	-	(72)
Equal Pay Claims	(7)	(146)	-	-	(153)
Income due to Registered Social Landlords	(135)	(3)	-	-	(138)
Reorganisation Redundancy Costs	(69)	(50)	50	-	(69)
Service Choices Redundancy Costs	(207)	(222)	207	-	(222)
Landfill Sites - Restoration and Aftercare Costs	(1,120)	(42)	-	-	(1,162)
Utilities Provision	(469)	-	-	99	(370)
Other Provisions	(813)	(166)	52	-	(927)
Total Provisions	(3,073)	(653)	514	99	(3,113)
Split:					
Short Term Provisions (due within 1 year)					(1,813)
Long Term Provisions (due after 1 year)					(1,300)
Total Other Liabilities					(3,113)

A provision was created at the end of 2005-06 in relation to employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. The increase in provision of £0.146m relates to claims that are highly likely to be settled within the next year. There may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on Council Tax from second homes to 10% during 2005-06. The additional Council Tax income invoiced during 2017-18 amounted to £1.913m; this amount is to be paid

Notes to the Financial Statements

to registered social landlords to invest in social housing. A provision for cash not yet collected has been created amounting to £0.138m.

In line with expectations, liabilities have arisen in respect of employees who will be made redundant as a result of operational restructuring and Service Choices. The Council has significant budget savings to make over the next 5 years and there has been a complete service provision review, Service Choices. As a result of Service Choices and other savings agreed as part of the budget process for 2018-19, a number of posts will be removed resulting in increased redundancy costs. In line with normal practice, the Council invited all employees to express an interest in voluntary redundancy and a number of employees have subsequently either taken or have been offered a redundancy package. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2018, a provision of £0.222m has been created during 2017-18. For further information refer to note 35 - Termination Benefits on page 117.

A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. The landfill sites were revalued at 31 March 2018 and the provision for restoration and aftercare increased to £1.162m. These have been provided for based on the net present value of estimated future costs.

The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.099m has been reversed during 2017-18 resulting in a total provision of £0.370m.

The "other" provisions includes funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2018-19.

29. CAPITAL GRANTS RECEIVED IN ADVANCE

	Opening Balance 31 March 2017 £'000	Capital Grants Received £'000	Amounts Used £'000	Closing Balance 31 March 2018 £'000
Ministry of Defence LIBOR Funding - Helensburgh & Lomond	(5,000)		-	(5,000)
Grant in Aid - Gaelic School Capital Fund	(567)		546	(21)
Total Other Liabilities		-	546	(5,021)
Split:				
Capital Grant Receipts in Advance (due within 1 year)				(21)
Capital Grant Receipts in Advance (due after 1 year)				(5,000)
Total Other Liabilities				(5,021)

The Chancellor of the Exchequer, in his Spring 2016 Budget, awarded Argyll and Bute Council LIBOR funding of £5m. The Ministry of Defence (MOD) are acting on behalf of Her Majesty's Treasury (HMT) with regard to all matters relating to this funding.

The purpose of the grant is to provide a contribution to the costs of the provision of the new Helensburgh Leisure Centre on condition that serving personnel and their families are offered favourable admission terms. This is because the LIBOR funds are to be used to recognise the contribution made by the Armed Forces Community to the nation.

Notes to the Financial Statements

30. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

Local Government Pension Scheme

This is administered by Strathclyde Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts due by statute as described in the accounting policies note.

30.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the pension schemes by the 31 March 2018. These payments have been accrued and are included within the creditors figure on the Balance Sheet. These have been paid during April 2018. The amounts are as follows:

- Local Government Pension Scheme – £1.374m
- Teachers' Scheme – £0.754m

30.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2017. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2018 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

Notes to the Financial Statements

	2017-18 £'000	2016-17 £'000
Comprehensive Income and Expenditure Statement:		
Cost of Services:		
<i>Service cost comprising:</i>		
Current Service Cost	24,125	17,268
Past Service Cost (Including Curtailments)	492	782
Net Cost of Services	24,617	18,050
Net Interest Expense	4,033	3,367
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	28,650	21,417
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Return on Assets (excluding amounts included in net interest)	(17,302)	(101,991)
Other Experience (see note (i) below)	(57,368)	866
Change in Financial and Demographic Assumptions	(33,441)	149,532
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(79,461)	69,824
Statement of Movement in Reserves:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(14,776)	(6,929)
Actual Amount charged against the General Fund Balance for pensions in the year:		
Employer's Contributions Payable to the Scheme	13,874	14,488

- (i) *A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular cost method. (ASOP No. 4)*

30.3 Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Notes to the Financial Statements

	2017-18 £'000	2016-17 £'000
Defined Benefit Obligation at 1 April	786,341	612,214
Current Service Cost	24,125	17,268
Past Service Costs including Curtailments	492	782
Interest Cost	20,550	21,467
Contributions by Scheme Participants	3,802	3,786
Re-measurement Gains and (Losses)	(90,809)	150,398
Estimated Benefits Paid	(20,294)	(19,574)
Defined Benefit Obligation at 31 March	724,207	786,341

Reconciliation of fair value of the scheme (plan) assets:

	2017-18 £'000	2016-17 £'000
Fair Value of Employer Assets at 1 April	636,564	517,773
Re-measurement Gains and (Losses):		
Expected Rate of Return on Pension Fund Assets	17,302	101,991
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	16,517	18,100
Employers Contributions	13,874	14,488
Contributions by Scheme Participants	3,802	3,786
Estimated Benefits Paid	(20,294)	(19,574)
Fair Value of Employer Assets at 31 March	667,765	636,564

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

30.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

	2017-18 £'000	2016-17 £'000
Local Government Pension Scheme		
Present Value of Funded Liabilities	(695,392)	(756,727)
Present Value of Unfunded Liabilities	(28,815)	(29,614)
Fair Value of Employer Assets	667,765	636,564
(Deficit) in the Scheme	(56,442)	(149,777)

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits.

Notes to the Financial Statements

30.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2018 comprised:

	2017-18 £'000	2016-17 £'000
Cash and Cash Equivalents	67,506	23,976
Equity Instruments (by industry type)		
Consumer	42,884	60,206
Manufacturing	34,752	47,786
Energy and Utilities	8,927	18,918
Financial Institutions	28,787	44,299
Health and Care	17,080	25,891
Information Technology	22,012	36,616
Other	-	-
Sub-total Equity Instruments	154,442	233,716
Bonds (by sector)		
Corporate	20,952	6
Government	-	-
Sub-total Bonds	20,952	6
Real Estate		
UK Property	60,460	76,781
Overseas Property	-	-
Sub-total Real Estate	60,460	76,781
Private Equity (All)	79,795	52,484
Investment Funds and Unit Trusts		
Equities	206,093	204,664
Bonds	77,312	35,740
Commodities	335	428
Infrastructure	-	-
Other	856	8,631
Sub-total Investment Funds and Unit Trusts	284,596	249,463
Derivatives		
Forward Foreign Exchange Contracts	-	85
Other	14	53
Sub-total Derivatives	14	138
Total Assets	667,765	636,564

Notes to the Financial Statements

Fair Value of Pension Fund Assets	2017-18 £'000	2016-17 £'000
Equity Securities		
Quoted in an Active Market	154,038	233,595
Not Quoted in an Active Market	404	121
Sub-total Equity Securities	154,442	233,716

30.6 Basis for Estimating Assets and Liabilities

The Council's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Mortality assumptions	2017-18 Years	2016-17 Years
Longevity at 65 for current pensioners:		
Men	21.4	22.1
Women	23.7	23.6
Longevity at 65 for future pensioners:		
Men	23.4	24.8
Women	25.8	26.2
Financial Assumptions	2017-18 %	2016-17 %
Rate of Inflation (CPI)	2.4%	2.4%
Rate of Increase in Salaries	3.6%	4.4%
Rate of Increase in Pensions (CPI)	2.4%	2.4%
Rate for discounting scheme liabilities	2.7%	2.6%
Long-term Expected Rate of Return on Assets in the Fund	2017-18 %	2016-17 %
Equity Investments	2.7%	2.6%
Bonds	2.7%	2.6%
Property	2.7%	2.6%
Cash	2.7%	2.6%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

30.7 Asset and Liability Matching (ALM) Strategy

The main fund (Fund 1) of Strathclyde Pension fund does not have an asset and liability matching strategy (ALM) as this is used mainly by mature funds. The Fund does match, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested into too narrow a range.

Notes to the Financial Statements

30.8 Impact on the Council's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's contributions have been set at 19.3% for 2018-2019.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £12.094m. This is based on an assumed pensionable payroll of £62.663m.

The assumed weighted average duration of the defined benefit obligation for the Council falls into the "Medium" duration category which is between 17 and 23 years (this is different from the mortality assumptions quoted in the table above in "Basis for Estimating Assets and Liabilities").

30.9 Teachers Pensions – Administered By Scottish Public Pensions Agency

Teachers employed by the Authority are members of the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency. The Scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The Scheme is financed by payments from employers and from those current employees who are members of the Scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified by the regulations.

The rate of employer contributions is set with reference to a funding valuation undertaken by the Scheme Actuary. The last four yearly valuation was undertaken as at 31 March 2016 and this has set contribution rates from 1 April 2019.

The Council has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the Scheme or withdrawal from the Scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Authority is unable to identify its share of the underlying assets and liabilities of the scheme.

The employer contribution rate from 1 September 2015 was 17.2% of pensionable pay. While the employee rate applied is variable it provides an actuarial yield of 9.6% of pensionable pay.

At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employers' pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employers' contribution rate.

As a proportion of the total contributions into the Teachers' Pension Scheme during the year ended 31 March 2018, the council's own contributions equate to 1.49%

	2017-18	2016-17
Amount Paid Over (£'000)	5,841	5,729
Rate of Contribution (%)	17.20%	17.20%
Amount of Added Years Awarded by the Council (£'000)	528	528

The contributions due to be paid to the Teacher's Scheme by the Council in the next financial year are estimated to be £5.917m.

Notes to the Financial Statements

31. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2017-18				
	Adjustments for Capital Purposes Note (i) £'000	Net change for Pension Adjustments Note (ii) £'000	Capital element of Schools NPDO payment Note (iii) £'000	Other Adjustments Note (iv) £'000	Total Adjustments £'000
Chief Executive and Strategic Finance	2	314	-	-	316
Community Services:					
Executive Director of Community Services	-	43	-	-	43
Community and Culture	1,709	288	-	(46)	1,951
Education	13,160	1,904	-	(108)	14,956
Customer Services					
Executive Director of Customer Services	1,935	90	(2,007)	-	18
Customer and Support Services	907	934	-	(3)	1,838
Facility Services	1,086	946	-	-	2,032
Governance and Law	-	253	-	-	253
Improvement and HR	-	344	-	-	344
Development and Infrastructure Services					
Executive Director of Development & Infrastructure Services	-	145	-	-	145
Economic Development	426	340	-	-	766
Planning, Regulatory and Housing Services	39	792	-	(17)	814
Roads and Amenity Services	9,036	1,790	-	(18)	10,808
Health and Social Care Integration	770	3,230	-	(45)	3,955
Other Non-Departmental Costs	-	463	-	(40)	423
Net Cost of Services	29,070	11,876	(2,007)	(277)	38,662
Other Income and Expenditure	(28,306)	2,900	-	(993)	(26,399)
Difference between General Fund Surplus and Comprehensive Income and Expenditure Statement Deficit	764	14,776	(2,007)	(1,270)	12,263

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts (Comparative Year)	Adjustments between Funding and Accounting Basis 2016-17				
	Adjustments for Capital Purposes Note (i) £'000	Net change for Pension Adjustments Note (ii) £'000	Capital element of Schools NPDO payment Note (iii) £'000	Other Adjustments Note (iv) £'000	Total Adjustments £'000
Chief Executive and Strategic Finance	-	100	-	-	100
Community Services:					
Executive Director of Community Services	-	15	-	-	15
Community and Culture	1,750	270	-	1	2,021
Education	8,286	607	-	(203)	8,690
Customer Services					
Executive Director of Customer Services	1,731	22	(1,935)	-	(182)
Customer and Support Services	2,088	322	-	(2)	2,408
Facility Services	1,966	325	-	-	2,291
Governance and Law	-	94	-	-	94
Improvement and HR	-	124	-	-	124
Development and Infrastructure Services					
Executive Director of Development & Infrastructure Services		54	-	-	54
Economic Development	457	109	-	-	566
Planning and Regulatory Services	2	218	-	4	224
Roads and Amenity Services	9,249	616	-	(7)	9,858
Health and Social Care Integration	2,091	1,093	-	-	3,184
Other Non-Departmental Costs	-	528	-	(10)	518
Net Cost of Services	27,620	4,497	(1,935)	(217)	29,965
Other Income and Expenditure from the Expenditure and Funding Analysis	(26,087)	2,432	-	(600)	(24,255)
Difference between General Fund Surplus and Comprehensive Income and Expenditure Statement Deficit	1,533	6,929	(1,935)	(817)	5,710

(i) Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- Financing and investment income and expenditure – the statutory charges for capital financing (loans fund advances) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

(ii) Net change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

(iii) Capital element of schools NPDO payment

- This is the capital cost of the annual payment to the schools NPDO operator and represents repayment of the Balance Sheet liability rather than a charge to Comprehensive Income and Expenditure Statement.

(iv) Other differences

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- For services and adjustment is made for the accrual of holiday pay and other similar entitlements, this is required under generally accepted accounting principles but the impact on the General Fund is mitigated by statute which allows the impact to be reversed out through the Movement in Reserves Statement.

Notes to the Financial Statements

32. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 56 to 57.

32.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

32.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

32.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

32.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority had set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

Notes to the Financial Statements

32.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

33. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages 56 to 57.

33.1 Capital Funds

The Authority holds two funds which make up the Capital Funds total in the Statement of Movement in Reserves, these are:

Usable Capital Receipts Reserve

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006, the receipts from the sale of council houses were transferred to the Usable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure.

Capital Fund

During the 2007-08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008.

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2017-18	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2017	2,782	1,282	4,064
Proceeds of Disposals	14	5,663	5,677
Transfer to Capital Adjustment Account	-	(5,425)	(5,425)
Contribution to Capital Fund From Revenue	-	-	-
Interest Earned	6	4	10
Balance at 31 March 2018	2,802	1,524	4,326

33.2 Repairs and Renewals Fund

The movement in the Education Repairs and Renewals Fund is as follows:

Movements in 2017-18	Balance at 31 March 2017 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2018 £'000
Education	896	792	2	(175)	1,515
Total	896	792	2	(175)	1,515

Notes to the Financial Statements

34. CONTINGENT LIABILITIES

The Council settled a number of equal pay claims during 2016-17, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council.

In a recent legal case, the European Court of Justice ruled that if a worker's remuneration includes contractual commission; their holiday pay must also take account of that commission. All pay elements such as overtime, standby/emergency call outs and commission should be included in the calculation of holiday pay. At this stage the extent of the Council's potential liability is unknown.

The Limitation (Childhood Abuse) (Scotland) Act 2017 Section 1 removes the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of any potential liability is unknown.

There are other legal challenges which are on-going and may result in future liabilities.

35. TERMINATION BENEFITS

A number of savings options as a result of service reviews and other savings have been agreed at Council budget meetings to balance the Council budget. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees have had their redundancy application accepted.

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employees who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2017-18 was £1.057m for 29 employees and in 2016-17 was £1.033 for 59 employees. These costs are detailed further in the Remuneration Report on page 49.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2018 have been accounted for in 2017-18, or in previous financial years.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

36. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 57 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

Funds for which the Council act as sole trustee:

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	14	6	496	496
GM Duncan Trust	-	3	78	78
MacDougall Trust	26	-	760	760
Various Other Trust Funds	3	21	489	489
Total Trust Funds	43	30	1,823	1,823

Notes to the Financial Statements

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. MacDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Trust Funds, administered by the Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

A number of the trust funds administered by the Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered the Council comply and will continue to comply with these requirements.

37. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcraggan. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2018. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

37.1 Common Good Income and Expenditure Account for the year ended 31 March 2018

2016-17 Actual £'000		2017-18 Actual £'000
207	Expenditure	191
(84)	Income	(128)
123	(Surplus)/Deficit for the Year	63

37.2 Common Good Balance Sheet at 31 March 2018

2016-17 Actual £'000		2017-18 Actual £'000
3,882	Tangible Fixed Assets	3,751
2,307	Investments	2,345
194	Current Assets	217
(12)	Current Liabilities	(5)
6,371	Total Assets less Liabilities	6,308
3,888	Revaluation Reserve	3,755
2,483	Common Good Fund	2,553
6,371	Total Net Worth	6,308

Notes to the Financial Statements

38. Tax Incremental Financing (TIF) Projects

The Council entered into an agreement with the Scottish Government in May 2014 in respect of the Lorn Arc Tax Incremental Finance (TIF) scheme. This agreement essentially allows for the repayment of debt arising from infrastructure investment from incremental Non-Domestic Rates (NDR) revenue. The assets to be funded by the TIF project largely comprise public realm and infrastructure improvements within the Lorn Arc area of Oban. The project is for 25 years, with the first material capital investment incurred during the financial year ended 31 March 2015.

During the TIF project period, the Council is entitled to retain the TIF revenue from its NDR revenue, a pro-rate amount of NDR equal to the amount (if any) by which the collected amount exceeds the collectable amount. The Council is required to apply 100% of the TIF revenue towards repayment of the TIF debt. Following repayment in full, and until the end of the project period, the Council is entitled to retain 50% of the TIF revenue for further infrastructure investment.

Net capital expenditure incurred in the year to 31 March 2018, to be funded from borrowing, in respect of TIF assets totalled £0.822m. This is reflected in the "Summary of Capital Expenditure and Financing" outlined within note 14.4 on page 89. The total TIF debt to be repaid over the project period, in respect of investment to 31 March 2018, has been calculated in accordance with finance circular No. 4/2014 at £1.163m.

There is a retention of £0.223m of TIF income during 2017-18 to repay the notional borrowing for TIF. Principal sums accumulated by 2017-18 amount to £0.062m and cumulative interest £0.061m resulting in a net cumulative surplus of £0.068m which will be used to pay down TIF debt per the TIF agreement.

Notes to the Financial Statements

39. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The Net Cash Flows for Operating Activities can be reconciled to the Net (Surplus)/Deficit on the Provision of Services as follows:

	2017-18 £'000	2016-17 £'000
Net (Surplus)/Deficit on Provision of Services	15,410	4,638
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	(12,892)	(5,981)
Transfer to/from Other Statutory Reserves	629	271
Increase/(Decrease) in Inventories	10	(26)
Increase/(Decrease) in Debtors	1,916	(2,670)
(Increase)/Decrease in Creditors and Provisions	(3,943)	2,146
Other Revenue Adjustments	(15,355)	(12,891)
	(29,635)	(19,151)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	7,028	5,712
Capital Element of Finance Lease Payments	(2,042)	(1,935)
	4,986	3,777
Net Cash Flows from Operating Activities	(9,239)	(10,736)
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	7,656	8,973
Interest Paid on Finance Leases	7,509	7,697
Interest Received on Bank Deposits	(595)	(571)
Net Cash Outflow from Servicing of Finance	14,570	16,099

40. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2017-18 £'000	2016-17 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	29,347	20,294
Investments made/(disposed of) during year	2,502	17,481
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(3,027)	(1,613)
Other Receipts from Investing Activities	(17,384)	(17,247)
Net Cash Outflow from Investing Activities	11,438	18,915

Notes to the Financial Statements

41. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2017-18 £'000	2016-17 £'000
Cash Receipts of Short and Long Term Borrowing	(40,145)	(28,502)
Other Receipts from Financing Activities	1,176	2,349
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	2,042	1,935
Repayments of Short and Long Term Borrowing	32,160	16,090
Other Payments from Financing Activities	-	-
Net Cash (Inflow)/Outflow from Financing Activities	(4,767)	(8,128)

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2016-17 Actual £'000		2017-18 Actual £'000
56,662	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	62,131
	Less:	
(12,003)	Other Discounts and Reductions	(13,044)
(1,055)	Provision for Bad and Doubtful Debts	(1,171)
43,604	Total	47,916
447	Adjustment to Previous Years' Community Charge and Council Tax	164
44,051	Transfers to General Fund	48,080

Notes to the Council Tax Income Account

1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2017-18 was as follows:

Band	Valuation Band	Ratio Band D	£ per year
A	Up to £27,000	6/9	808.89
B	£27,001 - £35,000	7/9	943.71
C	£35,001 - £45,000	8/9	1,078.52
D	£45,001 - £58,000	9/9	1,213.34
E	£58,001 - £80,000	473/360	1,594.19
F	£80,001 - £106,000	585/360	1,971.68
G	£106,001 - £212,000	705/360	2,376.12
H	Over £212,000	882/360	2,972.68

2. CALCULATION OF THE COUNCIL TAX BASE 2017-18

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,642	10,007	9,448	6,056	7,421	4,140	2,819	247	47,780
Less - Exemptions / Deductions	1,088	819	1,072	516	612	246	169	47	4,569
- Adjustment for Single Chargepayers	862	1,041	745	433	435	208	111	6	3,841
Effective Number of Properties	5,692	8,147	7,631	5,107	6,374	3,686	2,539	194	39,370
Band D Equivalent Factor (ratio)	67%	78%	89%	100%	131%	163%	196%	245%	
Band D Equivalent Number of Properties	3,795	6,336	6,783	5,107	8,374	5,989	4,972	475	41,831
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									508
Nominal Tax Yield									42,339
Less Provision for Non-Collection - 1.26%									533
Council Tax Base 2017-18 - Number of Band D equivalents									41,806

Non Domestic Rate Income Account

The Non-Domestic Rate Income Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2016-17 Actual £'000		2017-18 Actual £'000
43,853	Gross rates levied and Contributions in Lieu	52,838
	Less:	
(10,283)	Reliefs and other deductions	(14,248)
-	Payment of Interest	-
(336)	Provision for Bad and Doubtful Debts	(386)
33,234	Total Net Non-Domestic Rate Income	38,204
(2,365)	Adjustments for prior years	(2,026)
-	Business Rate Incentivisation Scheme (BRIS) NDR Income Retained	(39)
(82)	Tax Incremental Finance (TIF) Scheme NDR Income Retained	(223)
30,787	Contribution to National Non-Domestic Rate Pool	35,916
(341)	Difference between Distributable and Contributable NDR Income amounts	(6,301)
30,446	Distribution from Non-Domestic Rate Pool credited to Comprehensive Income and Expenditure Statement	29,615

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2017-18 £	2016-17 £
Industrial and freight transport subjects	8,723,960	8,735,000
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	75,167,172	70,346,799
Commercial subjects:		
Shops	14,247,025	14,315,325
Offices	5,924,725	5,995,360
Hotels, Boarding Houses etc.	8,479,050	8,521,950
Others	1,996,230	1,982,280
Total Rateable Value	114,538,162	109,896,714

2. NON-DOMESTIC RATE CHARGE

	2017-18 Pence	2016-17 Pence
Rate Per Pound	46.6p	48.4p
Supplementary Rate Per Pound for Properties over £51,000	2.6p	2.6p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

Group Accounts - Introduction

INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2017-18: Based on International Financial Reporting Standards, places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” of the financial performance and position of the Council’s Group.

THE GROUP ACCOUNTS

The Group Accounts comprise the following financial statements:

- **Group Statement of Comprehensive Income and Expenditure:** this statement shows the accounting cost in the year of providing the Council’s services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 56 to 57.
- **Group Balance Sheet:** The Balance Sheet is a snapshot of the value at the 31 March 2018 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).
- **Group Statement of Movement in Reserves:** this statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts. The Council’s reserves are analysed into those which are “Usable Reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council’s share of the reserves of Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation). The Council’s Statement of Movement in Reserves on pages 56 to 57 gives a more detailed analysis of the movement in the Council’s usable and unusable reserves during 2017-18.

Group Statement of Comprehensive Income and Expenditure

2016-17			Service	2017-18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
2,268	127	2,141	Chief Executive and Strategic Finance	2,897	172	2,725
103,996	9,492	94,504	Community Services	102,436	6,732	95,704
84,235	41,091	43,144	Customer Services	74,687	40,816	33,871
78,532	38,818	39,714	Development and Infrastructure Services	89,816	43,447	46,369
136,580	77,188	59,392	Health and Social Care Integration	137,580	76,046	61,534
1,761	1,087	674	Other Non-Departmental Costs	9,340	537	8,803
3,170	3,300	(130)	Associates and Joint Ventures Accounted for on an Equity Basis	5,637	6,849	(1,212)
410,542	171,103	239,439	Net Cost of Services	422,393	174,599	247,794
			Other Operating Income and Expenditure:			
		266	Net (Gain)/loss on Disposal of Fixed Assets			3,544
		1,339	Other Operating Income and Expenditure			1,430
		1,605	Total Other Operating Income and Expenditure			4,974
			Financing and Investment Income and Expenditure:			
		16,133	Interest Payable and Similar charges			15,893
		(4,008)	Interest and Investment Income			(970)
		3,367	Net Pension Interest Expense			4,503
		15,492	Total Financing and Investment Income and Expenditure			19,426
			Taxation and Non-Specific Grant Income:			
		(166,251)	General Government Grants			(162,798)
		(11,375)	Government Capital Grants and Other Capital Contributions			(17,243)
		(30,528)	Non-domestic Rates Redistribution and Retained Non-domestic Rates (TIF & BRIS)			(29,877)
		(44,051)	Council Tax Income			(48,080)
		(252,205)	Total Taxation and Non-Specific Grant Income			(257,998)
		4,331	(Surplus)/Deficit on Provision of Services			14,196
		(1,290)	(Surplus)/Deficit on revaluation of Fixed Assets			(52,880)
		48,407	Other Post Employment Benefits (Pensions)			(108,111)
		1,536	Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds			(2,825)
		48,653	Other Comprehensive Income and Expenditure			(163,816)
		52,984	Total Comprehensive Income and Expenditure			(149,620)

Group Balance Sheet



31 March 2017			31 March 2018	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment		
250,590		- Other Land and Buildings	321,827	
9,207		- Vehicles, Plant, Furniture and Equipment	8,716	
200,944		- Infrastructure Assets	202,628	
6,155		- Community Assets	6,075	
2,907		- Surplus Assets	1,156	
24,366		- Assets Under Construction	66,852	
	494,169	Total Property Plant & Equipment		607,254
	1,671	Heritage Assets		1,804
	728	Intangible Assets		633
	11,021	Investment Property		2,260
	4,926	Long-Term Debtors		5,936
	2,798	Long-Term Investments		2,838
	3,114	Investment in Associates and Joint Ventures		5,330
	518,427	Total Long Term Assets		626,055
		Current Assets		
529		Inventories	539	
16,075		Short Term Debtors (Net of Impairment)	20,815	
691		Assets Held for Sale	3,061	
52,500		Short Term Investments	55,002	
7,960		Cash and Cash Equivalents	11,076	
	77,755	Total Current Assets		90,493
		Current Liabilities		
(14,188)		Short-term Borrowing	(8,360)	
(29,782)		Short-term Creditors	(32,811)	
(567)		Capital Grant Receipts in Advance	(21)	
(1,818)		Provisions	(1,813)	
(2,008)		Other Short Term Liabilities	(4,420)	
	(48,363)	Total Current Liabilities		(47,425)
		Long-term Liabilities		
(157,937)		Borrowing Repayable within a Period in Excess of 12 Months	(172,429)	
(72,801)		Other Long-term liabilities	(124,961)	
(1,255)		Provisions	(1,300)	
(5,000)		Capital Grant Receipts in Advance	(5,000)	
(149,777)		Other Long-term liabilities (Pensions)	(56,848)	
(2,931)		Liabilities in Associates and Joint Ventures	(1,111)	
	(389,701)	Total Long-term Liabilities		(361,649)
	158,118	Total Assets less Liabilities		307,474

Group Balance Sheet



31 March 2017			31 March 2018	
£'000	£'000		£'000	£'000
56,033		Unusable Reserves		
195,007		- Revaluation Reserve	108,820	
(3,836)		- Capital Adjustment Account	196,126	
(149,777)		- Financial Instruments Adjustment Account	(3,506)	
(4,312)		- Pensions Reserve	(56,848)	
		- Accumulated Absences Account	(4,036)	
	93,115			240,556
		Usable Reserves		
4,064		- Capital Funds	4,326	
896		- Repairs and Renewals Funds	1,515	
53,489		- General Fund Balance	50,342	
	58,449			56,183
	183	Group Reserves		4,427
	6,371	Common Good Reserves		6,308
	158,118	Total Reserves		307,474

The Unaudited Annual Accounts were issued on 29 June 2018 and the Audited Annual Accounts were authorised for issue on 25 September 2018.

Kirsty Flanagan
Head of Strategic Finance
25 September 2018

Group Statement of Movement in Reserves



Movements in 2017-18	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Live Argyll Reserves Usable	Total Live Argyll Reserves Unusable	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council					
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves							
	£'000	£'000	£'000	£'000	£'000	£'000					
Balance at 31 March 2017	(53,489)	(896)	(4,064)	(58,449)	(93,115)	(151,564)	(183)	-	-	(6,371)	(158,118)
(Surplus)/Deficit on Provision of Services	15,410	-	-	15,410	-	15,410	(1,211)	(65)	-	63	14,197
Other Comprehensive Income and Expenditure	-	-	-	-	(160,991)	(160,991)	(2,825)	-	-	-	(163,816)
Total Comprehensive Income and Expenditure	15,410	-	-	15,410	(160,991)	(145,581)	(4,036)	(65)	0	63	(149,619)
Total Statutory Adjustments (See Page 56 to 57)	(12,892)	-	(5,677)	(18,569)	18,569	-	-	(143)	406	-	263
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	2,518	-	(5,677)	(3,159)	(142,422)	(145,581)	(4,036)	(208)	406	63	(149,356)
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	629	(619)	5,415	5,425	(5,425)	-	-	-	-	-	-
(Increase)/Decrease in Year	3,147	(619)	(262)	2,266	(147,847)	(145,581)	(4,036)	(208)	406	63	(149,356)
Balance at 31 March 2018 Carried Forward	(50,342)	(1,515)	(4,326)	(56,183)	(240,962)	(297,145)	(4,219)	(208)	406	(6,308)	(307,474)

Group Statement of Movement in Reserves

Comparative Movements in 2016-17	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2016	(52,417)	(671)	(4,027)	(57,115)	(146,204)	(203,319)	(1,589)	(6,194)	(211,102)
Surplus/(Deficit) on Provision of Services	4,638	-	-	4,638	-	4,638	(130)	(177)	4,331
Other Comprehensive Expenditure and Income	-	-	-	-	47,117	47,117	1,536	0	48,653
Total Comprehensive Expenditure and Income	4,638	0	0	4,638	47,117	51,755	1,406	(177)	52,984
Total Statutory Adjustments (See Page 58 to 59)	(5,981)	-	(1,613)	(7,594)	7,594	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(1,343)	-	(1,613)	(2,956)	54,711	51,755	1,406	(177)	52,984
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	271	(225)	1,576	1,622	(1,622)	-	-	-	-
(Increase)/Decrease in Year	(1,072)	(225)	(37)	(1,334)	53,089	51,755	1,406	(177)	52,984
Balance at 31 March 2017 Carried Forward	(53,489)	(896)	(4,064)	(58,449)	(93,115)	(151,564)	(183)	(6,371)	(158,118)

Notes to the Group Financial Statements

1. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 61 to 74

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention.

2. COMBINING ENTITIES

The Council has an interest in a number of Associate Entities. For the purposes of consolidation and incorporation within the Group Accounts recognition has been made of the Council's significant influence over Joint Boards and other entities.

The Associates which have been incorporated are:

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

Under accounting standards, the Council is required to include the results of the above organisations as "associates" because it has "significant influence" over their financial and operating policies. The Council has no shares in or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Two of the three Joint Boards (SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an "associate" although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

Live Argyll is a wholly owned subsidiary of Argyll and Bute Council and is consolidated within the group accounts on a line by line basis.

The accounting period for all entities is 31 March 2018.

3. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish Local Authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish Local Authorities. The Council contributed £0.072m towards Scotland Excel in the 2017-18 financial year.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well-being; promote safety; social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

Notes to the Group Financial Statements

4. ARGYLL AND BUTE INTEGRATION JOINT BOARD

The Argyll and Bute Integration Joint Board was established as a body corporate by order of Scottish Ministers on 27 June 2015. The partnership between the Council and NHS Highland has been established in accordance with the provisions of the Public Bodies (Joint Working)(Scotland) Act 2014 and associated Regulations. The Integration Joint Board has responsibility for all health and social care functions relating to adults and children and will oversee the Strategic Planning and budgeting of these, together with corresponding service delivery for the residents of Argyll and Bute. The Council contributed £57.579m towards the Argyll and Bute Integration Joint Board in the 2017-18 financial year.

The Council and NHS Highland are required to treat the IJB as a Joint Venture in their annual accounts and recognise a share of the overall surplus or deficit of the IJB for the year. All transactions are accounted for and shown within the single entity statements and therefore there is no material impact on the group accounts.

5. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. An acquisition basis has been used as the basis of consolidation. However, as no consideration was given for this interest there is no goodwill involved in these instances.

6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates, Subsidiaries and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £10.329m. This gives an overall net asset position for the Group of £307.474m.

All associates and subsidiaries have prepared their accounts on a 'going concern' basis. For Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

7. FURTHER DETAILS ON CONSOLIDATION

During 2017-18 Argyll and Bute Council paid £1.791m in the form of a Management Fee to Live Argyll, which represents 59.03% of the charity's turnover, and accounted for £0.198m of Balance Sheet Liabilities within the Group Balance Sheet.

Strathclyde Partnership for Transport

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.594m or 1.62% of the Board's estimated net running costs during 2017-18 and accounted for £5.265m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2017-18 the Council contributed £0.173m or 4.14% of the net annual running costs and accounted for £0.065m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Notes to the Group Financial Statements

Live Argyll

Live Argyll was established by Argyll and Bute Council and is limited by guarantee and was fully incorporated and commenced trading on 2 October 2017. The Trust is a charitable company registered in Scotland and provides a wide range of services within the Argyll and Bute area including libraries, leisure facilities, halls, sports development and community centres the assets of which are owned by the Council. During 2017-18 Argyll and Bute Council paid £1.791m in the form of a Management Fee to Live Argyll and accounted for £0.198m of Balance Sheet Liabilities within the Group Balance Sheet.

The board is made up of 3 independent board members, 3 Councillors and a Trade Union representative.

Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in October 1995 at Local Government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2017-18 Argyll and Bute Council contributed £1.281m towards estimated running costs and accounted for £1.111m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2017-18 £'m	2016-17 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.704	2.758
Net (Surplus)/Deficit	0.549	0.460
Long Term Assets	0.642	0.664
Current Assets	0.684	0.597
Liabilities due within one year	(0.121)	(0.100)
Liabilities due over one year		-
Pension Liability	(3.515)	(7.254)
Capital and Revenue Reserves	(2,310)	(6.093)

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 52 to 53) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 37 of the Notes to the Financial Statements on page 118 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.308m.

9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for the Council on page 60. The Common Good transactions would have an impact, however, the impact is not considered material. The net change in cash within Live Argyll amounted to £564,410 and this is the only item that appears on Live Argyll's cash flow statement. A decision has been taken that this one amendment to the Council's single entity Cash Flow statement on page 60 does not merit the preparation of a Group Cash Flow Statement.

Existing Use Value. The market value of a particular Council property, less the difference between the average rental income between public and private sector properties.

Expected Rate of Return on Pension Assets. The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the Scheme.

Fair Value. This is the price at which an asset could be exchanged in an arm's length transaction less any grants receivable towards the purchase or use of the asset.

Financial Asset. A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash from another entity or a financial right to exchange financial instruments under conditions that are potentially favourable to the Council.

Financial Instrument. Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another.

Financial Instruments Adjustment Account. This holds the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

Financial Liability. An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another financial asset to another entity or a contractual obligation to exchange financial instruments under conditions which are potentially unfavourable to the Council.

Financial Reporting Standard (FRS). Financial Reporting Standards are issued by the Accounting Standard Board and define proper accounting practice for a given transaction or event.

Fixed Assets. Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

Gains/losses on settlements and curtailments. The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is charged or credited to Non Distributed costs in the Comprehensive Income and Expenditure Statement.

General Fund Balance. This contains the net surplus on the provision of Council services combined with any balances from previous years and any contributions to other funds or reserves made during the year.

Group Accounts. The purpose of group accounts is to show the Council's interest in organisations and companies within the Financial Statements. The Council's shares of the assets and liabilities of these other entities are shown in the Group Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Group Balance Sheet.

Government Grants. Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the Council.

Heritage Assets. Assets which are intended to be preserved in trust for future generations because of their cultural, environmental and historical associations and are held by the Council of the maintenance of heritage.

International Accounting Standards (IAS). International Accounting Standards are issued by the International Accounting Standards Board and define proper accounting practice for a given transaction or event. IAS's take precedence over other accounting standards in the hierarchy of technical accounting standards.

International Public Sector Accounting Standards (IPSAS), a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

Impairment. A reduction in the value of fixed or financial asset below the valuation held on the balance sheet.

Infrastructure Assets. Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets. Non-financial assets which do not have physical substance but are identifiable and are controlled by the Council.

Interest Cost (Pensions). The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Inventories. Inventories may comprise the following: goods or other assets purchased for re-sale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances; and finished goods.

Liquid Resources. Current asset investments that are readily disposable by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded on the active market.

Materiality. Information is included where the information is of such significance as to justify its inclusion, and omission or misstatement could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

National Non-Domestic Rates Pool. All non-domestic rates collected by Council's are remitted to the national pool and, thereafter, distributed to Councils by the Scottish Government.

Net Book Value. The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

Net Realisable Value. The open market value of the asset in its existing use, or open market value in the case of non-operational assets, less the expenses to be incurred in realising the asset.

Non-Current Assets. Non-current assets are not expected to be realised within 12 months and are held to provide future economic benefits to the Council.

Non-operational assets. Are assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Officers' Remuneration. All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are subject to UK Income Tax).

Operating Leases. A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

Operating Assets. All items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Past Service Costs (Pensions). The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pensions Reserve. The Pensions Reserve absorbs the timing differences arising from different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

Prior Period Adjustments. Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Public Private Partnerships (PPP). Those partnerships enable the Council to purchase services from the private sector and pay a fee based on pre-defined output criteria. The private sector uses this fee to repay loans taken out to finance the building or refurbishment of the assets.

Residual Value. The net realisable value of an asset at the end of its useful life.

Related Party Transactions. A related party transaction is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether a charge is made.

Renewal and Repairs fund. This contains funds credited at the Council's discretion from the General Fund and is available for use on capital or revenue expenditure on Council assets.

Revaluation Reserve. Records unrealised gains arising since 1 April 2007 from holding fixed assets not yet realised through sales.

Service Expenditure Analysis (SEA). An analysis which groups together expenditure on services within headings or divisions as defined in the Service Reporting Code of Practice (SeRCOP).

Specific Government Grants. These are grants received from Central Government in respect of a specific purpose or service.

Unusable Reserves. Those reserves which hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences.

Usable Reserve. Those reserves which the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Useful Life. The period over which the Council will derive benefits from the use of a fixed asset.



AUDITED

Annual Report and Financial Statements

2017-2018

For the Year ended 31 March 2018

SC019607	Marquess of Bute Silver Wedding Dowry
SC013578	Baillie Gillies Bequest
SC013600	Kidston Park Trust
SC018697	Miss Annie Dickson Burgh Bequest
SC018698	Logie Baird Prize Fund
SC019599	McCaig Trust
SC020382	County of Argyll Education Trust Scheme, 1960
SC021328	Oban Common Good Fund

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



Marquess of Bute Silver Wedding Dowry

AUDITED

Annual Report and Financial Statements

2017-2018

For the Year ended 31 March 2018

**Marquess of Bute Silver Wedding Dowry
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Marquess of Bute Silver Wedding Dowry**Trustees' Annual Report – For the Year ended 31 March 2018**

The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	Marquess of Bute Silver Wedding Dowry
Charity Number:	SC019607
Principal Office:	Argyll and Bute Council Kilmory Lochgilphead Argyll PA31 8RT
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

Marquess of Bute Silver Wedding Dowry

Trustees' Annual Report – For the Year ended 31 March 2018



Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA,CPFA,ACIBS Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West Port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT**Governing Document**

£1,000 was given by John Patrick Crichton-Stuart, 3rd Marquess of Bute, on 12 April 1897 (the date of his silver wedding) to Rothesay Town Council. Noted in the Rothesay Town Council Minutes 12/04/1897 and 10/05/1897.

Marquess of Bute Silver Wedding Dowry**Trustees' Annual Report – For the Year ended 31 March 2018****Appointment of Trustees**

The trustees of the charities are the elected members (councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.

Organisational Structure

The trustees (as the elected members of the council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of Charities. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the Charity.

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the charity. In this way, the income stream for the future benefit of the charity is protected.

The funds of the charity are deposited with Argyll and Bute Council. There are two local bonds with a total of £2,400 (see note 8). For the balance of the funds the charity receives interest at the average market rate for the Council's borrowing. The interest received from Argyll and Bute Council is shown in the Statement of Receipts and Payments.

OBJECTIVES AND ACTIVITIES

The objective of the fund is to provide a donation to one or two girls from the poorer classes on their wedding.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018 no grants were issued.

FINANCIAL REVIEW**Overview**

No grants were issued during 2017-18. Income during 2017-18 came from interest from deposits with Argyll and Bute Council of £20 (2016-17: £15) and local bond interest of £29 (2016-17: £29). The Charity held cash and bank of £7,543 as at 31 March 2018 (2016-17: £7,494) and local bonds totalling £2,400 (2016-17: £2,400).

Marquess of Bute Silver Wedding Dowry**Trustees' Annual Report – For the Year ended 31 March 2018****Reserves Policy**

The unrestricted free reserves at the financial year-end were £6,543 (2016-17 £6,494). This includes cash and bank only repayable on demand. The Charity has no explicit reserves policy, but the “capital” of the fund (as identified from the governing documents or available evidence) is held effectively as a permanent endowment, with only the annual income available for disbursement in the year via the unrestricted reserve. The unrestricted reserves are available for the objects of the Charity.

FUTURE PLANS

Argyll and Bute Council are continuing to conduct a review of all its charitable trusts with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations.

CONCLUSION

The charity made no grants during 2017-18.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973.

The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

DECLARATION

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Marquess of Bute Silver Wedding Dowry Independents Auditors Report

Independent auditor's report to the trustees of Marquess of Bute Silver Wedding Dowry and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Marquess of Bute Silver Wedding Dowry for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2018 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will

Marquess of Bute Silver Wedding Dowry Independents Auditors Report

always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website

www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

**Marquess of Bute Silver Wedding Dowry
Independents Auditors Report**

Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

**Marquess of Bute Silver Wedding Dowry
Statement of Receipts and Payments – For the Year ended March 2018**
Receipts and Payments Account for the Year Ended 31 March 2018

	<i>Note</i>	Unrestricted Funds	Permanent Endowment Funds	Total Funds 2018	2017
		£	£	£	£
RECEIPTS					
Income from investments other than land and buildings	4	49	-	49	44
Total Receipts		49	-	49	44
PAYMENTS					
Charitable Activities - Grants and donations	5	-	-	-	-
Total Payments		-	-	-	-
Surplus / (Deficit) for Year		49	-	49	44

All income in 2017-18 and 2016-17 relate to unrestricted funds.

The notes on page 11 form an integral part of these accounts.

Marquess of Bute Silver Wedding Dowry
Statement of Balances as at 31 March 2018



Statement of Balances as at 31 March 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Unrestricted Funds £	Permanent Endowment Funds £	2017 £
Cash and Bank Balances	6						
Opening Balances		6,494	1,000	7,494	6,450	1,000	7,450
Surplus for year		49	-	49	44	-	44
Closing Balances		6,543	1,000	7,543	6,494	1,000	7,494
Investments	8						
Market value		2,400	-	2,400	2,400	-	2,400
				-			
Cost		2,400	-	2,400	2,400	-	2,400

The notes on page 11 form an integral part of these accounts.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18



Marquess of Bute Silver Wedding Dowry

Notes to the Accounts

1. Basis of Accounting

These accounts have been prepared on the Receipts and Payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Fund Accounting

(a) Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

(b) Permanent endowment funds are those that the original capital cannot be spent as income and must remain in the form of investments. Any income return generated by the invested endowment may be spent on the activities of the trust.

3. Taxation

The Charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

4. Trustee Remuneration, Expenses and Related Party Transactions

(a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).

(b) The Charity received interest of £20 (2016-17 - £15) from Argyll and Bute Council and also local bond interest of £29 (2016-17 - £29). All transactions incoming and outgoing are made via the Council's accounts.

(c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 - Nil).

5. Grants

In the year to 31 March 2018, no grants were made.

6. Cash and Bank Balances

During the year the Charity's balances were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. No costs were incurred by the Charity for this administration. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. The balances are repayable on demand. Interest is payable on balances.

7. Changes to the Accounts

The comparative figures in the Statement of Balances have been restated to distinguish endowment funds separately.

8. Investments

The charity holds two three-year fixed term deposit local bonds from Argyll and Bute Council, one for £2,000 with a rate of 1.16% repayable on 31 March 2019, and the other for £400 with a rate of 1.43% repayable on 30 September 2018 in a continuation of historic practice.

9. Audit Fees.

The independent auditor's fee is not charged to the Charity.

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



Baillie Gillies Bequest

AUDITED

Annual Report and Financial Statements

2017-2018

For the Year ended 31 March 2018

Scottish Charity Number SC013578

**Baillie Gillies Bequest
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Baillie Gillies Bequest**Trustees' Annual Report – For the Year ended 31 March 2018**

The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	Baillie Gillies Bequest
Charity Number:	SC013578
Principal Office:	Argyll and Bute Council Kilmory Lochgilphead Argyll PA31 8RT
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

Baillie Gillies Bequest**Trustees' Annual Report – For the Year ended 31 March 2018**

Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA, CPFA, ACIBS Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West Port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT**Governing Documents**

The charity was 'inherited' from Bute County Council. William Gillies, Cooper and Fish curer in Rothesay, and at some time a Baillie and Chief Magistrate of that Burgh, bequeathed £200 for the benefit of the poor of Rothesay. He was elected to the Town Council in 1812 and retired in 1835.

Mrs Margaret Stevenson, or Lochhead, died circa 1947. Bequest of £50 to Rothesay Town Council, the income of which is to provide coals for the deserving poor of the Burgh.



Baillie Gillies Bequest

Trustees' Annual Report – For the Year ended 31 March 2018

Archibald Brown, Clerk in the Bute Savings Bank Rothesay, died 1903. Will confirmed and recorded in 1903, detailing bequest of £100. The interest to be divided annually at Candlemas among the deserving old and infirm poor of Rothesay.

James Duncan, Merchant in Valparaiso, Chile, thereafter residing in Rothesay died in 1874. He bequeathed £2,000 to Rothesay Town Council. Noted in the Minute Book of the Charity, 1875-1894 in the District Archives. The income was to be distributed half yearly to 10 older women of good character and honest repute, over 60 years of age and not in parochial relief, whose parents as well as themselves have been born in Rothesay or the Island of Bute.

Misses Gibson, Ardmory, Rothesay. Janet Gibson died in 1893 her will was confirmed and recorded in 1894 with a bequest of £200 to the Minister of the Parish of Rothesay and to Rothesay Town Council. The interest was to be paid out at Candlemas to the most deserving of the poor and each recipient was to get 25 pence.

Mrs Ann Taylor, or Jackson, residing at Easterhouse, Baillieston, died 1892 and her will was confirmed and recorded 1892. She made a bequest of £100, the annual income of which was to be expended from time to time providing coals for the poor persons of the name Taylor residing in Rothesay and who were born in Skipness (Kintyre) or Rothesay. Minute Book of the Bequest 1892-94 in District Archives.

Annie McMillan - Minutes of Rothesay Town Council 28/11/1947, a bequest of £100 to Rothesay Town Council to provide coals for the deserving poor of Rothesay.

Jane Paterson of Whinny Brae, Rothesay, died 1902. Will confirmed and recorded in 1903 with a bequest of £300 made to Rothesay Town Council. The income from the bequest was to be divided at Candlemas among the old and infirm poor of Rothesay.

Appointment of Trustees

The trustees of the charities are the elected members (councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.

Organisational Structure

The trustees (as the elected members of the council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of trust funds. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the Charity.

Baillie Gillies Bequest

Trustees' Annual Report – For the Year ended 31 March 2018

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that the systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the charity. In this way, the income stream for the future benefit of the charity is protected.

The funds of the charity are deposited with Argyll and Bute Council and receive interest at the average market rate for the Council's borrowing. The interest received from Argyll and Bute Council is shown in the Statement of Receipts and Payments.

OBJECTIVES AND ACTIVITIES

The objectives of the various funds that make up the Baillie Gillies fund are as follows:

- Bailie Gillies Bequest - Prevention and relief of poverty in Rothesay.
- Margaret Lochhead Bequest - Prevention and relief of poverty in Rothesay through grants to individuals for purchase of coals.
- Archibald Brown Bequest - The interest is to be divided annually at Candlemas among the deserving old and infirm poor of Rothesay.
- James Duncan Bequest - Prevention and relief of poverty in Rothesay through distribution to ten old women whose parents as well as themselves were born in Rothesay
- Janet Gibson Bequest - Prevention and relief of poverty in Rothesay.
- Ann Jackson Bequest - Prevention and relief of poverty in Rothesay, by providing coals for poor persons of the name Taylor residing in Rothesay who were born in Skipness (Kintyre) or Rothesay.
- Annie McMillan Bequest - Prevention and relief of poverty in Rothesay through grants to individuals for coal.
- Jane Paterson Bequest - The objective of the fund is for the prevention and relief of poverty in Rothesay.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018, there were no grants made.

FINANCIAL REVIEW

Overview

The Charity is dormant. The only source of income during 2017-18 came from interest from deposits with Argyll and Bute Council of £20 (2016-17 - £21) and Local Bond Interest £1 (2016-17 - £1). The trust held cash at bank of £9,874 as at 31 March 2018 (2016-17 - £9,853).

Reserves Policy

The unrestricted free reserves in cash at bank at the financial year-end were £6,824 (2016-17 - £6,803). The Charity has no explicit reserves policy, but the "capital" of the fund (as identified from the governing document or available evidence) is held effectively as a permanent endowment, with only

Baillie Gillies Bequest**Trustees' Annual Report – For the Year ended 31 March 2018**

the annual income available for disbursement in the year via the unrestricted reserve. The unrestricted reserves are available for the objects of the trust.

FUTURE PLANS

Argyll and Bute Council are continuing to conduct a review of all its Charities with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations.

CONCLUSION

The charity did not undertake any activities during the year.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973.

The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

DECLARATION

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA, CPFA, ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Baillie Gillies Bequest

Independent Auditor's Report



Independent auditor's report to the trustees of Baillie Gillies Bequest and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Baillie Gillies Bequest for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2018 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or

Baillie Gillies Bequest Independent Auditor's Report



error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website

www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

**Baillie Gillies Bequest
Independent Auditor's Report**



Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Baillie Gillies Bequest

Statement of Receipts and Payments – For the Year ended March 2018



Receipts and Payments Account for the Year Ended 31 March 2018

	<i>Note</i>	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	2017 £
RECEIPTS					
Income from investments other than land and buildings	4	21	-	21	22
Total Receipts		21	-	21	22
PAYMENTS					
Charitable Activities - Grants and donations	5	-	-	-	-
Total Payments		-	-	-	-
Surplus / (Deficit) for Year		21	-	21	22

All income in 2017-18 and 2016-17 relates to unrestricted funds.

The notes on page 12 form an integral part of these accounts.

Baillie Gillies Bequest

Statement of Balances as at 31 March 2018



Statement of Balances as at 31 March 2018

	<i>Note</i>	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Unrestricted Funds £	Permanent Endowment Funds £	2017 £
Cash and Bank Balances	6						
Opening Balances		6,803	3,050	9,853	6,781	3,050	9,831
Surplus for year		21	-	21	22	-	22
Closing Balances		6,824	3,050	9,874	6,803	3,050	9,853
Investments	8						
Market value		50	-	50	50	-	50
Cost		50	-	50	50	-	50

The notes on page 12 form an integral part of these accounts.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA, CPFA, ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18



Baillie Gillies Bequest

Notes to the Accounts

1. Basis of Accounting

These accounts have been prepared on the Receipts and Payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Fund Accounting

(a) Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

(b) Permanent endowment funds are those that the original capital cannot be spent as income and must remain in the form of investments. Any income return generated by the invested endowment may be spent on the activities of the Charity.

3. Taxation

The charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

4. Trustee Remuneration, Expenses and Related Party Transactions

(a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).

(b) The Charity received interest from deposits with Argyll and Bute Council of £20 (2016-17 - £21) and Local Bond Interest of £1 (2016-17 £1). All transactions incoming and outgoing are made via the Council's accounts.

(c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 - Nil).

5. Grants

In the year to 31 March 2018, there were no grants made.

6. Cash and Bank Balances

During the year the Charity's balances were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. The balances are repayable on demand. Interest is payable on balances.

7. Changes to the Accounts

The comparative figures in the Statement of Balances have been restated to distinguish endowment funds separately.

8. Investments

The charity holds a three-year fixed term deposit £50 local bond from Argyll and Bute Council, repayable on 30 September 2018. The rate of interest is 1.43%. This is a continuation of historic practice.

9. Audit Fees.

The independent auditor's fee is not charged to the Charity.

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



Kidston Park Trust

AUDITED

Annual Report and Financial Statements

2017-2018

For the Year ended 31 March 2018

Scottish Charity Number SC013600

Kidston Park Trust
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Kidston Park Trust**Trustees' Annual Report – For the Year ended 31 March 2018**

The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	Kidston Park Trust
Charity Number:	SC013600
Principal Office:	Argyll and Bute Council Kilmory Lochgilphead Argyll PA31 8RT
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA, CPFA, ACIBS Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West Port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT

Governing Document

A bequest of £1,000 was made by William Kidston towards the upkeep of Kidston Park (formerly Cairndow or Cairndhu Park) in April 1889. It was noted in the minutes of a meeting of the Town Council of the Burgh of Helensburgh.

Appointment of Trustees

The trustees of the charities are the elected members (councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.



Organisational Structure

The trustees (as the elected members of the council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of Charity funds. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the Charity.

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the charity. In this way, the income stream for the future benefit of the charity is protected.

The funds of the charity are deposited with Argyll and Bute Council. The charity receives interest at the average market rate for the Council's borrowing. The interest received from Argyll and Bute Council is shown in the Statement of Receipts and Payments.

OBJECTIVES AND ACTIVITIES

The objective of the fund is to provide a public park, or recreation ground for the inhabitants of Helensburgh and for the purposes of boating and bathing in the Gareloch.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018, there were no grants made.

FINANCIAL REVIEW

Overview

The Charity is dormant. Income during 2017-18 came from interest from deposits with Argyll and Bute Council of £8 (2016-17 - £9). The trust held cash and bank of £4,208 as at 31 March 2018 (2016-17 - £4,200).

Reserves Policy

The unrestricted free reserves at the financial year-end were £3,208 (2016-17: £3,200). This includes cash and bank only repayable on demand. The Charity has no explicit reserves policy, but the "capital" of the fund (as identified from the governing documents or available evidence) is held effectively as a permanent endowment, with only the annual income available for disbursement in the year via the unrestricted reserve. The unrestricted reserves are available for the objects of the Charity.

Kidston Park Trust**Trustees' Annual Report – For the Year ended 31 March 2018****FUTURE PLANS**

Argyll and Bute Council are continuing to conduct a review of all its charitable trusts with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations.

CONCLUSION

The charity did not undertake any activities during the year.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973.

The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

DECLARATION

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA, CPFA, ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Independent auditor's report to the trustees of Kidston Park Trust and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Kidston Park Trust for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2018 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or

error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website

www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Kidston Park Trust
Independent Auditor's report



Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.



Receipts and Payments Account for the Year Ended 31 March 2018

	<i>Note</i>	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	2017 £
RECEIPTS					
Income from investments other than land and buildings	4	8	-	8	9
Total Receipts		8	-	8	9
PAYMENTS					
Charitable Activities - Grants and donations	5	-	-	-	-
Total Payments		-	-	-	-
Surplus / (Deficit) for Year		8	-	8	9

All income in 2017-18 and 2016-17 relates to unrestricted funds.

The notes on page 11 form an integral part of these accounts.

Kidston Park Trust

Statement of Balances as at 31 March 2018



Statement of Balances as at 31 March 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Unrestricted Funds £	Permanent Endowment Funds £	2017 £
Cash and Bank Balances	6						
Opening Balances		3,200	1,000	4,200	3,191	1,000	4,191
Surplus for year		8	-	8	9	-	9
Closing Balances		3,208	1,000	4,208	3,200	1,000	4,200

The notes on page 11 form an integral part of these accounts.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA, CPFA, ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Kidston Park Trust
Notes to the Accounts**1. Basis of Accounting**

These accounts have been prepared on the Receipts and Payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Fund Accounting

(a) Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

(b) Permanent endowment funds are those that the original capital cannot be spent as income and must remain in the form of investments. Any income return generated by the invested endowment may be spent on the activities of the Charity.

3. Taxation

The charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

4. Trustee Remuneration, Expenses and Related Party Transactions

(a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).

(b) The trust received interest of £8 (2016-17 - £9) from deposits with Argyll and Bute Council. All transactions incoming and outgoing are made via the Council's accounts.

(c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 - Nil)

5. Grants

In the year to 31 March 2018, there were no grants made.

6. Cash and Bank Balances

During the year the Charity balances were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. No costs were incurred by the trust for this administration. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. The balances are repayable on demand. Interest is payable on balances.

7. Changes to the Accounts

The comparative figures in the Statement of Balances have been restated to distinguish endowment funds separately.

8. Investments

The charity hold no investments.

9. Audit Fees.

The independent auditor's fee is not charged to the Charity.

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



Miss Annie Dickson Burgh Bequest
AUDITED
Annual Report and Financial Statements
2017-2018
For the Year ended 31 March 2018

**Miss Annie Dickson Burgh Bequest
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Miss Annie Dickson Burgh Bequest

Trustees' Annual Report – For the Year ended 31 March 2018

The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	Miss Annie Dickson Burgh Bequest
Charity Number:	SC018697
Principal Office:	Argyll and Bute Council Kilmory Lochgilphead Argyll PA31 8RT
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

Miss Annie Dickson Burgh Bequest**Trustees' Annual Report – For the Year ended 31 March 2018**

Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA, CPFA, ACIBS Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West Port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT**Governing Documents**

A bequest by Miss Mary Ann Dickson dated 4th April, 1927 to the Town Council of the Burgh of Helensburgh. Noted in an Excerpt from Copy Will and Codicils.

Miss LA Colvil's bequest - A Legacy of £200 was passed by Mr J Percival Agnew to the Town Council to perpetuate his cousin's name in Helensburgh by means of a fund for necessitous cases. Noted in the minutes of a meeting of the Finance Committee of Helensburgh Town Council on 22nd December 1969.



Miss Annie Dickson Burgh Bequest

Trustees' Annual Report – For the Year ended 31 March 2018

Appointment of Trustees

The trustees of the charities are the elected members (councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.

Organisational Structure

The trustees (as the elected members of the council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of charity funds. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the charity.

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that the systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the charity. In this way, the income stream for the future benefit of the charity is protected.

The funds of the charity are deposited with Argyll and Bute Council. The funds of the charity receives interest at the average market rate for the Council's borrowing. The interest received from Argyll and Bute Council is shown in the Statement of Receipts and Payments.

OBJECTIVES AND ACTIVITIES

The objective of the fund is for the relief of distress in the Burgh of Helensburgh.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018, there were no grants made.

FINANCIAL REVIEW

Overview

The charity is dormant. Income during 2017-18 came from interest from deposits with Argyll and Bute Council of £8 (2016-17 - £9). The trust held cash and bank of £4,152 as at 31 March 2018 (2016-17 - £4,144).



Miss Annie Dickson Burgh Bequest

Trustees' Annual Report – For the Year ended 31 March 2018

Reserves Policy

The unrestricted free reserves at the financial year-end were £1,204 (2016-17 - £1,196). This includes cash and bank only repayable on demand. The charity has no explicit reserves policy, but the “capital” of the fund (as identified from the governing documents or available evidence) is held effectively as a permanent endowment, with only the annual income available for disbursement in the year via the unrestricted reserve. The unrestricted reserves are available for the objects of the trust.

FUTURE PLANS

Argyll and Bute Council are continuing to conduct a review of all its charities with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations.

CONCLUSION

The charity did not undertake any activities during the year.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973.

The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

DECLARATION

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA, CPFA, ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Independent auditor's report to the trustees of Miss Annie Dickson Burgh Bequest and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Miss Annie Dickson Burgh bequest for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2018 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will

always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website

www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

**Miss Annie Dickson Burgh Bequest
Independents Auditors Report**



Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Miss Annie Dickson Burgh Bequest

Statement of Receipts and Payments – For the Year ended March 2018



Receipts and Payments Account for the Year Ended 31 March 2018

	<i>Note</i>	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	2017 £
RECEIPTS					
Income from investments other than land and buildings	4	8	-	8	9
Total Receipts		8	-	8	9
PAYMENTS					
Charitable Activities - Grants and donations	5	-	-	-	-
Total Payments		-	-	-	-
Surplus / (Deficit) for Year		8	-	8	9

All income in 2016-17 and 2017-18 relates to unrestricted funds.

The notes on page 11 form an integral part of these accounts.

Miss Annie Dickson Burgh Bequest
Statement of Balances as at 31 March 2018



Statement of Balances as at 31 March 2018

	<i>Note</i>	Unrestricted Funds	Permanent Endowment Funds	Total Funds 2018	Unrestricted Funds	Permanent Endowment Funds	2017
		£	£	£	£	£	£
Cash and Bank Balances	6						
Opening Balances		1,196	2,948	4,144	1,187	2,948	4,135
Surplus for year		8	-	8	9	-	9
Closing Balances		1,204	2,948	4,152	1,196	2,948	4,144

The notes on page 11 form an integral part of these accounts.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA, CPFA, ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Miss Annie Dickson Burgh Bequest

Notes to the Accounts

1. Basis of Accounting

These accounts have been prepared on the Receipts and Payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Fund Accounting

(a) Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

(b) Permanent endowment funds are those that the original capital cannot be spent as income and must remain in the form of investments. Any income return generated by the invested endowment may be spent on the activities of the charity.

3. Taxation

The charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

4. Trustee Remuneration, Expenses and Related Party Transactions

(a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).

(b) The trust received interest of £8 (2016-17 - £9) from deposits with Argyll & Bute Council. All transactions incoming and outgoing are made via the Council's accounts.

(c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 Nil).

5. Grants

In the year to 31 March 2018, there were no grants made.

6. Cash and Bank Balances

During the year the charities balances were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. No costs were incurred by the trust for this administration. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. The balances are repayable on demand. Interest is payable on balances.

7. Changes to the Accounts

The comparative figures in the Statement of Balances have been restated to distinguish endowment funds separately.

8. Investments

The charity holds no investments.

9. Audit Fees.

The independent auditor's fee is not charged to the Charity.

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



Logie Baird Prize Fund

AUDITED

Annual Report and Financial Statements

2017-2018

For the Year ended 31 March 2018

**Logie Baird Prize Fund
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Logie Baird Prize Fund**Trustees' Annual Report – For the Year ended 31 March 2018**

The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	Logie Baird Prize Fund
Charity Number:	SC018698
Principal Office:	Argyll and Bute Council Kilmory Lochgilthead Argyll PA31 8TL
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

Logie Baird Prize Fund

Trustees' Annual Report – For the Year ended 31 March 2018



Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA,CPFA,ACIB Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West Port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT**Governing Document**

Ex-Bailie J. Arnold Fleming of Locksley, Helensburgh, invested the sum of £200 in the names of the Provost, Magistrates and Councillors of the Burgh of Helensburgh, for the Logie Baird Prize Fund. Noted in the minutes of the Town Council of Helensburgh, January 1956.

Appointment of Trustees

The trustees of the charities are the elected members (Councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.



Logie Baird Prize Fund

Trustees' Annual Report – For the Year ended 31 March 2018

Organisational Structure

The trustees (as the elected members of the Council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of Charity funds. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the Charity.

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the charity. In this way, the income stream for the future benefit of the charity is protected.

The funds of the charity are deposited with Argyll and Bute Council and receive interest at the average market rate for the Council's borrowing. The interest received from Argyll and Bute Council is shown in the Statement of Receipts and Payments.

OBJECTIVES AND ACTIVITIES

The objective of the fund is for the advancement of education by providing an annual prize to a pupil at Hermitage Academy, Helensburgh.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018, there were no grants made.

FINANCIAL REVIEW

Overview

The Charity is dormant. The only source of income during 2017-18 came from interest from deposits with Argyll and Bute Council of £4 (2016-17 - £4). The Charity had cash and bank of £1,923 as at 31 March 2018 (2016-17 - £1,919).

Reserves Policy

The unrestricted free reserves in cash and bank at the financial year-end were £1,723 (2016-17 - £1,719). The Charity has no explicit reserves policy, but the "capital" of the fund (as identified from the governing document or available evidence) is held effectively as a permanent endowment, with only the annual income available for disbursement in the year via the unrestricted reserve. The unrestricted reserves are available for the objects of the Charity.

FUTURE PLANS

Logie Baird Prize Fund**Trustees' Annual Report – For the Year ended 31 March 2018**

Argyll and Bute Council are continuing to conduct a review of all its charitable trusts with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations.

CONCLUSION

The charity did not undertake any activities during the year.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973. The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

DECLARATION

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIB
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Logie Baird Prize Fund

Independent Auditor's Report



Independent auditor's report to the trustees of John Logie Baird Prize Fund and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of John Logie Baird Prize Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2018 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will

Logie Baird Prize Fund

Independent Auditor's Report



always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Logie Baird Prize Fund
Independent Auditor's Report



Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Logie Baird Prize Fund

Statement of Receipts and Payments – For the Year ended March 2018



Receipts and Payments Account for the Year Ended 31 March 2018

	<i>Note</i>	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	2017 £
RECEIPTS					
Income from investments other than land and buildings	4	4	-	4	4
Total Receipts		4	-	4	4
PAYMENTS					
Charitable Activities - Grants and donations	5	-	-	-	-
Total Payments		-	-	-	-
Surplus / (Deficit) for Year		4	-	4	4

All income in 2016-17 and 2017-18 relates to unrestricted funds.

The notes on page 12 form an integral part of these accounts.

Logie Baird Prize Fund

Statement of Balances as at 31 March 2018



Statement of Balances as at 31 March 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Unrestricted Funds £	Permanent Endowment Funds £	2017 £
Cash and Bank Balances	6						
Opening Balances		1,719	200	1,919	1,715	200	1,915
Surplus for year		4	-	4	4	-	4
Closing Balances		1,723	200	1,923	1,719	200	1,919

The notes on page 12 form an integral part of these accounts.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIB
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18



Logie Baird Prize Fund

Notes to the Accounts

1. Basis of Accounting

These accounts have been prepared on the Receipts and Payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Fund Accounting

(a) Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

(b) Permanent endowment funds are those that the original capital cannot be spent as income and must remain in the form of investments. Any income return generated by the invested endowment may be spent on the activities of the trust.

3. Taxation

The charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

4. Trustee Remuneration, Expenses and Related Party Transactions

(a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).

(b) The Charity received interest of £4 (2016-17 - £4) from Argyll & Bute Council. All transactions incoming and outgoing are made via the Council's accounts.

(c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 - Nil).

5. Grants

In the year to 31 March 2018, there were no grants made.

6. Cash and Bank Balances

During the year the Charity balances were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. No costs were incurred by the Charity for this administration. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. The balances are repayable on demand. Interest is payable on balances.

7. Audit Fees.

The independent auditor's fee is not charged to the Charity.

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



McCaig Trust

AUDITED

Annual Report and Financial Statements 2017-2018

For the Year ended 31 March 2018

McCaig Trust
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McCaig Trust**Trustees' Annual Report – For the Year ended 31 March 2018**

The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	McCaig Trust
Scottish Charity Number:	SC019599
Principal Office:	Argyll and Bute Council Kilmory Lochgilphead Argyll PA31 8RT
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA,CPFA,ACIBS Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT

Governing Document

Towards the cost of library and institute, Oban

Appointment of Trustees

The trustees of the charities are the elected members (councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.

Organisational Structure



The trustees (as the elected members of the council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of trust funds. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the Charity at no cost to the Trust.

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the Charity. In this way, the income stream for the future benefit of the charity is protected.

The Section 95 Officer of the Council (Head of Strategic Finance) is responsible for securing the proper management of the investments of the Charity. The day-to-day management of investments is performed by external investment managers under a discretionary agreement.

OBJECTIVES AND ACTIVITIES

The object of the fund is to contribute towards the cost of a library and institute in Oban.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018, there were no grants made.

FINANCIAL REVIEW

Investments and Reserves

The funds Increased by £283 (2016-17 increased by £273). The reserves of the trust at 31 March 2018 amount to £82,515, £47,377 in unrestricted (revenue) funds and £35,138 in endowment (capital) funds. These funds are invested as follows:

McCaig Trust

Trustees' Annual Report – For the Year ended 31 March 2018



	31 March 2018	31 March 2017
	£	£
Local Government Bonds	7,600	7,600
Investments in Endowment Funds	7,600	7,600
Cash and Bank - Argyll & Bute Council	74,915	74,632
	82,515	82,232
Current Assets in Restricted Funds	35,138	35,138
Current Assets in Unrestricted Funds	47,377	47,094
Total Funds	82,515	82,232

Over the year, the value of investments remained at £7,600 and £74,915 was invested in the Councils loans fund.

The change in cash balances from £74,632 to £74,915 is due to investment income receivable of £118 and interest from deposits held with Argyll and Bute Council of £165.



Reserves Policy

Unrestricted free reserves at 31 March 2018 were £47,377. The Trust has no explicit reserves policy, but the endowment funds of the Charity are held for capital growth and to provide an annual income. Income only from the investments may be distributed on an annual basis to ensure that the original funds grow over time. No specific targets have been set for either the endowment or unrestricted funds. Any unspent income is held in the unrestricted funds.

Income and Expenditure

The Statement of Financial Activities on page 11 provides an analysis of the income and expenditure for the twelve months to 31 March 2018.

Income for the year amounted to £283 (2016-17 - £273). £165 (2016-17 - £155) came from deposits with Argyll and Bute Council and £118 (2016-17 - £118) Local Bond interest.

FUTURE PLANS

Argyll and Bute Council are continuing to conduct a review of all its Charity with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations.

TRUSTEES' RESPONSIBILITIES STATEMENT

The trustees are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

The law applicable to charities in Scotland requires the charity trustees to prepare financial statements for each year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, of the charity for that period.

In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the applicable Charities SORP;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

CONCLUSION

The reserves of the Charity increased by £283 in the year.

The trust made no awards during the year.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973.

The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

McCaig Trust**Trustees' Annual Report – For the Year ended 31 March 2018****DECLARATION**

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

Independent auditor's report to the trustees of the McCaig Trust and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of the McCaig Trust for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Trustees' Responsibilities Statement, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I



identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Ursula Lodge CPFA

Audit Scotland

4th Floor, 102 West port

Edinburgh

EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

STATEMENT OF FINANCIAL ACTIVITIES FOR YEAR ENDING MARCH 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Total Funds 2017 £
INCOMING RESOURCES					
Incoming resources from generating funds:					
Investment income from managed funds	5	118	-	118	118
Interest from short-term deposits		165	-	165	155
Total Incoming Resources		283	-	283	273
RESOURCES EXPENDED					
Costs of generating funds:					
Investment management costs	6	-	-	-	-
Audit fee	7	-	-	-	-
Charitable Activities:					
Grants awarded	8	-	-	-	-
Governance costs		-	-	-	-
Total Resources Expended		-	-	-	-
Net Incoming/(Outgoing) Resources before Other Recognised Gains/(Losses)		283	-	283	273
OTHER RECOGNISED GAINS AND (LOSSES)					
Gains and (losses) on investment assets	9				
Realised gains/(losses)		-	-	-	-
Unrealised gains/(losses)		-	-	-	-
Total Gains and (Losses) on Investment Assets		-	-	-	-
Net Movement in Funds		283	-	283	273
Total funds brought forward	13	47,094	35,138	82,232	81,959
Total funds carried forward		47,377	35,138	82,515	82,232

All incoming resources and resources expended derive from continuing activities.

The notes on pages 13 to 16 form an integral part of these accounts.

McCaig Trust
Balance Sheet as at 31 March 2018



BALANCE SHEET AS AT 31 MARCH 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2017 £
Fixed Assets							
Investments	10	-	7,600	7,600	-	7,600	7,600
Total Fixed Assets		-	7,600	7,600	-	7,600	7,600
Current Assets							
Debtors	12			-			-
Cash at Bank and at Hand	11	47,377	27,538	74,915	47,094	27,538	74,632
Total Current Assets		47,377	27,538	74,915	47,094	27,538	74,632
Current Liabilities							
Creditors: amounts falling due within one year		-	-	-	-	-	-
Net Current Assets or Liabilities		47,377	27,538	74,915	47,094	27,538	74,632
Total Assets less Current Liabilities		47,377	35,138	82,515	47,094	35,138	82,232
Funds of the Charity							
Unrestricted Funds	13	47,377	-	47,377	47,094	-	47,094
Endowment Funds		-	35,138	35,138	-	35,138	35,138
Total Charity Funds		47,377	35,138	82,515	47,094	35,138	82,232

The notes on pages 13 to 16 form an integral part of these financial statements.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIBS
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

1. Basis of Preparation

The principal accounting policies are summarised below. The accounting policies have been applied consistently throughout the year and the preceding year.

1.1. Basis of Accounting

The financial statements are prepared under the historic cost convention and in accordance with:

- a) Accounting and Reporting by Charities – Statement of Recommended Practice (SORP 2005 - 2nd Edition); and the Financial Reporting Standard for Smaller Entities FRS102
- b) The Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Accounting Policies

2.1. Form of Financial Statements

- a) Unrestricted funds are those that may be used at the discretion of the trustees in the furtherance of the objects of the charity.
- b) The permanent endowment funds are invested in perpetuity and derive an annual investment income which is available for distribution.

2.2 Incoming Resources

- a) All incoming resources are recognised and included in the Statement of Financial Activities when the charity becomes entitled to the resources; the trustees are virtually certain they will receive the resources and the monetary value can be measured with sufficient reliability. The following specific policies are applied to particular categories of income.
- b) Income from investments is included in the year to which it relates.
- c) Investments gains and losses includes any gain or loss on the sale of investments and any gain or loss resulting from revaluing investments to market value at the end of the year.
- d) The value of the services provided free of charge by Argyll and Bute Council has not been included in the accounts but is described in the trustees' annual report.

2.3 Resources Expended

- a) All expenditure is included in the Statement of Financial Activities on an accrual basis and is recognised when there is a legal or constructive obligation to pay out resources.

2.4 Investments

The charity holds two three-year fixed term deposit local bonds from Argyll and Bute Council, one for £600 with a rate of 1.35% repayable on 31st March 2021, and the other for £7,000 with a rate of 1.58% repayable on 30th September 2018 in a continuation of historic practice.

3. Taxation

The charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

McCaig Trust

Notes to the Financial Statements



4. Trustee Remuneration, Expenses and Related Party Transactions

- (a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).
- (b) The trust received interest of £165 (2016-17 £155) from Argyll & Bute Council on unrestricted reserves placed on short-term deposit with them and also local bond interest of £118 (2016-17 - £118). All transactions incoming and outgoing are made via the Council's accounts.
- (c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 - Nil).

5. Investment Income

	Unrestricted Funds £	Permanent Endowment Fund £	Total Funds 2018 £	Total Funds 2017 £
Income from Local Government Bond	118	-	118	118
Interest on Short-term deposits with Argyll and Bute Council	165	-	165	155
Total Investment Income	283	-	283	273

6. Investment Management Costs

In the year to 31 March 2018 there were no investment management fees (2016-17 - Nil).

7. Audit Fees.

The independent auditor's fee is not charged to the charity.

8. Grants Awarded

During the year to 31 March 2018 no grants were awarded.

9. Gains and Losses on Investment Assets

There were no gains or losses on investment assets during 2017-2018.

McCaig Trust
Notes to the Financial Statements



10. Fixed Asset Investments

	£
Carrying (market) value at 1 April 2017	7,600
Add: additions to investments at cost	-
Add/(deduct): net gain/loss on revaluation	-
Add/(deduct): change in uninvested cash balance in Capital Account	-
Deduct sales proceeds	-
Carrying (market) value at 31 March 2018	7,600
Analysis of Investments	
Investments listed on recognised stock exchange	-
Local Government Bonds	7,600
Cash held as part of the investment portfolio	-
Total	7,600

The charity holds two three-year fixed term deposit local bonds from Argyll & Bute Council, one for £7,000 with a rate of 1.58% repayable on 30 September 2018, and the other for £600 with a rate of 1.35% repayable on 31 March 2021 in a continuation of historic practice.

An analysis of the net assets between funds for current and comparative figures is provided in the balance sheet.

11. Cash and Bank Balances

	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds £
Short-term deposits with Argyll and Bute Council:			
Carrying value at 1 April 2017	47,094	27,538	74,632
Add: lodgements during year	283	-	283
(Less): withdrawals during year	-	-	-
Gains/losses	-	-	-
Cash and Bank at 31 March 2018	47,377	27,538	74,915

During the year the above short term deposits were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. No costs were incurred by the trust for this work. The balances are repayable on demand. Interest is payable on balances.

12. Debtors: Amounts Falling Due within One Year

There are no debtor's amounts falling due within one year.

McCaig Trust

Notes to the Financial Statements



13. Movement in Funds

	At 1 April 2017 £	Incoming Resources £	Outgoing Resources	Gains/ Losses £	At 31 March 2018 £
Unrestricted Revenue Funds	47,094	283	0	0	47,377
Permanent Endowment Funds	35,138	-	0	0	35,138
Total Funds	82,232	283	-	-	82,515

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid



**County of Argyll Educational Trust
Scheme, 1960**

AUDITED

**Annual Report and Financial Statements
2017-2018**

For the Year ended 31 March 2018

County of Argyll Educational Trust Scheme, 1960
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County of Argyll Educational Trust Scheme, 1960
Trustees' Annual Report – For the Year ended 31 March 2018



The Trustees present their annual report together with the financial statements and the Independent Auditor's report for the year ended 31 March 2018.

REFERENCE AND ADMINISTRATION INFORMATION

Charity Name:	County of Argyll Educational Trust Scheme, 1960
Scottish Charity Number:	SC020382
Principal Office:	Argyll and Bute Council Kilmory Lochgilphead Argyll PA31 8RT
Current Trustees:	Councillor Len Scoullar Councillor Douglas Philand Councillor Ellen Morton Councillor Roddy McCuish Councillor Aileen Morton Councillor Anne Horn Councillor David Kinniburgh Councillor Donald Kelly Councillor Donald MacMillan Councillor Elaine Robertson Councillor Gary Mulvaney Councillor George Freeman Councillor John Armour Councillor Mary Jean Devon Councillor Richard Trail Councillor Robin Currie Councillor Rory Colville Councillor Kieron Green Councillor Alexander Taylor Councillor Julie McKenzie Councillor William G Blair Councillor Jim Anderson Councillor Jean Mary Moffat Councillor Jim Lynch Councillor Audrey E Forrest Councillor Jim Findlay Councillor Iain Shonny Paterson Councillor Lorna Douglas Councillor Alan Reid Councillor Graham Archibald Hardie Councillor Alastair Redman Councillor Jamie McGrigor

County of Argyll Educational Trust Scheme, 1960
Trustees' Annual Report – For the Year ended 31 March 2018



Current Trustees continued:	Councillor Andrew Vennard Councillor Yvonne McNeilly Councillor Bobby Good Councillor Barbara Morgan
Other Trustees who served during the year:	<u>Councillors who did not stand for re-election 04/05/17</u> Councillor Dick Walsh Councillor Isobel Strong Councillor Bruce Marshall Councillor Iain Stewart MacLean Councillor Maurice Corry Councillor Michael Breslin Councillor Vivien Dance Councillor Neil MacIntyre <u>Councillors who did not get re-elected 04/05/17</u> Councillor James Robb Councillor James McQueen Councillor John McAlpine Councillor Robert Graham MacIntyre Councillor Robert E MacIntyre Councillor Alex McNaughton Councillor Alistair MacDougall
Honorary Secretary:	Douglas Hendry Executive Director of Customer Services Argyll and Bute Council
Honorary Treasurer:	Kirsty Flanagan FCCA,CPFA,ACIB Head of Strategic Finance Argyll and Bute Council
Independent Auditor:	Ursula Lodge Audit Scotland 4 th Floor, 102 West port Edinburgh EH3 9DN

STRUCTURE, GOVERNANCE AND MANAGEMENT

Governing Document

The Trust is a scheme under the Education (Scotland) Acts, 1939 to 1956, for the future government and management of certain educational endowments in the County of Argyll. Formed by the amalgamation of fourteen individual endowments and approved by His Late Majesty King George V in Council on 24th July, 1933.

County of Argyll Educational Trust Scheme, 1960

Trustees' Annual Report – For the Year ended 31 March 2018



Robert MacFie of Airds and Oban, Sugar Refiner in Liverpool, died 1899. His will confirmed and recorded in 1899 a bequest of £150.

Appointment of Trustees

The trustees of the charities are the elected members (councillors) of Argyll and Bute Council. Trustees are appointed through their election to Argyll and Bute Council.

Organisational Structure

The trustees (as the elected members of the council) meet once a year at the AGM to consider and approve the annual report and financial statements and any other business such as future plans and the reorganisation of trust funds. The trustees delegate the day to day administration of the charities to officers of the Council. The Council has established a range of committees with delegated powers to allow it to discharge its business effectively. This includes the management of charities. The Council has an approved constitution that governs the conduct of business by the Council and covers standing orders for meetings, a scheme of administration and delegation, financial and security regulations, contract standing orders and an ethical framework.

Related Parties

Trustees hold this position because they are elected members of Argyll and Bute Council. Argyll and Bute Council provides administration services to the Trust at no cost to the trust.

Risk Management

The Head of Strategic Finance of Argyll and Bute Council has taken the steps required by trustees to consider the major risks to which the charity is exposed, in particular those related to its operation and finance, and to be satisfied that systems are in place to mitigate the exposure to the major risks.

Management of Funds and Investment Policy

The Trustees rely upon the expertise of Argyll and Bute Council to manage the investments to ensure the maximum return at least risk to the charity. The investment approach is a moderate risk tolerance with a balanced portfolio to achieve the primary objectives of capital growth and income for awards. In this way, the capital and income stream for the future benefit of the trust is protected.

The Section 95 Officer of the Council (Head of Strategic Finance) is responsible for securing the proper management of the investments of the trust. The day-to-day management of investments is performed by an external firm of stockbrokers under a discretionary agreement.

OBJECTIVES AND ACTIVITIES

The objective of the fund is for the advancement of education for children and young people within the former County of Argyll. This objective is met by the issuing of grants to individuals and organisations.

Robert MacFie - The objective of the fund is for the advancement of education by providing a gold Dux medal to Oban High School.

ACHIEVEMENTS AND PERFORMANCE

In the year to 31 March 2018, there were grants made as detailed in note 8 to the financial statements to schools and individuals across Argyll totalling £6,300 (2016-17 £3,395).

FINANCIAL REVIEW

County of Argyll Educational Trust Scheme, 1960
Trustees' Annual Report – For the Year ended 31 March 2018



Investments and Reserves

The funds increased by £13,568 (2016-17 increased by £56,200). The increase was due to a re-valuation gain realised on Investments held with CCLA Investment Management Ltd and interest less grants received on them. The reserves of the trust at 31 March 2018 amount to £495,547; £132,331 in unrestricted funds and £363,216 in permanent endowment funds. These funds are held as follows:

	31 March 2018	31 March 2017
	£	£
COIF Charities Investment Fund	363,216	356,848
Investments in Endowment Funds	363,216	356,848
Cash and Bank - Argyll & Bute Council	132,331	125,063
	495,547	481,911
Current Assets in Restricted Funds	356,848	356,848
Current Assets in Unrestricted Funds	138,699	125,063
Total Funds	495,547	481,911

Over the year, the value of investments increased by £6,368 from £356,848 to £363,216. The Charities original investment fund (COIF) valuation at 31 March 2018 was 25,542.41 units held with a unit value of 1,422.01 pence.

The increase in cash and bank from £125,063 to £132,331 is due to investment income received of £12,600, interest from deposits held with Argyll and Bute Council of £968, less grants awarded of £6,300.

Reserves Policy

Unrestricted free reserves at 31 March 2018 were £132,331. The Trust has no explicit reserves policy, but the “capital” of the trust is held effectively as a permanent endowment for capital growth and to provide an annual income. Income only from the investments may be distributed on an annual basis to ensure that the original funds grow over time. No specific targets have been set. Any unspent income net of all expenses is held in the unrestricted funds and is available for the objectives of the trust.

Income and Expenditure

The Statement of Financial Activities on page 10 provides an analysis of the income and expenditure for the twelve months to 31 March 2018.

Income for the year amounted to £13,568 (2016-17 - £12,594). Expenditure was incurred on grants awarded of £6,300 (2016-17 - £3,395). There was a realised gain of £6,368 in 2017-18 (2016-17 - £47,001) for changes in the market value of investments. The Charities original investment fund (COIF) valuation at 31 March 2018 was 25,542.41 units held with a unit value of 1,422.01 pence (31 March 2017 - 1,397.08p).

FUTURE PLANS

Argyll and Bute Council are continuing to conduct a review of all its charitable trusts with a view to gaining approval from OSCR to reorganise under Section 39-45 of the Charities and Trustees Investment (Scotland) Act 2005 and the 2007 Regulations. Some of the proposals for reorganisation being considered by trustees involve some smaller charitable trusts of the council being wound up and merged into the Educational Trust Scheme. Approval from OSCR has already been received and the Robert MacFie’s Trust has been amalgamated with this trust.

County of Argyll Educational Trust Scheme, 1960
Trustees' Annual Report – For the Year ended 31 March 2018



TRUSTEES' RESPONSIBILITIES STATEMENT

The trustees are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

The law applicable to charities in Scotland requires the charity trustees to prepare financial statements for each year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, of the charity for that period.

In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the applicable Charities SORP;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

CONCLUSION

The reserves of the trust increased by 13,636, which was due to investment revaluation and Interest received. The trust made 43 awards with total value of £6,300 the trust is well placed to continue to deliver its charitable objects for the foreseeable future.

Since 2013-14 an audit is required to be carried out by the appointed auditor of Argyll and Bute Council in accordance with the requirements of the Local Government (Scotland) Act 1973.

The appointed auditor of Argyll and Bute Council is Audit Scotland and the Trustees would like to thank them for undertaking this task.

DECLARATION

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIB
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18



Independent auditor's report to the trustees of County of Argyll Educational Trust and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Argyll Educational Trust for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to



adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Trustees' Responsibilities Statement, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

County of Argyll Educational Trust Scheme, 1960
Independent Auditor's Report



Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25th September 2018

Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

County of Argyll Educational Trust Scheme, 1960
Statement of Financial Activities – for the Year ended March 2018



STATEMENT OF FINANCIAL ACTIVITIES FOR YEAR ENDING MARCH 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Total Funds 2017 £
INCOMING RESOURCES					
Incoming resources from generating funds:					
Investment income from managed funds	5	12,600	-	12,600	12,352
Interest from short-term deposits		968	-	968	242
Total Incoming Resources		13,568	-	13,568	12,594
RESOURCES EXPENDED					
Costs of generating funds:					
Investment management costs	6	-	-	-	-
Audit fee	7	-	-	-	-
Charitable Activities:					
Grants awarded	8	6,300	-	6,300	3,395
Governance costs		-	-	-	-
Total Resources Expended		6,300	-	6,300	3,395
Net Incoming/(Outgoing) Resources before Other Recognised Gains/(Losses)		7,268	-	7,268	9,199
OTHER RECOGNISED GAINS AND (LOSSES)					
Gains and (losses) on investment assets	9				
Realised gains/(losses)		-	-	-	-
Unrealised gains/(losses)		-	6,368	6,368	47,001
Total Gains and (Losses) on Investment Assets		-	6,368	6,368	47,001
Net Movement in Funds		7,268	6,368	13,636	56,200
Total funds brought forward		125,063	356,848	481,911	425,711
Total funds carried forward		132,331	363,216	495,547	481,911

All incoming resources and resources expended derive from continuing activities.

The notes on pages 12 to 14 form an integral part of these accounts.

County of Argyll Educational Trust Scheme, 1960

Balance Sheet as at 31 March 2018



BALANCE SHEET AS AT 31 MARCH 2018

	Note	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2018 £	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds 2017 £
Fixed Assets							
Investments	10	-	363,216	363,216	-	356,848	356,848
Total Fixed Assets		-	363,216	363,216	-	356,848	356,848
Current Assets							
Debtors	12			-			-
Cash at Bank and at Hand	11	132,331	-	132,331	125,063	-	125,063
Total Current Assets		132,331	-	132,331	125,063	-	125,063
Current Liabilities							
Creditors: amounts falling due within one year		-	-	-	-	-	-
Net Current Assets or Liabilities		132,331	-	132,331	125,063	-	125,063
Total Assets less Current Liabilities		132,331	363,216	495,547	125,063	356,848	481,911
Funds of the Charity							
Unrestricted Funds	13	132,331	-	132,331	125,063	-	125,063
Endowment Funds		-	363,216	363,216	-	356,848	356,848
Total Charity Funds		132,331	363,216	495,547	125,063	356,848	481,911

The notes on pages 12 to 14 form an integral part of these financial statements.

Approved and authorised for issue by the trustees on 25th September 2018 and signed on their behalf by:

Signature(s):		
Full names(s):		Kirsty Flanagan FCCA,CPFA,ACIB
Position:	Trustee	Honorary Treasurer
Date:	25/09/18	25/09/18

County of Argyll Educational Trust Scheme, 1960

Notes to the Financial Statements



1. Basis of Preparation

The principal accounting policies are summarised below. The accounting policies have been applied consistently throughout the year and the preceding year.

1.1. Basis of Accounting

The financial statements are prepared under the historic cost convention and in accordance with:

- a) Accounting and Reporting by Charities – Statement of Recommended Practice (SORP 2005 - 2nd Edition); and the Financial Reporting Standard for Smaller Entities FRS102.
- b) The Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Accounting Policies

2.1 Form of Financial Statements

- a) Unrestricted funds are those that may be used at the discretion of the trustees in the furtherance of the objects of the charity.
- b) The permanent endowment funds are invested in perpetuity and derive an annual investment income which is available for distribution.

2.2 Incoming Resources

- a) All incoming resources are recognised and included in the Statement of Financial Activities when the charity becomes entitled to the resources; the trustees are virtually certain they will receive the resources and the monetary value can be measured with sufficient reliability. The following specific policies are applied to particular categories of income.
- b) Income from investments is included in the year to which it relates.
- c) Investments gains and losses includes any gain or loss on the sale of investments and any gain or loss resulting from revaluing investments to market value at the end of the year.
- d) The value of the services provided free of charge by Argyll and Bute Council has not been included in the accounts but is described in the trustees' annual report.

2.3 Resources Expended

- a) All expenditure is included in the Statement of Financial Activities on an accrual basis and is recognised when there is a legal or constructive obligation to pay out resources.

2.4 Investments

The Charities original investment fund (COIF) valuation at 31 March 2018 was 25,542.41 units held with a unit value of 1,422.01.

3. Taxation

The charity is not liable to income or capital gains tax on its charitable activities. Irrecoverable VAT is included in the expense to which it relates.

4. Trustee Remuneration, Expenses and Related Party Transactions

- (a) No remuneration or expenses were paid to charity trustees or persons connected to a trustee during the year (2016-17 - Nil).

County of Argyll Educational Trust Scheme, 1960

Notes to the Financial Statements



- (b) The trust received interest of £968 (2016-17 £242) from Argyll and Bute Council on unrestricted reserves placed on short-term deposit with them. All transactions incoming and outgoing are made via the Council's accounts.
- (c) There were no other transactions between the charity and any trustee or any connected person during the year (2016-17 - Nil).

5. Investment Income

	Unrestricted Funds £	Permanent Endowment Fund £	Total Funds 2018 £	Total Funds 2017 £
Investment Interest from CCLA	12,600	-	12,600	12,352
Interest on Short-term deposits with Argyll and Bute Council	968	-	968	242
Total Investment Income	13,568	-	13,568	12,594

6. Investment Management Costs

In the year to 31 March 2018 there were no investment management fees (2016-17 - £Nil).

7. Audit Fees

The independent auditor's fee is not charged to the Charity.

8. Grants Awarded

During the year to 31 March 2018, £6,300 of grants were awarded in accordance with the trust's objective of the advancement of education for children and young people within the former County of Argyll. Of this amount, £3,250 was awarded to 26 individuals and £3,050 to the following institutions:

Name of Institution	Purpose	Total Paid £
Dunoon Grammar School	4x Educational Trips	600
Campbeltown Grammer School	Educational Trip	250
Islay High School	Educational Trip	250
Tobermory High School	Educational Trip	350
Barcaldine Primary School	2x Educational Trip	250
Castlehill Primary School	2x Educational Trip	400
Kirn Primary School	Educational Trip	200
Carradale Primary School	Educational Trip	100
Drumlemble Primary School	Educational Trip	100
Dunbeg Primary School	Educational Trip	200
Southend Primary School	Educational Trip	100
Ardrishaig & Tarbert Guides	Educational Trip	250
Total		3,050

County of Argyll Educational Trust Scheme, 1960

Notes to the Financial Statements

**9. Gains and Losses on Investment Assets**

Over the year, the value of investments increased by £6,368 from £356,848 to £363,216 due to yearend valuation of Charities Original Investment Fund (COIF) unit trust investments.

10. Fixed Asset Investments

There were 25,542.41 units held in the Charities Original Investment Fund (COIF) at a unit price of 1,422.01 at 31 March 2018.

11. Cash and Bank Balances

	Unrestricted Funds £	Permanent Endowment Funds £	Total Funds £
Short-term deposits with Argyll and Bute Council:			
Carrying value at 1 April 2017	125,063	-	125,063
Add: lodgements during year	13,568	-	13,568
(Less): withdrawals during year	- 6,300	-	- 6,300
Gains/losses	-	-	-
Cash and Bank at 31 March 2018	132,331	-	132,331

During the year the above short term deposits were held by Argyll and Bute Council, which manages the administration of the funds on behalf of the Trustees. The Council also acts as the banker for the charity and, as detailed above, all transactions incoming and outgoing are made via the Council's accounts. No costs were incurred by the trust for this work. The balances are repayable on demand. Interest is payable on the balance.

12. Debtors: Amounts Falling Due within One Year

At 31 March 2018 there were no debtors falling due within one year (at 31 March 2017 - Nil).

13. Movement in Funds

	At 1 April 2017 £	Incoming Resources £	Outgoing Resources	Gains/ Losses £	At 31 March 2018 £
Unrestricted Revenue Funds	125,063	13,568	(6,300)	0	132,331
Permanent Endowment Funds	356,848	-	0	6,368	363,216
Total Funds	481,911	13,568	- 6,300	6,368	495,547

Oban Common Good Fund

**Accounts
for the year ended
31 March 2018**

Scottish Charity Number: SC021328



Oban Common Good Fund

Financial Statements

Year ended 31 March 2018

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Oban Common Good Fund

Trustees' Annual Report

Year ended 31 March 2018

The trustees present their report and the financial statements of the charity for the year ended 31 March 2018.

Reference and administrative details

Registered charity name Oban Common Good Fund

Charity registration number SC021328

Principal office Argyll & Bute Council
Kilmory
Lochgilphead
PA31 8RT

The trustees Councillor E Robertson (Retired 4 May 2017, reappointed 18 May 2017)
Councillor K Green (Retired 4 May 2017, reappointed 18 May 2017)
Councillor Sir J McGrigor (Appointed 18 May 2017)
Councillor J Lynch (Appointed 18 May 2017)
Councillor A MacDougall (Retired 4 May 2017)
Councillor N MacIntyre (Retired 4 May 2017)

Company secretary Ms Kirsty Flanagan FCCA CPFA ACIBS

Auditor Ursula Lodge
Chartered accountant & statutory auditor
Audit Scotland
4th Floor, 102 West Port
Edinburgh
EH3 9DN

Bankers Royal Bank of Scotland

Oban Common Good Fund

Trustees' Annual Report (continued)

Year ended 31 March 2018

Structure, governance and management

Legal and Administrative Status

The Oban Common Good Fund is regulated by the Local Government Scotland Act 1973. It is registered as a charity in Scotland, and is recognised as a charity for taxation purposes by H M Revenue & Customs

Recruitment and Appointment of Management Committee

The management committee consisted of three councillors who represent the two wards of Oban plus one further councillor.

The councillors are charity trustees for the purposes of charity law and are replaced by their successors during each local government election.

Trustee Induction and Training

Most councillors are already familiar with the work of the charity and attend an introductory meeting with those councillors who continue as trustees to introduce the most recent work of the charity and to introduce current objectives and plans.

Organisational structure

The trustees meet on a quarterly basis to review grant applications and monitor the fund's financial position. The trustees use an agreed distribution policy in order to determine the approval and level of grant assistance made available to the applicant. Approval for grants over £5,000 requires the agreement of all trustees.

The trustees delegate day to day responsibility for the running of the fund to the secretary and fund administrators. The fund administrators were appointed in 2015 following a competitive tender process and are currently Simmers & Co, Chartered Accountants.

Risk Management

The trustees have assessed the major risks to which the charity is exposed, and in particular those related to the finance of the fund, and are satisfied that systems are in place to mitigate exposure to the major risks.

Objectives and activities

The fund consists of a Revenue Account and a Capital Account, with the Capital Account being held in perpetuity with no distribution permitted therefrom without the prior consent of Argyll & Bute Council as parent body.

The Revenue Account represents income available for distribution and the Capital invested in perpetuity derives an annual investment income which is available for distribution annually once associated fund costs have been accounted for.

The objectives are to administer the fund having regard to the interests of the inhabitants of the town of Oban. A comprehensive distribution policy provides a framework for grant distributions.

Oban Common Good Fund

Trustees' Annual Report (continued)

Year ended 31 March 2018

Achievements and performance

The Fund agreed to the distribution of £27,387 in grants as detailed in Note 6 on page 15 of the financial statements. Projects support covered a wide spectrum of community activity in Oban arts, sports, economic development and cultural heritage. In the current climate of severe financial constraints, the Trustees recognise that there will continue to be substantial pressures placed on the Fund in terms of the number of applications, which must be balanced against the income to the Fund, which is subject to the vagaries of the stock market. In terms of this latter issue, the investment funds were managed by CCLA for Charities to maintain the ethical approach to investment whilst maintaining a positive return.

Financial review

The funds result for the year was a surplus on ordinary funds of £24,913 (2017 - £38,248) and a deficit on restricted funds of £112,624 (2017 - surplus £20,975), the latter due to much lower growth on the investment fund and required property depreciation.

Reserves policy

The Oban Common Good Fund invests the capital account in perpetuity in order to generate investment income to distribute annually, the balance of undistributed funds in any year is maintained in a revenue account. This can be used to increase the capital account where the return from the capital account investments shows signs of diminishing in real terms value due to the economic climate.

Stated including the revaluation reserve, the restricted (Investment and Capital) Funds amounted to £4,676,390 and the unrestricted (Income/ Revenue) funds amounted to £345,414 at 31 March 2018. Included within capital funds is property with a net book value of £3,472,560.

Trustees' responsibilities statement

The trustees are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England and Wales requires the charity trustees to prepare financial statements for each year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, of the charity for that period.

In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the applicable Charities SORP;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

Oban Common Good Fund

Trustees' Annual Report (continued)

Year ended 31 March 2018

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the applicable Charities (Accounts and Reports) Regulations, and the provisions of the Trust Deed. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees' annual report was approved on 25 September 2018 and signed on behalf of the board of trustees by:

Councillor E Robertson
Trustee

Ms Kirsty Flanagan FCCA CPFA ACIBS
Honorary Treasurer

Oban Common Good Fund

**Independent Auditor's Report to the Members of Oban Common Good Fund and the
Accounts Commission**

Year ended 31 March 2018

**Independent auditor's report to the trustees of Oban Common Good Fund and the
Accounts Commission**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Oban Common Good Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going

Oban Common Good Fund

**Independent Auditor's Report to the Members of Oban Common Good Fund and the
Accounts Commission**

Year ended 31 March 2018

concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Trustees' Responsibilities Statement, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Oban Common Good Fund

**Independent Auditor's Report to the Members of Oban Common Good Fund and the
Accounts Commission**

Year ended 31 March 2018

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Ursula Lodge CPFA
Audit Scotland
4th Floor, 102 West port
Edinburgh
EH3 9DN

25 September 2018

(Ursula Lodge is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973).

Oban Common Good Fund

Balance sheet

31 March 2018

		2018		2017
	Note	Unrestricted funds £	Restricted funds £	Total funds £
Income and endowments				
Investment income	4	51,665	–	51,665
Total income		<u>51,665</u>	<u>–</u>	<u>51,665</u>
Expenditure				
Expenditure on charitable activities	5,6	(31,348)	(133,560)	(164,908)
Total expenditure		<u>(31,348)</u>	<u>(133,560)</u>	<u>(164,908)</u>
Net gains on investments	7	4,596	20,936	25,532
Net (expenditure)/income and net movement in funds		<u>24,913</u>	<u>(112,624)</u>	<u>(87,711)</u>
Reconciliation of funds				
Total funds brought forward		320,501	4,789,014	5,109,515
Total funds carried forward		<u>345,414</u>	<u>4,676,390</u>	<u>5,021,804</u>

The statement of financial activities includes all gains and losses recognised in the year. All income and expenditure derive from continuing activities.

The notes on pages 11 to 19 form part of these financial statements.

Oban Common Good Fund

Statement of Financial Position

31 March 2018

		2018	2017
		£	£
Fixed assets			
Tangible fixed assets	12	3,472,560	3,606,120
Investments	13	1,476,375	1,450,842
		<u>4,948,935</u>	<u>5,056,962</u>
Current assets			
Debtors	14	13,508	12,382
Cash at bank and in hand		63,279	52,739
		<u>76,787</u>	<u>65,121</u>
Creditors: amounts falling due within one year	16	3,918	12,568
Net current assets		<u>72,869</u>	<u>52,553</u>
Total assets less current liabilities		<u>5,021,804</u>	<u>5,109,515</u>
Net assets		<u>5,021,804</u>	<u>5,109,515</u>
Funds of the charity			
Restricted funds		4,676,390	4,789,014
Unrestricted funds		345,414	320,501
Total charity funds	17	<u>5,021,804</u>	<u>5,109,515</u>

These financial statements were approved by the board of trustees and authorised for issue on 25 September 2018 and are signed on behalf of the board by:

Councillor E Robertson
Trustee

Ms Kirsty Flanagan FCCA CPFA ACIBS
Honorary Treasurer

The notes on pages 11 to 19 form part of these financial statements.

Oban Common Good Fund

Statement of Cash Flows

Year ended 31 March 2018

	Note	2018 £	2017 £
Cash flows from operating activities			
Net (expenditure)/income		(87,711)	59,223
<i>Adjustments for:</i>			
Depreciation of tangible fixed assets		133,560	133,560
Net gains on investments		(25,532)	(188,457)
Dividends, interest and rents from investments		(51,648)	(48,208)
Other interest receivable and similar income		(17)	(16)
Interest payable and similar charges		(228)	11
Accrued (income)/expenses		(1,207)	1,254
<i>Changes in:</i>			
Trade and other debtors		(1,126)	1,321
Cash generated from operations		<u>(33,909)</u>	<u>(41,312)</u>
Interest paid		228	(11)
Interest received		17	16
Net cash used in operating activities		<u><u>(33,664)</u></u>	<u><u>(41,307)</u></u>
Cash flows from investing activities			
Dividends, interest and rents from investments		51,648	48,208
Proceeds from sale of other investments		-	-
Net cash from investing activities		<u>51,648</u>	<u>48,208</u>
Net increase in cash and cash equivalents		17,984	6,901
Cash and cash equivalents at beginning of year		44,383	37,482
Cash and cash equivalents at end of year	15	<u><u>62,367</u></u>	<u><u>44,383</u></u>

The notes on pages 11 to 19 form part of these financial statements.

Oban Common Good Fund

Notes to the Financial Statements

Year ended 31 March 2018

1. General information

The charity is registered charity in Scotland and is unincorporated. The address of the principal office is Argyll & Bute Council, Kilmory, Lochgilphead, PA31 8RT.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland', the Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (Charities SORP (FRS 102)) and the Charities Act 2011.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through income or expenditure.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Going concern

There are no material uncertainties about the charity's ability to continue.

Fund accounting

Unrestricted funds are available for use at the discretion of the trustees to further any of the charity's purposes.

Restricted funds are subjected to restrictions on their expenditure declared by the donor or through the terms of an appeal.

Incoming resources

All incoming resources are included in the statement of financial activities when entitlement has passed to the charity; it is probable that the economic benefits associated with the transaction will flow to the charity and the amount can be reliably measured. The following specific policies are applied to particular categories of income:

- income from donations or grants is recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably.
- legacy income is recognised when receipt is probable and entitlement is established.

Oban Common Good Fund

Notes to the Financial Statements (*continued*)

Year ended 31 March 2018

3. Accounting policies (*continued*)**Resources expended**

Expenditure is recognised on an accruals basis as a liability is incurred. Expenditure includes any VAT which cannot be fully recovered, and is classified under headings of the statement of financial activities to which it relates:

- expenditure on raising funds includes the costs of all fundraising activities, events, non-charitable trading activities, and the sale of donated goods.
- expenditure on charitable activities includes all costs incurred by a charity in undertaking activities that further its charitable aims for the benefit of its beneficiaries, including those support costs and costs relating to the governance of the charity apportioned to charitable activities.
- other expenditure includes all expenditure that is neither related to raising funds for the charity nor part of its expenditure on charitable activities.

All costs are allocated to expenditure categories reflecting the use of the resource. Direct costs attributable to a single activity are allocated directly to that activity. Shared costs are apportioned between the activities they contribute to on a reasonable, justifiable and consistent basis.

Tangible assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other recognised gains and losses, unless it reverses a charge for impairment that has previously been recognised as expenditure within the statement of financial activities. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other recognised gains and losses, except to which it offsets any previous revaluation gain, in which case the loss is shown within other recognised gains and losses on the statement of financial activities.

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Freehold property - Straight line over 30 years

Investments

Unlisted equity investments are initially recorded at cost, and subsequently measured at fair value. If fair value cannot be reliably measured, assets are measured at cost less impairment.

Oban Common Good Fund

Notes to the Financial Statements (*continued*)

Year ended 31 March 2018

3. Accounting policies (*continued*)

Listed investments are measured at fair value with changes in fair value being recognised in income or expenditure.

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the charity are assigned to those units.

Financial instruments

A financial asset or a financial liability is recognised only when the charity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the amount receivable or payable including any related transaction costs.

Current assets and current liabilities are subsequently measured at the cash or other consideration expected to be paid or received and not discounted.

Where investments in shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in income and expenditure. All other such investments are subsequently measured at cost less impairment.

Oban Common Good Fund

Notes to the Financial Statements (*continued*)

Year ended 31 March 2018

3. Accounting policies (*continued*)Financial Instruments (*continued*)

Other financial instruments are subsequently measured at fair value, with any changes recognised in the statement of financial activities, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised under the appropriate heading in the statement of financial activities in which the initial gain was recognised.

Any reversals of impairment are recognised immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

4. Investment income

	Unrestricted Funds £	Total Funds 2018 £	Unrestricted Funds £	Total Funds 2017 £
Income from listed investments	51,648	51,648	48,208	48,208
Bank interest receivable	17	17	16	16
	<u>51,665</u>	<u>51,665</u>	<u>48,224</u>	<u>48,224</u>

5. Expenditure on charitable activities by fund type

	Unrestricted Funds £	Restricted Funds £	Total Funds 2018 £
Grants awarded	27,387	–	27,387
Support costs	3,961	133,560	137,521
	<u>31,348</u>	<u>133,560</u>	<u>164,908</u>

Oban Common Good Fund

Notes to the Financial Statements (continued)

Year ended 31 March 2018

	Unrestricted Funds £	Restricted Funds £	Total Funds 2017 £
Grants awarded	39,305	–	39,305
Support costs	4,593	133,560	138,153
	<u>43,898</u>	<u>133,560</u>	<u>177,458</u>

6. Expenditure on charitable activities by activity type

	Grant funding of activities £	Support costs £	Total funds 2018 £	Total fund 2017 £
Grants awarded	27,387	–	27,387	39,305
Support costs	3,961	133,560	137,521	138,153
	<u>31,348</u>	<u>133,560</u>	<u>164,908</u>	<u>177,458</u>

Grants awarded

Oban Girl Guides – equipment grant	1,000
Oban Communities Trust – project start grant	5,000
Oban Winter Festival – event grant	1,700
Police Scotland Youth Volunteers – equipment grant	540
Highlands & Islands Music Dance Festival – event grant	1,500
Decade events / Oban Live – event grant	4,025
Soroba Community Enterprise – project start grant	2,308
Camanadch Association – event grant	6,000
Oban Otters – equipment grant	2,814
Oban Cruise Group – Training grant	2,500

27,387

Support costs (unrestricted)

Accountancy fees	4,189
Bank Charges	(228)
	<u>3,961</u>

Oban Common Good Fund

Notes to the Financial Statements (continued)

Year ended 31 March 2018

7. Net gains on investments

	Unrestricted Funds £	Restricted Funds £	Total Funds 2018 £
Gains/(losses) on other investment assets	4,596	20,936	25,532

	Unrestricted Funds £	Restricted Funds £	Total Funds 2017 £
Gains/(losses) on other investment assets	33,922	154,535	188,457

8. Net (expenditure)/income

Net (expenditure)/income is stated after charging/ (crediting):

	2018 £	2017 £
Depreciation of tangible fixed assets	133,560	133,560

9. Staff costs

The total staff costs and employee benefits for the reporting period was nil (2017 – nil)

The average head count of employees during the year was Nil (2017: Nil).

No employee received employee benefits of more than £60,000 during the year (2017: Nil).

10. Trustee remuneration and expenses

No remuneration or other benefits from employment with the charity or a related entity were received by the trustees.

11. Transfers between funds

There were no fund transfers in the year.

Oban Common Good Fund

Notes to the Financial Statements (*continued*)

Year ended 31 March 2018

12. Tangible fixed assets

	Land and buildings £
Cost	
At 1 April 2017 and 31 March 2018	4,006,800
Depreciation	
At 1 April 2017	400,680
Charge for the year	133,560
At 31 March 2018	534,240
Carrying amount	
At 31 March 2018	3,472,560
At 31 March 2017	3,606,120

Oban Common Good Fund have leased the Oban Swimming Pool to Oban and Lorn Community Enterprise Ltd (OLCE) for a peppercorn rent. The Oban Common Good Fund has classified this as an operating lease recognising the totality of the arrangement with OLCE:-

- OLCE have since 1994, fundraised and built a multi-purpose sports facility to compliment the original swimming pool.
- Argyll and Bute Council provide an annual operating subsidy, (£445k – 2016/17), towards the running costs of the facility.
- At expiry of the lease in 2037, the facility will revert back to the Oban Common Good.

The Oban Swimming Pool was transferred to the Oban Common Good Fund in 1995 but only recognised in the 2013 accounts with an effective transfer date of 1 April 2012. At that date, the building was transferred at a historic cost of £1,088,392 and accumulated depreciation of £424,323. The building was subsequently revalued by Argyll and Bute Council on 31 March 2014 on a Depreciation Replacement Costs basis.

Oban Common Good Fund

Notes to the Financial Statements (continued)

Year ended 31 March 2018

13. Investments

	Other investments £
Cost or valuation	
At 1 April 2017	1,450,842
Additions	-
Other movements	25,533
At 31 March 2018	1,476,375
Impairment	
At 1 April 2017 and 31 March 2018	-
Carrying amount	
At 31 March 2018	1,476,375
At 31 March 2017	1,450,842

All investments shown above are held at valuation.

14. Debtors

	2018 £	2017 £
Other debtors	13,508	12,382

15. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2018 £	2017 £
Cash at bank and in hand	63,279	52,739
Bank overdrafts	(912)	(8,356)
	62,367	44,383

16. Creditors: amounts falling due within one year

	2018 £	2017 £
Bank loans and overdrafts	913	8,356
Accruals and deferred income	3,005	4,212
	3,918	12,568

Oban Common Good Fund

Notes to the Financial Statements (continued)

Year ended 31 March 2018

17. Analysis of charitable funds

Unrestricted funds

	At 1 April 2017	Income	Expenditure	Gains and losses	At 31 March 2018
	£	£	£	£	£
General funds	320,501	51,665	(31,348)	4,596	345,414

Restricted funds

	At 1 April 2017	Income	Expenditure	Gains and losses	At 31 March 2018
	£	£	£	£	£
Investment funds	1,182,894	-	-	20,936	1,203,830
Oban Swimming Pool	3,606,120	-	(133,560)	-	3,472,560
	4,789,014	-	(133,560)	20,936	4,676,390

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ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****STRATEGIC FINANCE****25 SEPTEMBER 2018**

ACCOUNTS COMMISSION ANNUAL REPORT / STRATEGY AND ENGAGEMENT

1. INTRODUCTION

- 1.1 The Accounts Commission (the Commission) have published their 2017/18 Annual Report which includes progress against their 2016/17 annual action plan. In addition they have published their 2018-2023 Strategy and annual action plan and their 2018/19 Engagement strategy and plan. This report provides them for member's consideration.

2. RECOMMENDATIONS

- 2.1 Members are requested to review and endorse this report and the attached appendices.

3. DETAIL

- 3.1 The Commission is the public spending watchdog for local government in Scotland. They provide assurance that public money is well spent through the audit work carried out on their behalf by Audit Scotland.
- 3.2 Over the course of any financial year the Commission publish a series of reports. Some are national reports focusing on a specific topic (i.e. equal pay or self-directed support) and some are specific to a particular council. Note though that specific council reports can still provide useful learning points for other councils. For example Argyll and Bute Council are reviewing all Best Value (BV) reports issued by the Commission to identify common themes and help us prepare for a future BV review.
- 3.3 The 2017/18 Accounts Commission Annual Report provides a summary of the work they have performed in 2017/18 including reference to reports they have issued. Internal Audit have an established process whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. This is reported within the Internal Audit Summary of Activities report which is a standing agenda item for the Audit and Scrutiny Committee. A number of the reports referenced in the Commission's annual report have already been reported to the Audit and Scrutiny Committee (for example the 'Local government financial overview' and Local government in Scotland: Challenges and performance 2018' report)
- 3.4 Page 6 of the annual report makes reference to the Commission's report on self-directed support (SDS). Internal Audit have an audit of SDS scheduled for quarter 4 of 2018/19 and part of this audit will review the Council's response to the Commission's report. Page 11 references a statutory report issued on a significant fraud at Dundee Council and Internal Audit are currently performing work to ascertain whether Argyll and Bute Council have the appropriate controls and procedures in place to ensure we are not vulnerable to the type of control weakness which enabled this fraud to take place.

- 3.5 Page 15 and onwards of the annual report provides an update on the Commission's 2016/17 action plan and page 18 highlights ongoing audits with projected timescales for their completion/reporting.
- 3.6 The Commission's 2018-2023 Strategy and annual action plan provides the Commission's strategic audit priorities over the five year rolling programme of work and sets out their proposed work in 2018/19 (pages 7 and 8). It confirms that Argyll and Bute Council is not part of the 2018/19 programme of best Value reviews.
- 3.7 The Commission's 2018/19 Engagement strategy and plan identifies the Commission's stakeholders and how they intend to engage with them during 2018/19. Pages 8 to 12 set out the engagement plan including the timetable for each engagement.

4. CONCLUSION

- 4.1 The Council supports the work of the Commission and the role it plays in supporting the delivery of public services and its commitment to the continuing evolution of Best Value assessments. We will continue to engage with the Commission as appropriate and take cognisance of their reports and findings where they are applicable to the Council.

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 Service - None

**Laurence Slavin,
Chief Internal Auditor
25 September 2018**

For further information contact:

Laurence Slavin, Chief Internal Auditor (01436 657694)

APPENDICES

- Appendix 1 – Accounts Commission 2017/18 Annual report
- Appendix 2 – Accounts Commission 2018-2023 Strategy and annual action plan
- Appendix 3 - Accounts Commission 2018/19 Engagement strategy and plan

Annual report

2017/18


Who we are

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, 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.

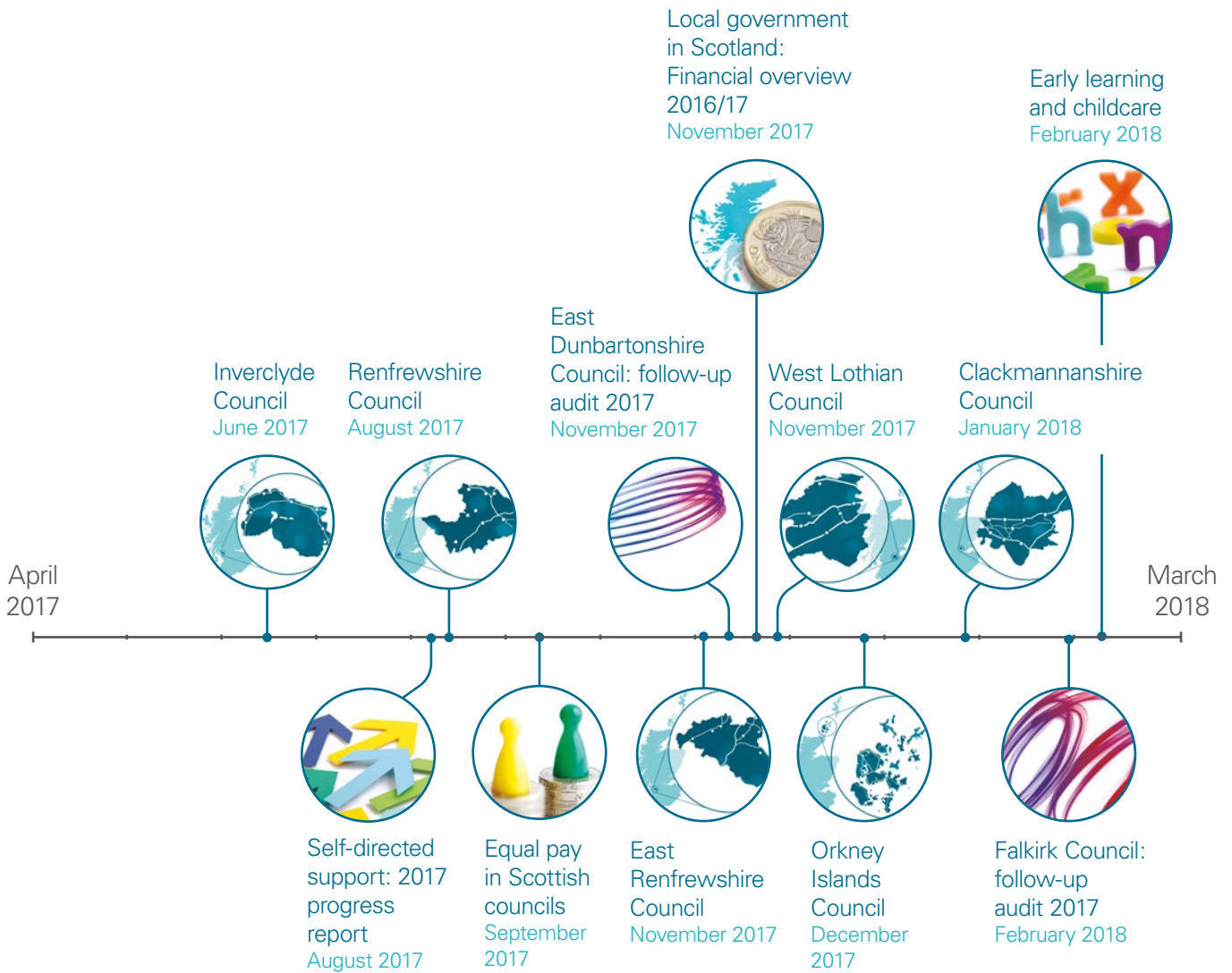
You can find out more about our role, powers and meetings on the Accounts Commission [web pages](#) .

The current members of the Commission are listed on [page 14](#).

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Our year



Chair's foreword

Local government has rarely been out of the spotlight over the last year. Councils have a challenging job as they cope with rising demand for services while resources continue to be under pressure.

As the public's independent watchdog, the Commission provides assurance that public money is well spent, and at the same time through its findings and reports encourages improvement.

It has been a busy year for us as we published 14 local and national reports, all based upon the audit evidence from 32 councils, 30 health and social care integration authorities and 32 other local government bodies in Scotland.

We have increased the focus in Best Value in our annual audits. The feedback we have had from those councils who have taken part in what is a more challenging and performance related process so far has been largely positive.

I was privileged to be appointed Commission chair in November 2017. I am very grateful to my fellow Commission members for their support throughout the year, particularly to Ronnie Hinds, who took on the role of acting chair following the untimely death of Douglas Sinclair.

I also offer my thanks to Christine May, whose term of office ended in March, for her lively, insightful and very valuable contributions to our work over eight years' service.

This is an exciting and challenging time for the Commission as the public sector embraces new ways of working, with an increased emphasis on prevention and improving outcomes to benefit local communities. Community empowerment will be an important theme in changing how councils work with their citizens and communities, and we have increasingly reflected in our work on what this means for councils.

I want the Commission to be at the centre of the change agenda over the coming year, working with other scrutiny bodies and partners to provide robust assurance for the public.




Graham Sharp
Chair of the
Accounts Commission


Increasing scrutiny's profile

A key priority for us is to help the public scrutinise their own councils. Much more is being done to make scrutiny of public services easier both for local residents and the councils that serve them.

We continue to use new formats to help with this. For example, this year we produced a video summary of early learning and childcare services, and used graphical representations to highlight key points from our reports. It is important that we play our role in community empowerment by making our work – assessing council performance – as accessible as possible.

We also provide checklists for councillors and interactive tools which people can use to understand the data that underlie our reports and quickly identify the precise information they need. Our [Local government financial overview](#) , for example, has [checklists for councillors](#), a breakdown of pension schemes, and the means for people to compare with other councils at the click of a mouse.

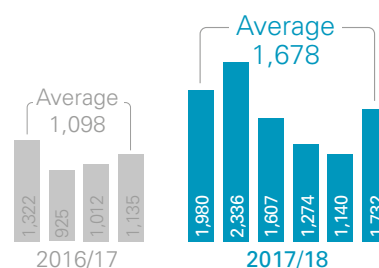
The Commission has a statutory responsibility to define the performance information that councils publish. We encourage councils to be open to innovative forms of reporting their performance to their communities.

Over the last ten years we have worked with councils to enhance the information that they use to improve and report performance, much of which is now presented in the [Local Government Benchmarking Framework](#) .

The Commission is encouraged at the progress of the framework in helping councils improve and report their performance to the public in clear and accessible ways.

This year, we have increased our local promotion of our individual council reports. We have directly targeted local community groups with information on these reports. We are pleased to report a significant increase in the downloads of our local (and indeed national) audit reports.

Best Value report downloads



Our national work

We published our two flagship overview reports as well as three national reports: on equal pay in councils and (jointly with the Auditor General) on self-directed support and early learning and childcare. Each of these reports attracted considerable public interest, as well as from Parliament, voluntary bodies, charities and beyond.

Local government financial overview


The first part of our flagship overview report highlighted the continuing spending squeeze on councils. Around two thirds of their income comes from the Scottish Government and this fell 5.2 per cent compared to the previous year.

More resources are being directed to national priorities such as education, which means deeper cuts to other services such as culture, planning and development, and roads.

Council tax provides just 14 per cent of councils' income. The report noted that if all councils chose to raise council tax by three per cent, it would yield an estimated £68 million - broadly comparable to a one per cent pay rise for staff.

Some councils could risk running out of general fund reserves within two or three years if they continue to draw on them at current levels, which would seriously compromise their budgetary flexibility.

Local government in Scotland: Challenges and performance 2018

In our second [overview report](#)  we highlighted that finding savings is now increasingly critical for councils dealing with ongoing reductions in funding.

Councils are balancing a real terms funding cut of 9.6 per cent over the last eight years with increasing demand, particularly from an ageing population.



Local government in Scotland: Financial overview 2016/17

 November 2017



Local government in Scotland: Challenges and performance 2018

 April 2018

Some councils have maintained or improved their performance in a number of areas despite budget reductions. For example, although councils are spending less on secondary schools, pupils from all backgrounds are performing better. Other evidence, however, suggests that budget cuts are having a negative impact, with public satisfaction falling in areas such as refuse collection, street cleaning and libraries.

Some services have borne the brunt of funding reductions: for example, planning and environmental staff numbers have fallen. Without service redesign or policy changes, councils could be spending nearly 80 per cent of their budgets on education and social work alone by 2025/26, putting serious pressure on other services.

Self-directed support

This report followed up on a previous report on the new care model that offers people more choice and control over their social care.

The report found that self-directed support is not yet achieving its full potential. While many have benefitted from self-directed support, health and social care integration boards have a lot to do to provide this for everyone.

Most people rate social care services highly and the majority of staff are positive about the principles of self-directed support. On the ground, however, not everyone is getting to choose and control their social care the way they want to and staff need more support to try new approaches.



Self-directed support

📅 August 2017

Equal pay in councils

This reported on the longstanding and complex issue of pay differences in comparable roles traditionally carried out by men and women. It examined how effectively councils have implemented the 1999 Single Status Agreement to harmonise pay structures.

Since 2004, around 70,000 equal pay claims have been lodged against councils. The cost of compensation agreements and settling claims, along with legal fees, amounts to around £750 million. There are nearly 27,000 outstanding claims and new ones could still be made.

The report found that implementing the Single Status Agreement was a costly and complex process, and councils underestimated the challenges involved. The 2004 deadline for implementation was missed by 31 out of 32 councils and it took more than a decade - twice as long as planned - for all to do this.

Councils received no extra funding to apply new pay structures. There was a lack of collective national leadership to overcome challenges and address equal pay issues in a timely way.



Equal pay in Scottish councils

📅 September 2017



Early learning and childcare

This was a new audit topic for us, and we published this report jointly with the Auditor General. It revealed significant risks for the Scottish Government's ambition to double early learning and childcare hours by August 2020.

Councils are preparing to provide 1,140 funded hours for all three and four-year-olds – and eligible two-year-olds – to improve outcomes for children and to support parents to work, study or train. They estimate they will need around £1 billion of annual revenue spending on these commitments by 2021/22.

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. Detailed planning by the government should have been started earlier and there was also a considerable gap between what local councils and the Scottish Government expect the policy to cost.



Early learning and childcare
February 2018



Best Value in councils

Last year we embarked on a significant change in our core work. A new approach to auditing Best Value was introduced after we consulted extensively with the local government community. We want these reports to help communities be better informed and more involved in shaping the key services that they rely on, and to help councils improve.

The new approach will see a Best Value Assurance Report (BVAR) on every council in a five-year cycle, and assessments of Best Value are now an integral part of the annual audits we carry out on all councils.

Best Value means getting the most out of every pound spent. Councils have had a legal duty since 2003 to demonstrate Best Value and continuous improvement in what they do.

But a lot has changed since then. Local government has become much more complex, with developments such as arm's-length external organisations (ALEOs) to run services and joint boards for health and social care. Although the principles of Best Value remain as valid and relevant as ever, our approach to assessing how councils are fulfilling those principles needed refreshing.

The new BVARs aim to provide:

- a far more detailed and rounded insight for local people into how their council is performing – where it's doing well and where it needs to improve
- a more regular spotlight – at least once every five years for every council – looking beyond the balance sheet to issues such as leadership, governance and performance
- a key foundation to help councils shape and improve services and build a picture of good practice across councils to help drive improvement.

The first BVAR was on Inverclyde Council, followed by Renfrewshire, East Renfrewshire, West Lothian, Orkney and Clackmannanshire.






We commissioned a review and independent research on the first six BVARs. This found that, in general, councils felt the reports were fair, balanced and proportionate, although they reported varying experiences of the audit process. We have agreed with auditors a series of improvements to the audit process to improve its efficiency, effectiveness and consistency.


Six more BVARs are planned this year: Fife, East Ayrshire, Glasgow, West Dunbartonshire, East Lothian and Dumfries and Galloway councils.


Reporting on councils


We published ten reports on local councils in 2017/18. Six were new Best Value Assurance Reports; two were follow-ups to previous audits; and two were statutory reports highlighting areas of wider concern.

Best Value Assurance Reports

Inverclyde Council  has made much progress since a previous report in 2005 which had identified serious failings at the council. It has changed significantly, developing a positive culture of improvement which has resulted in better service performance. However, the council still faces big challenges and needs to maintain this positive momentum.

Renfrewshire Council  started from a strong base – its last report in 2006 highlighted strong and effective leadership. Improvements have been made since then in the way it plans, manages and carries out its business. The Commission urged councillors to make new scrutiny arrangements work, ensure more constructive political arrangements and make better use of training and development opportunities.

East Renfrewshire Council  remains a high performing council but councillors need to play a more prominent role in dealing with tough challenges ahead. The council's clear vision and priorities are well supported by its councillors and officers. School education is a particular strength but performance in other areas is more varied.

West Lothian Council  had a similar conclusion – a good performing council which is reflected in improving services for local people. However, councillors need to play a more active role in responding to a major funding gap and also in scrutiny of policy priorities and performance.



Inverclyde Council




Renfrewshire Council



East Renfrewshire Council



West Lothian Council

Orkney Islands Council  is the smallest of Scotland's 32 councils by population. Councillors and officers work well together in providing effective leadership. The council is in a strong financial position and a focus on the differing needs of communities across the islands. It has to ensure robust, longer-term financial plans are in place to meet changing need, particularly for a growing elderly population.




Orkney Islands Council

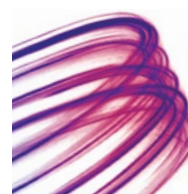
Clackmannanshire Council , the smallest mainland council, prompted concern from the Commission: it must take urgent and decisive action to sort out its financial problems. Councillors and officers need to work together and bring in external support to make difficult decisions which have been put off in the past. The Commission will consider another update report on the council in 2019.




Clackmannanshire Council

Best Value follow up reports

East Dunbartonshire Council  has responded positively to previous concerns and needs to maintain momentum. Improvements have been made in key areas such as leadership of the transformational change programme and in financial management, but in other areas it remains too early to judge.



East Dunbartonshire Council

Falkirk Council  has also made encouraging progress over the previous year. Effective leadership needs to steer its five-year improvement programme and meet savings targets.



Falkirk Council

Statutory reports

The Commission also used its powers to publish two reports bringing serious issues of wider concern to all councils and to the public. These related to a significant fraud at Dundee Council and poor building controls evident after a school wall collapsed in Edinburgh.

Ensuring quality in our work

It is important in our role of providing assurance to the public that our work is based on robust evidence and is of high quality.

We want to ensure that we continuously improve our own work by reviewing our working practices and the quality of our reports. It is important to us that we test the quality of our work by scrutinising audit work in public and by discussing and reviewing our work with councils.

Audit Scotland monitors the quality of all audit work on our behalf and reports to us, in turn allowing us to provide assurance to the public. This year we revised our approach to make it more comprehensive and to provide more robustness and transparency. This approach will be developed further.

Our new audit quality framework included establishing a new independent team reporting to us. In its report in May 2018, the team reported its finding that:

“There is strong evidence of satisfactory compliance with auditing standards and the Code of Audit Practice and overall good levels of other evidence of audit quality with some limited improvements required”.

Following on from the quality review work, we will see a number of improvements to the quality of audit being progressed, including:

- raising the standard of audit documents, including encouraging auditors to be clearer in showing how they are adding value and providing greater clarity in the expected standards to be achieved
- addressing feedback from audited bodies on how auditors are deployed, on how efficiently audit is done, and how well auditors demonstrate their understanding of the organisation.

We feel that this is a good assessment of the quality of the audit work but we want to build our approach to quality assurance across all of our work, from the financial audit to our performance audit and Best Value work.

We will continue to report on progress in future years.

there is strong evidence of satisfactory compliance with auditing standards and the Code of Audit Practice and overall good levels of other evidence of audit quality with some limited improvements required

Working with others

We greatly value our independence and integrity. At the same time, we are also part of the wider local government community, sharing a common purpose to improve services for the people of Scotland.

We value working with our principal partners, the Auditor General and Audit Scotland; accountancy firms managing some of our audits; and other scrutiny bodies, who help us fulfil our responsibilities throughout the year.

We consulted with councils and trade unions on our annually refreshed work programme. We met regularly with councils through COSLA (the Convention of Scottish Local Authorities) and SOLACE (the Society of Local Authority Chief Executives). We also regularly liaise with the local government Improvement Service.

Our work with scrutiny partners in improving our scrutiny of councils is a constant endeavour. A local network of auditors and scrutiny partners meet in every council area. We also meet with scrutiny partners at a national level. This resulted in the publication of 32 local area scrutiny plans and a [National scrutiny plan 2018/19](#) .

It is important to us that the chair and Commission members discuss our reports in meetings with individual councils. Direct feedback and exchange of views provide insight for us as well as councils, particularly with the new Best Value Assurance reports where we met all the councils involved after publication.

We provided briefings on our overview reports to the Parliament's Local Government and Communities Committee in May and November.

Our reports, which we consider in public, help inform debate on current and future policy. Commission members and our auditors gave presentations at related conferences and seminars.



[National scrutiny plan 2018/19](#)

 [April 2018](#)

Our members

The Accounts Commission members are appointed by Scottish ministers. The Commission meets monthly and its meetings are open to the public.



Graham Sharp

Chair
*(Member
Mar – Oct 2017)*



Ronnie Hinds

Deputy chair
*(Acting chair
Mar – Oct 2017)*



Christine May

*(Acting
Deputy chair
Apr – Oct 2017)*



Alan Campbell



Sandy Cumming



Sophie Flemig



Sheila Gunn



Tim McKay



Stephen Moore



Pauline Weetman



Geraldine Wooley



Secretary to
the Accounts
Commission



Paul Reilly

Progress report

Action plan 2017/18

Here we report on progress against those actions that we committed to in our annual action plan 2016/17.

Key to progress:



Complete:
This action has been completed



Complete and continuing:
While an action has been completed, it continues as part of further ongoing activity



Continuing:
This action has started but will require further input from the Commission.

Action Progress at end March 2018

Overview reports

Publish our overview reports and look at ways of enhancing their effectiveness and profile, including more direct engagement with councils on our reports.



Complete

We published two overview reports:

- [Local government in Scotland: Financial overview 2016/17](#) was approved at our meeting on 9 November 2017 and published on 28 November.

The report was the subject of a briefing by the Deputy Chair of the Commission to the Scottish Parliament's Local Government and Communities Committee on 29 November as part of its scrutiny of the Scottish budget.

- [Local government in Scotland: Challenges and performance 2018](#) was approved in draft by the Commission at its meeting on 8 March and published on 5 April.

The report was the subject of a briefing by the Chair of the Commission to the Scottish Parliament's Local Government and Communities Committee on 30 May 2018.

These reports have featured prominently as part of our engagement with the local government community, notably in meetings with COSLA and the SOLACE.

Taking the audit forward by:

Reporting on progress against previous Best Value audit work in:

- East Dunbartonshire Council
- Falkirk Council.




Complete

We published findings on the follow-up audit of [East Dunbartonshire Council](#) on 16 November 2017. We met the council to discuss the report on 18 December. The council subsequently formally accepted the report on 21 December and is now taking forward improvements which we will monitor.


We published findings on the follow-up audit of [Falkirk Council](#) on 1 February 2018. We met the council to discuss the report on 27 February. The council subsequently formally accepted the report on 7 March and is now taking forward improvements which we will monitor.

Action	Progress at end March 2018
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Taking the audit forward by:	
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Reporting a schedule of Best Value Assurance Reports:	 Complete We published findings on the audits as follows: <ul style="list-style-type: none"> • Inverclyde: 1 June 2017. We met the council to discuss the report on 20 June and the council formally accepted the report at its 29 June meeting. • Renfrewshire: 31 August 2017 We met the council to discuss the report on 27 September and the council formally accepted the report at its 28 September meeting. • East Renfrewshire: 7 November 2017 We met the council to discuss the report on 15 November and the council formally accepted the report at its 13 December meeting. • West Lothian: 23 November 2017 We met the council to discuss the report on 15 January and the council formally accepted the report at its 16 January meeting. • Orkney Islands: 14 December 2017 We met the council to discuss the report on 5 February and the council formally accepted the report at its 22 February meeting. • Clackmannanshire: 25 January 2018 We met the council to discuss the report on 5 March. The council formally accepted the report at its 8 February meeting. We will monitor progress by the councils through the annual audit process. All audits had a local promotion strategy involving targeted promotion in the local council area, including targeting local press, a special e-bulletin sent to local communities, and a summary poster for display in local community facilities.
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- [Inverclyde Council](#) 
- [Renfrewshire Council](#) 
- [East Renfrewshire Council](#) 
- [West Lothian Council](#) 
- [Orkney Islands Council](#) 
- [Clackmannanshire Council](#) 












On top of this, featuring assessments in relation to Best Value in all annual audit reports, reflecting our strategic audit priorities and risks and issues of specific relevance to each council.	 Complete All annual audit reports contained such Best Value assessments. In each council, these reports were presented by the auditor, around October each year, to the council. A summary of the matters arising across all of these reports, including risks and implications for the Commission's work, was reported by the Controller of Audit to the Commission on 8 February 2018 in his Annual Assurance and Risks Report, which we endorsed.
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Complete

All annual audit reports contained such Best Value assessments. In each council, these reports were presented by the auditor, around October each year, to the council.

A summary of the matters arising across all of these reports, including risks and implications for the Commission's work, was reported by the Controller of Audit to the Commission on 8 February 2018 in his Annual Assurance and Risks Report, which we endorsed.

Action	Progress at end March 2018
Continuing to contribute to a review and update of the characteristics of Best Value being led by the Scottish Government and councils, including ensuring that it reflects our expectations.	 Continuing The Scottish Government and COSLA continue with this review.
Undertake national performance audits on:	
Self-directed support (progress report)	 Complete We published Self-directed support: a progress report on 24 August 2017.
Equal pay	 Complete We published Equal pay in Scottish councils on 7 September 2017.
Early learning and childcare	 Complete We published Early learning and childcare on 15 February 2018.
Arm's-length external organisations	 Complete We published Councils' use of arm's-length external organisations this audit on 17 May 2018. We will report more fully on this in our Annual Report 2019.
Children and young people's mental health	 Continuing We will publish this audit on 13 September 2018. We will report more fully on this in our Annual Report 2019.
City and growth deals	 Continuing We have rescheduled the publication of this audit to 2019/20.
Health and social care integration (part 2)	 Continuing We will publish this audit in late 2018. We will report more fully on this in our Annual Report 2019.
Report the impact of previous performance audits on:	
Roads maintenance	 Continuing We will publish this report during 2018. We will report more fully on this in our Annual Report 2019.
Social work	 Continuing We will publish this report during 2018. We will report more fully on this in our Annual Report 2019.
Follow the public pound by:	
Undertaking the performance audits on arm's-length external organisations; City and growth deals; and health and social care integration	 Continuing As stated above, we are amidst the reporting of these performance audits and we will report more fully on these in our Annual Report 2019.

Action	Progress at end March 2018
Considering the issues arising from the annual audits of integration joint boards	 Complete and continuing The Commission received an update on Health and social care integration  at its meeting on 7 December 2017 and will publish a performance audit in late 2018. The Commission's committees, which meet quarterly, received regular updates of matters arising from the annual audits of integration authorities.
Ensuring, in our national performance audits, reflection of councils' leadership roles in partnership working	 Complete Our performance audits on self-directed support and early learning and childcare had specific recommendations for councils in taking forward working with partners.
Continuing to work with our strategic scrutiny partners:	
Publish a National Scrutiny Plan and local scrutiny plans for all councils	 Complete and continuing The National Scrutiny Plan for Local Government 2018/19  and 32 local scrutiny plans were published on 4 April 2018.
Reflect the interests of the citizen, service user and communities in:	
The scoping of all of our performance audit work	 Complete and continuing Our performance audits on self-directed support and early learning and childcare had significant elements reporting on service user experience.
Our Best Value Assurance Reports	 Complete and continuing All of our Best Value Assurance Reports had as a core element an assessment of customer and citizens' views of council performance.
Our joint work with our scrutiny partners	 Complete and continuing The Strategic Scrutiny Group is taking forward a specific initiative to develop a scrutiny approach across scrutiny partners to community empowerment.

Action	Progress at end March 2018
Promote good practice and innovation by:	
<p>Ensuring that every performance audit:</p> <ul style="list-style-type: none"> contains practical advice for elected members and officers makes background data available for use by councils and citizens 	<p> Complete and continuing</p> <p>All of our published performance audits and overview reports have fulfilled this objective. Examples are:</p> <ul style="list-style-type: none"> Our report <i>Local government in Scotland: Financial overview 2016/17</i> has two supplements: a self-assessment checklist for councillors and detailed analysis of the Local Government Pension Scheme. Our website contains an interactive graphic comparing financial data of individual councils. There is also a spreadsheet setting out information from our database of unaudited accounts. Our national performance audit <i>Early learning and childcare</i> was accompanied by a supplement reporting on the direct experiences of parents. We also produced a video and parents' guide, as well as making background data available on our website. Our national performance audit on progress with self-directed support had a substantial checklist for councillors, as well as a case study supplement and compendium of background data.
<p>Ensuring we better identify, promote and share good practice from across our audit work.</p>	<p> Complete and continuing</p> <p>All of our published performance audits and overview reports have fulfilled this objective.</p> <p>Our website includes a hub of resources around transforming health and social care, including: exhibits that visualise complex data and processes in an accessible and informative way; a compendium of published reports and scopes for forthcoming work; background data; blogs; reports on work around sharing intelligence among scrutiny bodies; case studies of new models of health and social care; and annual audits of health and social care organisations.</p>

Commission publications 2017/18

Publication	Date to Commission meeting	Publication date	Notes
Overview reports			
Local government in Scotland: Financial overview 2016/17	9 Nov 2017	28 Nov 2017	Report downloads: 2958
Local government in Scotland: Challenges and performance 2018	8 Mar 2018	5 Apr 2018	Report downloads: 1875 numbers from 5 – 30 April 2018
Best Value Assurance Reports			
Inverclyde Council	11 May 2017	1 Jun 2017	Report downloads: 1980
Renfrewshire Council	10 Aug 2017	31 Aug 2017	Report downloads: 2336
East Renfrewshire Council	12 Oct 2017	7 Nov 2017	Report downloads: 1607
West Lothian Council	9 Nov 2017	23 Nov 2017	Report downloads: 1274
Orkney Islands Council	7 Dec 2017	14 Dec 2017	Report downloads: 1140
Clackmannanshire Council	11 Jan 2018	25 Jan 2018	Report downloads: 1732
Best Value follow-up reports			
East Dunbartonshire Council	9 Nov 2017	16 Nov 2017	Report downloads: 782
Falkirk Council	11 Jan 2018	1 Feb 2018	Report downloads: 1412
Statutory reports			
Dundee City Council	8 Mar 2018	22 Mar 2018	Report downloads: 539
Edinburgh City Council	8 Mar 2018	3 Apr 2018	Report downloads: N/A


Publication	Date to Commission meeting	Publication date	Notes
Performance audits			
Self-directed support: 2017 progress report	8 Jun 2017	24 Aug 2017	Report downloads: 5647
Equal pay in Scottish councils	10 Aug 2017	7 Sept 2017	Report downloads: 2318
Early learning and childcare	7 Dec 2017	15 Feb 2018	Report downloads: 2188
Other publications			
Annual report 2016/17	13 Apr 2017	25 May 2017	Downloads: 1186
Engagement plan 2016/17: Progress report	13 Apr 2017	25 May 2017	Downloads: 247
Action plan 2016-17: Progress report	13 Apr 2017	25 May 2017	Downloads: 240
Strategy and annual action plan 2017-22	13 Apr 2017	25 May 2017	Downloads: 932
Engagement strategy and engagement plan 2016/17	13 Apr 2017	25 May 2017	Downloads: 491

All figures as at 31 March 2018.

Annual report

2017/18


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Strategy and annual action plan

2018-23

Who we are

The Accounts Commission is the public spending watchdog for local government. We use our powers to hold local government to account and help it improve, and we assure the public about the performance of their council. 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, financial stewardship and value for money in how they use their resources and provide their services.

We ensure that councils publish the right information to enable citizens to assess their council's performance both over time and in comparison with similar councils.

We were established in 1975 'to secure the audit of all councils in Scotland and to undertake and promote comparative studies to improve the economy, efficiency and effectiveness in how councils provide services'. Since our establishment, our remit has been extended by the Scottish Government:

- In 2003, we were given the responsibility to audit councils' duty of Best Value and community planning.
- In 2008, we were asked to take on a coordinating role to support the delivery – in conjunction with our scrutiny partners – of better aligned and more proportionate and risk-based scrutiny of local government.
- In 2012, we were asked to develop an audit framework designed to strengthen the accountability of Community Planning Partnerships and support their improved performance.
- In 2013, we were given the responsibility to audit health and social care integration joint boards (including the duty of Best Value).

The Controller of Audit reports to the Commission on the audit of local government. The post is independent and is established by statute.

The Commission delivers public audit in Scotland along with the Auditor General who audits the remainder of the public sector in Scotland. Audit Scotland was created in 2000 to provide services to the Commission and to the Auditor General.

We have jointly published with the Auditor General and [Audit Scotland Public audit in Scotland](#), which sets out the principles and themes of public audit and how it fits with and responds to the public policy environment in Scotland in which we operate.

You can find out more about our role, powers and meetings on the [Accounts Commission web pages](#).

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Context



It is our role to provide independent assurance to the public on the performance of each Scottish council. To do this, we ensure continuously that our work is responsive to the environment in which councils operate, which sees:

- reduced resources – public spending is likely to decline in real terms for the foreseeable future
- demographic change – Scotland’s population is ageing which puts more pressure on services and resources
- increasing public expectations about the content, quality and delivery of public services, and how the public is involved in designing those services
- increasing empowerment of citizens and communities in their relationship with councils
- increasing flexibility in how local public services are delivered
- enhanced devolution and increased financial powers to the Scottish Parliament
- implementation of the referendum decision that the UK leave the European Union.

We acknowledge these factors place significant pressures on councils in their responsibilities to deliver high-quality services for service users and better outcomes and reduced inequalities for communities. We expect them to show how – through rigorous self-evaluation – they are making best use of their resources and continuously improving their performance in order to meet their statutory duty of Best Value.

Our strategic audit priorities



Our overriding aim is holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices.

We will evaluate in our audit work how councils are demonstrating such improvement. In particular, we will use annual audit work and auditing Best Value to assess how councils are progressing in the following priority areas:

- Having clear priorities with a focus on outcomes, supported by effective long term planning.
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

Our work

We will maintain a five-year rolling programme of work reflecting the following:



Ensuring that our **overview reporting** provides an assessment of the performance of local government that informs discussion and debate about the issues that it faces.



Taking forward our new approach to the **annual audit and auditing Best Value** to clearly set out the Best Value expectations of councils and report on councils' delivery of key public services and their use of public money.



Ensuring that our **national performance audit work** appropriately covers the key areas of public policy and is facilitating improvement in those areas.



Ensuring that our work **follows the public pound** by reporting upon the range of approaches that are used by councils in delivering services and improving outcomes for communities.



In conjunction with our scrutiny partners, continuing to **coordinate the audit, inspection and regulation of local government** in Scotland.



Better reflecting the interests of the citizen, service user and communities in our work, including Best Value auditing, in performance audits and in our joint work with our scrutiny partners.



Promoting good practice and innovation in our work and making more effective use of data and analysis in our reports.

In taking this work forward, we will ensure regular dialogue and engagement with stakeholders, including the Scottish Government, Parliament, councils, professional associations, trade unions and organisations representing the user, community, service and local government interests. Our [Engagement strategy and plan 2018/19](#) sets out how we will do this.

We will also ensure that we continuously improve our own work by reviewing our working practices and the quality of our reports. We will test and report on our performance and impact and consult regularly on this with our stakeholders.

Annual action plan

This action plan sets out how our work over the next 12 months will take forward our strategy. We will report progress at the end of that period. We will:



Publish our overview reports setting out our assessment of local government, based upon all of our audit work.



Take the audit forward by:

- Reporting a schedule of Best Value Assurance Reports:
 - Dumfries and Galloway Council
 - East Ayrshire Council
 - East Lothian Council
 - Fife Council
 - Glasgow City Council
 - West Dunbartonshire Council.
- On top of this, featuring assessments in relation to Best Value in all annual audit reports, reflecting our strategic audit priorities and risks and issues of specific relevance to each council.
- Continuing to contribute to a review and update of the characteristics of Best Value being led by the Scottish Government and councils, including ensuring that it reflects our expectations.



Undertake national performance audits on:

- Children and young people's mental health
- Health and social care integration (part 2)
- Value for money of non-profit distributing models.

We will also ensure that our work reflects the policy environment in which local government operates by considering throughout the year a range of briefings and reports on specific policy matters.



Report the impact of our previous performance audits on:

- Community planning: an update
- Roads maintenance
- Social work.

**Follow the public pound by:**

- Undertaking a performance audit health and social care integration
- Reporting on the impact of our previous performance audit on community planning
- Considering the issues arising from the annual audits of integration joint boards
- Ensuring, in our national performance audits, reflection of councils' leadership roles in partnership working.

**Continue to work with our strategic scrutiny partners in coordinating and refining our approaches to the scrutiny, audit and inspection of councils.****Reflect the interests of the citizen, service user and communities by:**

- Reviewing our requirements of councils (in our statutory performance information Direction) to report performance to their citizens
- Considering these interests in the scoping of all of our performance audit work
- Reporting on these interests in our Best Value Assurance Reports
- Developing with our scrutiny partners joint approaches to scrutinising community empowerment.


**Promote good practice and innovation by:**

- Publishing a report in our *How Councils Work* series on internal controls and scrutiny.
 - Ensuring that every performance audit:
 - contains practical advice for councillors and officers
 - makes background data available for use by councils and citizens.
-

Strategy and annual action plan 2018-23

2018-23

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Engagement strategy and plan



2018/19


Who we are

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, 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 our role, powers and meetings on the Accounts Commission [web pages](#) .

Introduction

The Accounts Commission and its partners

The Accounts Commission is the public spending watchdog for local government. We are an independent public body appointed by ministers to hold local government to account. Audit Scotland provides services to the Commission by delivering our programme of audits and reports. Some of the engagement activity around specific aspects of our work, for example financial audit or the shared risk assessment, is carried out by Audit Scotland on our behalf.

Along with the Auditor General for Scotland and Audit Scotland, we deliver public audit in Scotland. Together we have published the paper Public audit in Scotland which describes our relationship with these partners and our role in public audit. In developing our plans we work closely with these principal partners.

The purpose and scope of this engagement strategy

The Commission's Strategy and annual action plan 2018-23 sets out that "in taking (our) work forward, we will ensure regular dialogue and engagement with stakeholders".

This engagement strategy and annual engagement plan complement the Commission's Strategy. It identifies our stakeholders, the reasons why we engage with them and the methods or channels we will use to engage with them. We will report annually on how we have done this.

Our stakeholders

We engage with a wide range of stakeholders



Who are our stakeholders and why do we want to engage with them?

We engage with a wide range of stakeholders. We want to be clear about why we are engaging with these stakeholders and the messages that we want to convey to them. Most importantly, we want to ensure that we are clear on our purpose and activities, and what this means for them.

But we recognise that the requirements of each stakeholder – and how they may make use of our work to fulfil their own responsibilities - will be different. We therefore require to use different ways of engaging with different stakeholders.

Beyond our overall message of underlining our independence and impartiality, we have messages that are relevant to each stakeholder.

Auditor General



We work with the Auditor General and Audit Scotland, to deliver public audit in Scotland. Public audit provides independent assurance that public money is spent properly and provides value for money. To do this, we engage with the Auditor General to ensure a mutual understanding of each other's priorities, to agree work that we can do jointly, and to ensure that our respective priorities are delivered by Audit Scotland. In doing so, Audit Scotland helps fulfil an important role in complementing our engagement with our stakeholders.

Audit Scotland and private sector audit firms



We commission Audit Scotland and private firms to undertake audit work on our behalf. It is therefore important to them that we are clear what our priorities are and what we expect to get from audit work.

Citizens



Our role as an independent source of assurance for the public means that citizens and communities are a principal stakeholder.

We want to present the messages in our work to service users, citizens and communities to help inform their view about the performance of their council, and how that council can improve.

Press and broadcast media



To help us engage with citizens and communities, it is important that we engage with the press and broadcasting media to ensure that they help articulate our role and thus help us deliver our messages in effective ways.

Local government



We are the public's independent watchdog for councils. So we want to engage with councils to make clear our role in assurance and improvement, to help promote messages from our individual pieces of audit work, and to ensure that we have an up-to-date perspective of the issues facing them.

In this role we engage regularly with elected members and officers, as well as representatives of local government as a whole including the Convention of Scottish Local Authorities (COSLA), the Society of Local Authority Chief Executives in Scotland (SOLACE) and groups representing local government professions.

Scottish Government



While we are independent, we are appointed by ministers. We therefore want to engage with the Scottish Government to assure it of our activities and to ensure a mutual understanding of the Scottish Government's agenda for public service reform and how this may affect councils and, thus, our work.

Scottish Parliament



The Scottish Parliament sets legislation that can affect councils and indeed councils' partners in the wider public sector, and also, through its committees, holds the Government to account. We want members of the Parliament and its committees to be aware of and use our work to help them fulfil their responsibilities.

Scrutiny partners



Parliament and Government expect us, along with our scrutiny partners, to work together to provide independent assurance that public money is being used properly and that services are well managed and fit for purpose. Such external scrutiny also helps public bodies improve. We work closely with our scrutiny partners to ensure that our activity is coordinated, risk-based and proportionate. To do this, we convene the Local Government Strategic Scrutiny Group, consisting of:

- Audit Scotland
- Care Inspectorate
- Education Scotland
- Healthcare Improvement Scotland
- HM Fire Services Inspectorate
- HM Inspectorate of Constabulary for Scotland
- HM Inspectorate of Prisons
- Inspectorate of Prosecution in Scotland (IPS)
- Scottish Housing Regulator.

We also convene a local area network of scrutiny partners for each council area, to coordinate scrutiny activity through our shared risk assessment process.

Councils' community planning partners



With councils and their community planning partners collaborating in increasingly frequent and complex ways to deliver local services, it is important that our work reaches these partners. Notably, the third sector is becoming an increasingly important stakeholder for councils and their community planning partners in helping to deliver local services, and so we want to ensure we engage with this sector, which has varied and complex interests.

Other stakeholders



We also engage with a wide range of other organisations and bodies representing professionals such as public finance accountants and directors of education, social work and administration. We maintain a relationship with other UK audit bodies to ensure that we keep an updated perspective of audit approaches elsewhere in the UK. On our behalf, Audit Scotland works with the Equalities and Human Rights Commission and convenes an equalities and human rights advisory group, consisting of a range of diverse groups and communities, to ensure that consideration of equalities issues is embedded in our audit work.

Our list of stakeholders is continuously under review to react to changes in the public sector environment. For example, we currently continue to build our relationship with health and social care integration authorities, for whom we have audit responsibility.

Our engagement activities

We will use appropriate methods to engage with stakeholders depending on the message and the audience



What do we engage about?

As well as our messages for each stakeholder, we engage with different stakeholder groups for varying reasons.

We may want to inform them about our values, strategies, plans and performance including our annual report.

Sometimes our key aim is to promote our work or to make recommendations, such as auditing Best Value or our *How councils work* series of reports. Our annual statutory performance information direction, which we publish on a three-yearly basis, sets out our requirements for councils in what performance information they need to publish. For our national performance audits, we approve a promotion and engagement strategy for each audit.

We tailor our engagement plans to maximise the impact of each of our reports. This may be through robustly promoting or encouraging local authorities to build on our recommendations or working with scrutiny partners or other appropriate bodies such as COSLA or SOLACE. We also work with the press and media to boost awareness of our work among stakeholders including the public. We target local press and media for our reports of auditing Best Value.

We consult on, or seek feedback about, particular aspects of our work. For example, we consult annually with a wide range of stakeholders upon our work programme, which sets out our work over the next five years.

Finally, sometimes bodies have a specific reason they wish to engage with us such as updating the Commission on a policy issue or service reform.

This year, the Commission Strategy commits us to engaging with stakeholders in relation to some significant strategic objectives, including seven national performance audits, and a series of engagement events with councils around our annual overview report. We will also engage directly with newly elected councillors by sharing with them our strategy and annual action plan, to help familiarise them with our work.

How we will engage

We see our engagement as having three purposes:

Informing, ie giving information.

Consulting, ie giving information and seeking views.

Collaborating, ie giving information, seeking views and actively working together.

There are many channels or tools which we can use in our engagement. Some lend themselves better to particular types of activity or certain stakeholder groups.

Our engagement may be a regular process, such as maintaining, through regular meetings, our relationship with local government stakeholders such as COSLA or SOLACE. It may also, however, be a specific one-off activity, for example centred on the promotion of one of our published reports. Depending on the nature of such reports, we may engage closely with one council, or across local government as a whole.

We are always looking for scope to be innovative so we will actively consider new ways of engagement such as using web-based technology and social media.

Our annual engagement plan

Our annual engagement plan sets out in more detail what we are engaging upon in the next year (ie, to the end of March 2019), and also sets out when this engagement activity is taking place. We will report our progress against this plan at the end of the year.

What we will engage about	Who we will engage with	How we will engage	When we will engage
Our strategy and planning			
We will meet regularly with principal stakeholders to discuss our strategy and issues of mutual interest.	COSLA, SOLACE, Scottish Parliament, Scottish Government	Collaborate We will meet regularly with COSLA, SOLACE, Parliamentary committee conveners and party representatives, and the Scottish Government.	Throughout the year
We will publish our annual report and promote it among stakeholders.	All stakeholders	Inform We will write to or email council leaders, chief executives, Parliamentary committee conveners and party representatives, Scottish Government, and other stakeholders as appropriate. We will provide an interactive version of our report on our website.	June 2018
We will publish our annually revised strategy and annual action plan and promote it among stakeholders.	All stakeholders	Inform We will write to council leaders, chief executives, Parliamentary committee conveners and party representatives, Scottish Government, and other stakeholders as appropriate.	June 2018
	All stakeholders	Inform and consult We will meet council leaders and chief executives to discuss our overview reports and strategy	Summer 2018
We will publish our engagement strategy and promote it among stakeholders.	All stakeholders	Inform We will write to or email council leaders, chief executives, Parliamentary committee conveners and party representatives, Scottish Government, and other stakeholders as appropriate.	June 2018

What we will engage about	Who we will engage with	How we will engage	When we will engage
Our audit work			
We will consult stakeholders on our draft work programme.	Local government	Inform and consult We will engage with COSLA and SOLACE to seek their views on our proposals. We will write to council leaders, chief executives and chairs of audit and scrutiny committees seeking their views on the draft programme.	Late 2018 Early 2019
	Local government trade unions	Inform and consult We will write to local government trade unions seeking their views on the draft programme.	Early 2019
	Citizens and communities	Inform and consult We will discuss with communities through Audit Scotland's equalities and human rights advisory group on our work programme.	Late 2018
	All stakeholders	Inform We will share our performance audit programme by publishing it on our website and through social media.	Spring 2019
We will explore with stakeholders how to develop our audit work to ensure that we are effectively reflecting the policy environment	All stakeholders	Collaborate We will use innovative ways of discussing issues with stakeholders, such as policy 'round table' events. We will meet council officers and professional bodies to learn more about the issues facing them in fulfilling their responsibilities.	Ongoing
We will review with those carrying out audit work how they are developing and improving the work	Audit Scotland and private firms	Collaborate We will, through our Financial Audit and Assurance Committee, discuss with Audit Scotland and private audit firms issues arising from their audit work.	Ongoing

What we will engage about	Who we will engage with	How we will engage	When we will engage
<p>We will publish our overview reports, performance audit reports and impact reports and promote their key messages and themes (publication dates to be confirmed):</p> <ul style="list-style-type: none"> • Local government financial overview (Autumn 2018) 	Citizens	<p>Inform, consult and collaborate</p> <p>We will ensure that our performance audits incorporate the view of the service user, and involve service users in audit work as appropriate.</p> <p>We will publish our reports and podcasts on our website.</p> <p>We will encourage the press and media to raise awareness of our reports through press releases and social media.</p>	Ongoing
<ul style="list-style-type: none"> • Local government overview (Spring 2019) 	Local government (including health and social care integration authorities for appropriate audits)	<p>Collaborate</p> <p>We will meet with councils to discuss the messages from our overview reports.</p>	Spring 2018
<ul style="list-style-type: none"> • Children and young people's mental health (Autumn 2018) • Health and social care integration (Autumn 2018) • Value for money of non-profit distributing models (Summer 2019) • Impact reports: <ul style="list-style-type: none"> ○ Community planning: an update (summer 2018) ○ Roads maintenance (summer 2018) ○ Social work (autumn 2018) 	Scrutiny partners	<p>Inform and consult</p> <p>We will write to council leaders and chief executives (and chairs of audit and scrutiny committees as appropriate) promoting key messages and themes.</p> <p>We will hold learning events and promote learning materials, working as appropriate with stakeholders like the Improvement Service.</p> <p>We will offer for audit teams to promote our reports at council meetings as appropriate.</p>	Ongoing
	Professional bodies as appropriate	<p>Inform and consult</p> <p>We will share our reports with appropriate professional bodies and discuss their implications.</p> <p>We will develop our members' presence at professional conferences by taking opportunities to present our reports</p>	Ongoing
	Press and media	<p>Inform</p> <p>We will produce press releases and respond to press enquiries on our reports.</p>	Ongoing
	Scottish Government	<p>Inform</p> <p>We will share our reports with ministers.</p>	Ongoing

What we will engage about	Who we will engage with	How we will engage	When we will engage
	Scottish Parliament	<p>Inform</p> <p>We will share our reports with and brief Parliamentary committees, particularly the Local Government and Communities Committee.</p> <p>We will issue our reports to all MSPs.</p>	Ongoing
<p>We will publish Best Value Assurance Reports (BVARs) and follow-up Best Value reports:</p> <ul style="list-style-type: none"> • Dumfries and Galloway • East Ayrshire • East Lothian 	Citizens and communities	<p>Inform</p> <p>We will discuss our reports in public, publish our reports and podcasts on our website and communicate with local press and media to raise awareness of our reports.</p> <p>We will promote our BVARs locally, share them with local communities and third sector groups, and distribute summary posters for displaying in community facilities.</p>	Ongoing
<ul style="list-style-type: none"> • Fife • Glasgow City • West Dunbartonshire • Clackmannanshire (progress report) 	Local government (including health and social care integration authorities)	<p>Inform and consult</p> <p>We will write to the relevant council leader and chief executive setting out the Commission's findings in relation to the report.</p> <p>We will seek a meeting with the relevant council leaders to discuss the report.</p> <p>We will share our Best Value reports with all councils to facilitate learning and dissemination of good practice.</p>	Ongoing
	Scrutiny partners	<p>Inform, consult and collaborate</p> <p>We will share our Best Value reports with scrutiny partners.</p> <p>We will discuss our Best Value reports with the relevant local area network, consisting of scrutiny partners.</p>	Ongoing
	Professional bodies as appropriate	<p>Inform and consult</p> <p>We will share our reports with professional bodies.</p>	Ongoing
	Press and media	<p>Inform</p> <p>We produce press releases and podcasts and take part in interviews.</p> <p>We will target local media for each Best Value report.</p>	Ongoing

What we will do	Who we will engage with	How we will engage	When we will engage
Other activities			
We will maintain fruitful dialogue with the Auditor General and Audit Scotland in our work	Auditor General and Audit Scotland	Collaborate We will develop, monitor and maintain our joint work programme with the Auditor General and Audit Scotland.	Ongoing
We will explore public expectations of us and our work	Citizens and communities	Consult We will explore options for research.	By Spring 2019
We will increase the accessibility of our meetings	All stakeholders	Inform We will investigate webcasting meetings from our new premises. We will use social media to make our meetings more accessible, particularly through developing our Twitter presence.	By end of 2018
We will increase our social media presence	All stakeholders	Collaborate We will establish a social media presence, initially by maintaining a Twitter account.	By summer 2018

When we will engage

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Beyond	
Our strategy and planning														
Regular meetings with stakeholders	→													
Annual report			⋯→											
Strategy update and action plan			⋯→											
Engagement strategy and action plan			⋯→											
Our audit work														
<i>Local government overview:</i>														
Local government financial overview								⋯→						
Local government overview											⋯→			
<i>Performance audits:</i>														
Children and young people's mental health						⋯→								
Health and social care integration							⋯→							
Value for money of non-profit distributing models											⋯→			
<i>Impact reports</i>														
Community planning: an update							⋯→							
Roads maintenance							⋯→							
Social work in Scotland											⋯→			
<i>Best Value Assurance Reports (schedule to be confirmed)</i>														
Dumfries and Galloway Council														
East Ayrshire Council														
East Lothian Council														
Fife Council														
Glasgow City Council														
West Dunbartonshire Council														
Clackmannanshire Council														
Other activities														
Dialogue with Auditor General and Audit Scotland	→													
Explore public expectations											→			
Increase accessibility of meetings	→													
Increase our social media presence	→													


→ Regular engagement activity

⋯→ Variable or diminishing intensity of activity

Engagement strategy and plan

2018/19

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ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****STRATEGIC FINANCE****25 SEPTEMBER 2018**

TREASURY MANAGEMENT ANNUAL ASSURANCE REPORT

1. EXECUTIVE SUMMARY

- 1.1 Treasury Management is a complex area of the Council's activities with the potential for significant financial consequences if appropriate risk management, controls and governance are not in place. Recognising this, and the Audit and Scrutiny Committee's overall interest risk, controls and governance, this report has been prepared to provide assurance that the Council has appropriate arrangements for managing its treasury activities.
- 1.2 The Council has adopted the CIPFA Code of Practice on Treasury Management and has put in place the four recommended clauses outlined within the code in relation to treasury management practices, reporting arrangements, delegated arrangements and scrutiny arrangements.
- 1.3 The Code outlines 12 Treasury Management Practices (TMPs) and these are in place and reviewed on an annual basis. The TMPs include regulatory issues, segregation of duties, treasury reporting, training and use of external advisors.
- 1.4 A key objective of the treasury management activities, as outlined in TMP1, is the security of the principal sums the Council invests. The annual investment strategy outlines the key risks associated with investment decisions and this report includes commentary on how some of the key risks are actively managed.
- 1.5 The Council is still able to access a full range of investment products and services after opting up to "professional" client status in compliance with the Markets in Financial Instruments Directive II (MiFID II) that became effective on 3 January 2018.
- 1.6 The Committee are asked to review and endorse the Treasury Management Annual Assurance report.

TREASURY MANAGEMENT ANNUAL ASSURANCE REPORT

2. INTRODUCTION

- 2.1 Treasury Management is a complex area of the Council's activities with the potential for significant financial consequences if appropriate risk management, controls and governance are not in place. Recognising this, and the Audit and Scrutiny Committee's overall interest risk, controls and governance, this report has been prepared to provide assurance that the Council has appropriate arrangements for managing its treasury activities.

3. RECOMMENDATIONS

- 3.1 The Committee are asked to review and endorse the Treasury Management Annual Assurance report.

4. DETAIL**Definition of Treasury Management**

- 4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recognises that there is a wide range of interpretations of what activities comprise treasury management. CIPFA has adopted the following as its definition of treasury management activities:

"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."

Compliance with the Code

- 4.2 The CIPFA Code of Practice on Treasury Management was adopted by the Council on 24 June 2010. The Code has since been updated and the latest version is entitled Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 Version.
- 4.3 CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, four clauses as noted below:

The Code	Argyll and Bute Council Position
This organisation will create and maintain, as the cornerstones for effective treasury management: <ul style="list-style-type: none"> • a treasury management policy statement, stating the policies, 	The Policy Statement is included as part of the annual Treasury Management Strategy and TMPs are in place.

<p>objectives and approach to risk management of its treasury management activities</p> <ul style="list-style-type: none"> • Suitable TMPs, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. 	
<p>This organisation will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.</p>	<p>An annual strategy is submitted to the Council in February as part of the budget process for the following year. Mid-year reports are submitted as part of the financial monitoring pack to each Policy and Resources Committee. An annual report is produced and submitted as part of the year end reporting pack to Council each June.</p>
<p>This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to xxx, and for the execution and administration of treasury management decisions to xxx, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.</p>	<p>The Council has responsibility for the implementation and regular monitoring of its treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the Head of Strategic Finance (Council's Section 95 Officer).</p>
<p>This organisation nominates xxx to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.</p>	<p>The Audit and Scrutiny Committee are the body nominated for ensuring effective scrutiny of the treasury management strategy and policies and the Elected Member appointed is the Policy Lead for Strategic Finance and Capital Regeneration Projects.</p>

Treasury Management Practices

- 4.4 Appropriate management arrangements are in place for the Council's treasury activities. The Council has adopted and complied with the Code of Practice and a review is carried out each year to ensure we continue to meet the requirements of the Code. The following TMPs are in place and reviewed on annual basis:

TMP 1	Treasury risk management
TMP 2	Best value and performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements

TMP 8	Cash and cash flow management
TMP 9	Money laundering
TMP 10	Staff training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance.

- 4.5 TMP5 sets lines of responsibility, accountability and delegation in relation to treasury activities. The Head of Strategic Finance ensures all staff follow the policies and procedures set out and suitable arrangements are in place for absence cover. A review of all treasury management procedures and practices is scheduled in the second half of financial year 2018-19, partly as a refresh but also as one of the key members of the Treasury Team is retiring in September 2018.
- 4.6 As noted in paragraph 4.3 and in TMP6, the Council meets the requirement for treasury management reporting by:
- Preparing an annual treasury and investment strategy (submitted to Council 22 February 2017)
 - Submitting an annual report on treasury and investment activities (submitted to Council on 28 June 2017)
 - Submitting update reports on treasury activities 2 monthly to Policy and Resource Committee.
- 4.7 The Council recognises the importance of ensuring all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them and seeks to appoint individuals who are capable and experienced. Furthermore staff will be provided training to enable them to acquire and maintain an appropriate level of knowledge, expertise, and skills. The current Finance Manager with responsibility for the treasury function is retiring in September and a new Finance Manager has taken up post on 6 August 2018. A programme of training for the new Finance Manager has been put in place and training/support will be obtained from our treasury advisors.
- 4.8 A training session for Elected Members, also attended by the Chair of the Audit and Scrutiny Committee, was facilitated by our treasury advisors on 14 May 2018. Officers also attend external training seminars arranged by the treasury advisors to ensure that they are kept up to date on treasury issues.
- 4.9 In line with TMP11, the Council recognises that responsibility for treasury management decisions remains with the Council at all times, however, it also recognises that there is great value in employing external advisors in order to acquire access to specialist skills and resources. The Council are currently in the middle of a tender exercise to appoint treasury advisors for a further 3 years. Interviews have taken place and procurement are finalising the tenders.
- 4.10 Treasury activities are subject to regular review by internal and external audit. Internal Audit as part of their continuous monitoring programme sample test various treasury management internal controls on an on-going basis and where any areas of weakness are identified, corrective action is put in place.

Treasury Risk Management

- 4.11 A key objective of the treasury management activities, and outlined in TMP1, is

the security of the principal sums the Council invests. The annual investment strategy outlines the key risks associated with investment decisions and the paragraphs that follow summarises how some of the key risks are managed.

- 4.12 Transactional Risks: Segregation of duties and in particular separation of initiator and approver roles and setting limits for individuals in terms of their delegated authority are key controls to transaction risks. There is regular reconciliation and cross checking of treasury records to act as a management/supervisory control.
- 4.13 Strategic Risks: There are quarterly reviews with the treasury advisors and review of economic and market data in between to assess the ongoing relevance of the agreed strategy.
- 4.14 Interest Rate Risk: Interest rate and market data is monitored daily and assessed in terms of any action the Council needs to consider or take. Triggers are set to prompt formal consideration of when, for example, drawdown borrowing or debt rescheduling may be beneficial.
- 4.15 Borrowing Risks: The borrowing portfolio is reviewed to avoid over exposure to too many loans maturing in any one period. There are also limits to balance the mix between fixed and variable rate loans. All borrowings are in sterling so there is no exchange rate exposure.
- 4.16 Investment Risks: The risk of counter parties is reviewed with the treasury advisors and investments are made only within agreed policy. The policy sets down approved counter parties and agreed limits on amount and duration of investment. All investments are in sterling so there is no exchange rate exposure. The Council complies with the Scottish Government investment regulations. Changes and potential changes in counter parties credit status is monitored in order that action can be taken where required.

MiFID II

- 4.17 The Markets in Financial Instruments Directive (MiFID) is a regulation that increases the transparency across the European Union's financial markets and standardizes the regulatory disclosures required for particular markets. MiFID ii became effective on 3 January 2018.
- 4.18 Under the new regime, Local Authorities were automatically deemed “retail” clients by default. The Council 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.

5. CONCLUSION

- 5.1 Satisfactory assurance can be taken that adequate arrangements and controls are in place in respect of managing and delivering the Council’s treasury function.

6. IMPLICATIONS

- 6.1 Policy – None.

6.2	Financial -	None
6.3	Legal -	None.
6.4	HR -	None.
6.5	Equalities -	None.
6.6	Risk -	None.
6.7	Customer Service -	None.

Kirsty Flanagan
Head of Strategic Finance
3 September 2018

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

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CUSTOMER SERVICES

25 SEPTEMBER 2018

LOCAL GOVERNMENT BENCHMARKING FRAMEWORK (LGBF) 2016/17: ASC MEMBERS' COMMENTS

1.0 EXECUTIVE SUMMARY

- 1.1 The Audit and Scrutiny Committee agreed at the meeting on 19 June 2018 to forward comments with regard to the Local Government Benchmarking Framework (LGBF) 2016/17 report.
- 1.2 This paper presents the comments received from members.
- 1.3 Some comments are observations but where possible appropriate responses are provided.
- 1.4 It is recommended that the Audit and Scrutiny Committee (ASC) –
- Endorses the report.
 - Agrees that information contained in the Local Government Benchmarking Framework is used as a tool to inform the Committee's scrutiny process on their selected topics.
 - Note that the Performance and Improvement Team in IHR will be involved in scoping future scrutiny work.
 - Note that the LGBF 2016/17 report is published on the Council Website and forms part of our statutory Public Performance Reporting duty.

ARGYLL AND BUTE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

CUSTOMER SERVICES

25 SEPTEMBER 2018

LOCAL GOVERNMENT BENCHMARKING FRAMEWORK (LGBF) 2016/17: ASC MEMBERS' COMMENTS

2.0 INTRODUCTION

2.1 This paper presents the comments received from members following the presentation of the LGBF 2016/17 report for Argyll and Bute at the Audit and Scrutiny Committee meeting on 19 June 2018. The report includes 'Telling Our Story' and 'Looking Forward' commentary from Heads of Service.

3.0 RECOMMENDATIONS

It is recommended that the Audit and Scrutiny Committee (ASC):

- 3.1 Endorses the report.
- 3.2 Agrees that information contained in the Local Government Benchmarking Framework is used as a tool to inform the Committee's scrutiny process on their selected topics.
- 3.3 Note that the Performance and Improvement Team in IHR will be involved in scoping future scrutiny work.
- 3.4 Note that the LGBF 2016/17 report is published on the Council Website and forms part of our statutory Public Performance Reporting duty.

4.0 DETAIL

- 4.1 All Scottish Councils participate in the Local Government Benchmarking Framework (LGBF) which is managed and produced by the Improvement Service (IS). The purpose of the LGBF is to improve performance through Benchmarking and sharing good practice between councils.
- 4.2 The Framework consists of 94 indicators that are collected through various means during the year. For example directly to the IS, CIPFA, the Scottish Government or the Scottish Household Survey (SHS). Many of the indicators have data from 2010/11.
- 4.3 In the past the LGBF has been criticised for using measures that many councils felt were not relevant, or that sample sizes, such as the SHS, were too small

and did not provide the detailed qualitative feedback from service users. Work is ongoing to improve and strengthen the measures to support a more strategic use of the LGBF and be more outcome focused.

- 4.4 The LGBF is a key element of our Performance and Improvement Framework (PIF). The PIF enables the Council to deliver its statutory duty to 'make arrangements to secure Best Value (continuous improvement in the performance of functions)' as required by the Local Government in Scotland Act 2003. The use of the LGBF is also a key element in the current round of Best Value³ audits.
- 4.5 Some of the indicators in the LGBF are used strategically in our Service Plans and Scorecards while others are used operationally for Benchmarking.
- 4.6 The LGBF uses a rank structure to illustrate performance, from 1st to 32nd with the Scotland average also shown. The rank structure should be used in context of the actual performance. For example our performance may have improved but our rank position has worsen – this is because other Councils have also improved.

With this in mind, rather than simply analyse the data Heads of Service added commentary that helps us 'Tell Our Story'. This also helps put into perspective some of the challenges and achievements that have occurred. The 'Looking Forward' section contains additional commentary by Heads of Service and explains any improvements that have been identified in the process.

- 4.7 Following the presentation of the LGBF 2016/17 at the Audit and Scrutiny Committee meeting on 19 June 2018 members were asked to review the report and feedback comments. The following comments, observations and questions have been received. Where appropriate answers are provided below.
- 4.8 General Comments
- The Telling our Story and Looking Forward narratives are generally useful in scene setting and identifying forward initiatives. This is particularly so with the Education and Children and Families sections.
 - Members should bear in mind that the introduction of the Looking Forward section means that for each indicator two differing time periods are being revised - one looking back and one looking forward. This makes the scrutiny function more nuanced albeit more comprehensive.
 - There are weaknesses with the Adult Care and Roads indicators due to the lack of substantive comment in the Looking Forward section.
 - Looking Forward commentary by Live Argyll reflects its recent start up. While the core message is about the setting up of the Trust, specific proposals for improvement are referred to in the latter indicators.
 - ENV 4a and 4b The Looking Forward narrative is limited to continuation of the

roads status and options report. This does not sound particularly ambitious or radical given the significance of the roads infrastructure to the Council's corporate plan and in the Single Investment Plan. There is reference to £3.5m investment in 16-17. For greater clarity on the developing picture it would be helpful if the total expenditure (actual and budgeted) on roads be provided for the years 16/17-18/19.

4.9.1 Specific Questions / Answers

4.9.1 CHN 18: Quality Ratings for Children's Provision

Q: How is this data collected to help improve the Looking Forward Commentary?

A: The Care Inspectorate carries out announced and unannounced inspections for every service they inspect. For example records and files are examined and they talk to service users and providers. They take account of self-assessment forms that are completed, any recommendations or requirements that have previously been made and any complaints received. Grade are awarded for certain Quality Themes which indicate how good the service provision is. This information is provided to the Improvement Service for the purposes of the LGBF report.

4.9.2 CHN 20a: School Exclusion Rates – per 1,000 pupils

Q: What are the base number of pupils?

A: The total school roll for the 2016/17 academic year was 10,316

Q: What is the Looking Forward idea?

A: To continue working towards further reducing the school exclusion rates. There has been a consistent improvement for the last 4 years.

4.9.3 CHN 21: Participation Rates for 16-19 year olds

Q: What impact if any did inclusion of the young people in the dance school make on the percentage score?

A: It increased the unconfirmed score by 0.9%

Q: What are the numbers of young people involved?

A: 151 young people were unconfirmed, of these 33 were enrolled in the dance school and should therefore have been included in the participation figure. This would raise the participation percentage to 93.9%

4.9.4 CHN 22: The percentage of child protection re-registrations within 18 months

Q: How many children are involved?

A: Data to follow

4.9.5 CHN 23: Percentage of looked after children with more than 1 placement in the last year (Aug-July).

Q: How many children are involved?

A: Data to follow

4.9.6 Corp 6b: Sickness Absence Days per Employee (non-teacher)

Q: Can more detail be provided on the proposed emphasis on the well-being programme?

A: The HR and OD team have been reviewing the council responses to the Health and Wellbeing Survey conducted in partnership with the NHS at the start of the year and are now in the process of putting together a draft wellbeing agenda. This will include where appropriate, findings and good practice around wellbeing from other key national reports and initiatives (Thriving at work etc.). The proposals will be presented to the HR Board in the autumn.

4.9.7 SW1,2 and 3

Q: Why is there no Looking Forward commentary?

A: Despite several requests commentary from the H&SCP was not provided.

5.0 CONCLUSION

5.1 At the June ASC meeting, members were invited to make detailed comment on the benchmarking information that was presented. The comments and queries submitted have been presented in this report. The committee will use the LGBF data to inform their scrutiny work once their topics are selected.

6.0 IMPLICATIONS

6.1	Policy	None
6.2	Financial	None
6.3	Legal	The LGBF forms part of our statutory Public Performance Reporting duty
6.4	HR	None
6.5	Equalities	None
6.6	Risk	Engaging with the LGBF is an area of interest for the upcoming BV3 audit.
6.7	Customer Service	None

Douglas Hendry, Executive Director - Customer Services

4 September 2018

For further information contact: Jane Fowler, Head of Improvement and HR

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ARGYLL AND BUTE COUNCIL**AUDIT AND SCRUTINY COMMITTEE****STRATEGIC FINANCE****25 SEPTEMBER 2018**

NATIONAL FRAUD INITIATIVE IN SCOTLAND

1. INTRODUCTION

- 1.1 Audit Scotland produced their latest report on the National Fraud Initiative (NFI) in Scotland in July 2018 which provides some key messages in respect of NFI activity and also recommendations for consideration.

2. RECOMMENDATIONS

- 2.1 Members are requested to review and endorse this report and the attached self-appraisal checklist.

3. DETAIL

- 3.1 Audit Scotland, working closely with public bodies, external auditors and the cabinet office, has completed another major data sharing and matching exercise. The NFI makes a significant contribution to reducing fraud and error.
- 3.2 In total, 113 Scottish public sector bodies participated in the 2016/17 NFI exercise, with 656,955 matches being identified for these Scottish bodies to consider.
- 3.3 The cumulative outcomes for NFI in Scotland since 2006/07 are now at £129.2million. These outcomes represent a significant return to the public finances of Scotland at a time when resources are under pressure. Across the UK the cumulative total is £1.69 billion.
- 3.4 Audit Scotland recommend that the audit committees, or equivalent, of participating bodies should review the self-appraisal checklist included within the Audit Scotland report to ensure they are fully informed of their organisation's planning and progress in the 2018/19 NFI exercise
- 3.5 The self-appraisal checklist has been reviewed and completed by the Chief Internal Auditor and Revenue & Benefits Manager and is included as an appendix to this report.

4. CONCLUSION

- 4.1 Argyll and Bute Council is an active participant in the NFI exercise. Data matching has proved to be a useful tool in identifying and reducing fraud and error. Internal Audit will continue to oversee the progress of future NFI activity.

5. IMPLICATIONS

- 5.1 Policy - None

- 5.2 Financial -None
- 5.3 Legal -None
- 5.4 HR - None
- 5.5 Equalities - None
- 5.6 Risk – None
- 5.7 Customer Service - None

**Laurence Slavin,
Chief Internal Auditor
25 September 2018**

For further information contact:

Laurence Slavin, Chief Internal Auditor (01436 657694)

APPENDICES

- Appendix 1 – Audit Scotland Report “National Fraud Initiative in Scotland”
- Appendix 2 – Self-appraisal checklist

The National Fraud Initiative in Scotland



Prepared by Audit Scotland
July 2018



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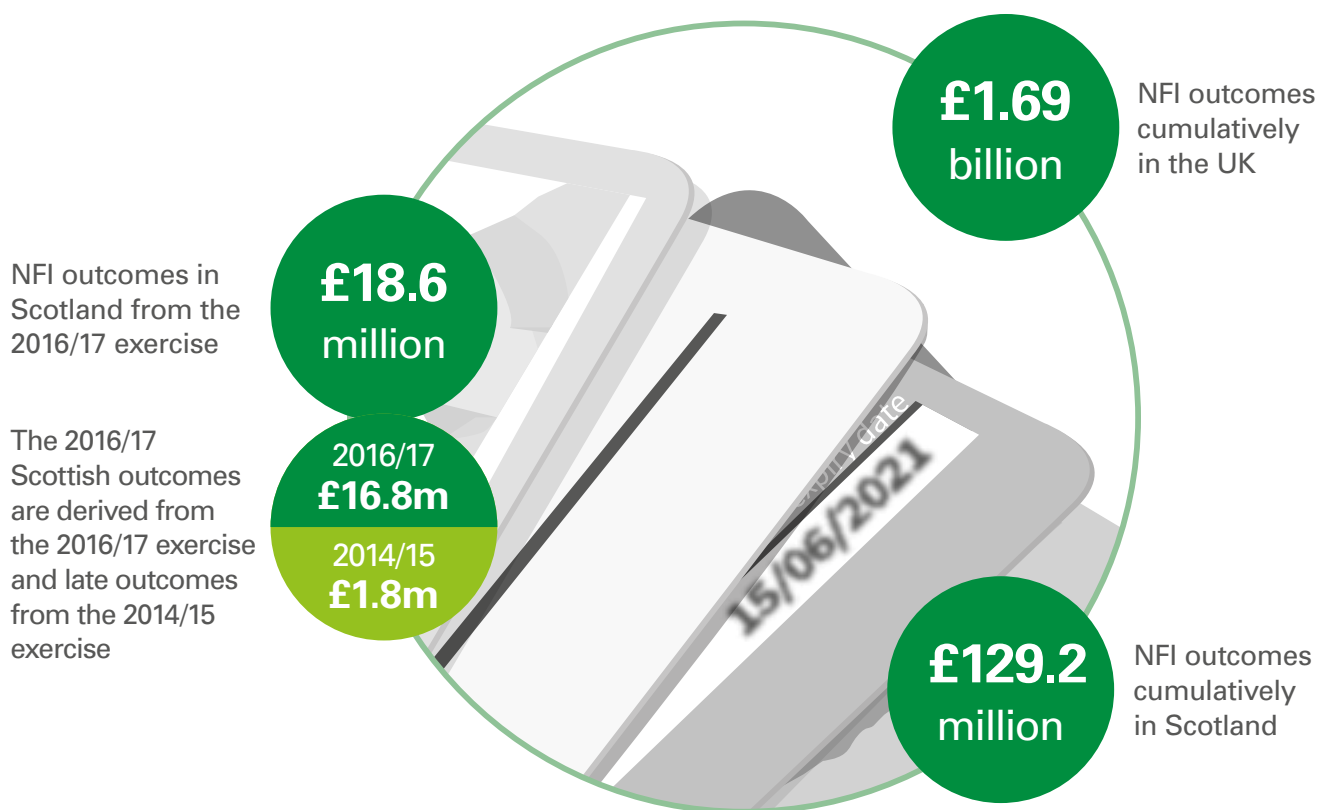
Audit team

The core team consisted of: Anne Cairns, Parminder Singh, Mark Laird, Alison Turner and Paul Bonfanti, with support from other colleagues and under the direction of Angela Canning.

Links

-  PDF download
 -  Web link
-

Key facts



Note: An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples of NFI outcomes include housing benefits being stopped or reduced, council tax discounts being reduced or removed, and blue badges being stopped or flagged for future checks.

Summary




Key messages

- 1** Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population. Public spending systems are complex and mistakes can happen. Some people also seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.
- 2** Fraud does not recognise organisational or geographic boundaries. Sharing data allows organisations to match data held in different systems in their own organisation and held in other organisations. Audit Scotland, working closely with public bodies, auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises significantly contribute to the security and transparency of public sector finances. It helps confirm that services are provided to the correct people and reduces fraud and error.
- 3** The outcomes from the NFI include amounts for fraud and error detected and an estimate for those future losses that have been prevented. Since we last reported on the NFI in Scotland in June 2016, outcomes valued at £18.6 million have been recorded. The cumulative outcomes from the NFI in Scotland since 2006/07 are now £129.2 million. These outcomes represent a significant return to the public sector at a time when Scotland's public finances continue to be under pressure. Across the UK, the cumulative total of NFI outcomes are now £1.69 billion.
- 4** Data sharing enables matches to be made between bodies and across national borders. Data submitted by Scottish bodies for the 2016/17 NFI exercise helped other organisations to identify outcomes of £1.1 million.
- 5** Most organisations take advantage of the opportunities provided by the NFI. But some could act more promptly and ensure that sufficient staff are in place to investigate matches, prevent frauds and correct errors.

**NFI
contributes
to the
security and
transparency
of public
sector
finances**

Recommendations

All participants in the NFI exercise should:

- ensure that they maximise the benefits of their participation. They should consider:
 - using the NFI AppCheck point of application service, the flexible matching service and the Equifax Public Sector Gateway service as appropriate when planning their counter-fraud activities ([paragraph 51](#))
 - whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application ([paragraph 61](#))
- audit committees, or equivalent, and officers leading the NFI should review the [National Fraud Initiative: Self-appraisal checklist](#) . This will ensure they are fully informed of their organisation's planning and progress in the 2018/19 NFI exercise ([paragraph 58](#))
- where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible ([paragraph 63](#)).

Local authorities should:

- investigate the council tax single person discount (SPD) matches, in conjunction with other data-matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid ([paragraph 28](#)).
-

Part 1

Background



Key messages

- 1** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.
- 2** Data matching is an effective and efficient way to identify areas for further investigation by connecting discrepancies between different data sets.
- 3** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

The NFI aims to detect and prevent fraud and error

- 1.** The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors. The NFI takes place every second year. The last one was for 2014/15, and we reported on the findings from that exercise in June 2016.¹
- 2.** The NFI in Scotland is now well established, with the 2016/17 exercise being the sixth exercise since 2006/07. The NFI enables public bodies to use computer data matching techniques to detect fraud and error. [Exhibit 1 \(page 8\)](#) shows the NFI's key features and [Exhibit 2 \(page 9\)](#) illustrates how the NFI exercise works.
- 3.** Public bodies that take part in the NFI in Scotland include the Scottish Government and other central government bodies, all councils, NHS bodies, pension administering bodies, the Scottish Fire and Rescue Service, Police Scotland and colleges.
- 4.** We carry out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. [Appendix 1 \(page 31\)](#) summarises the key legislation and controls governing the NFI data matching exercise.

the NFI is a counter-fraud exercise across the UK public sector

Exhibit 1

Key features of the National Fraud Initiative



Acts as a deterrent to potential fraudsters



Identifies errors and fraud enabling appropriate action to be taken



Operates across boundaries and public bodies in different sectors and countries



Can provide assurances that systems are operating well



Can identify where system improvements are required



Represents value for money through centralised data processing and identifying targeted high-priority matches

Source: Audit Scotland

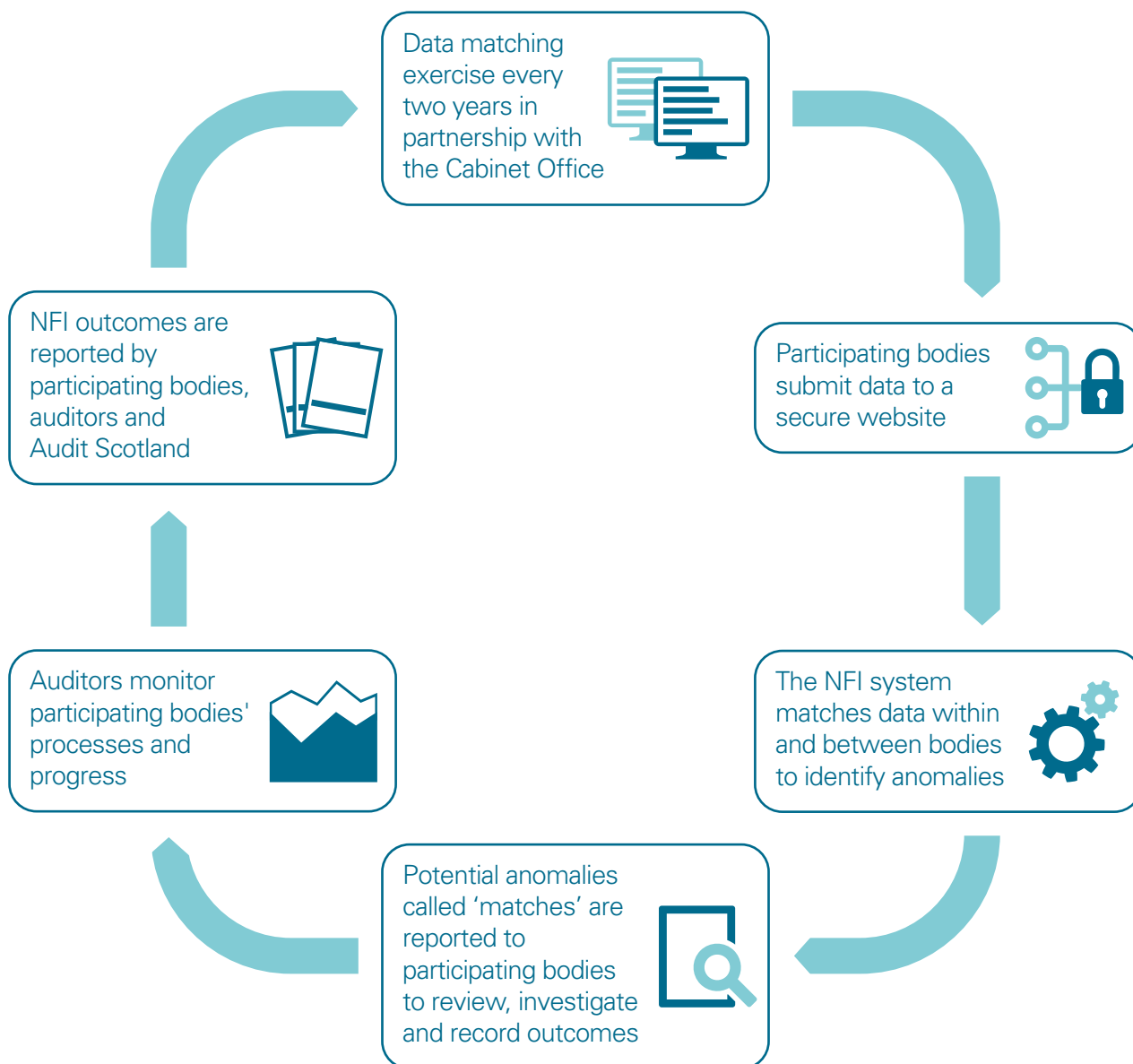
5. Fraud does not recognise organisational or geographic boundaries. Data sharing enables the NFI to use technology to compare information about individuals held by different public bodies, and on different financial systems, that might suggest fraud or error exists. This means public bodies can take action if any fraud or error has taken place, and allows auditors to assess the fraud prevention arrangements that those bodies have.

6. The NFI exercises significantly contribute to the security and transparency of public sector finances by:

- ensuring that services are only delivered and benefits are only paid to the correct people
- preventing, identifying and reducing fraud and error
- allowing overpayments to be recovered
- enabling penalties to be imposed.

Exhibit 2

How the biennial NFI exercise works



Source: Audit Scotland

7. The NFI uses data matching to identify potential inconsistencies. Data matching involves comparing sets of data against other records held by the same or another body. This enables us to identify potential inconsistencies, called matches, which may indicate fraud or error and need to be investigated. Public bodies taking part in the NFI exercise investigate matches and record the outcomes based on their investigations. It is up to individual bodies to decide which, and how many, matches to investigate.

8. The NFI matches data in many areas. Examples include the following:

- Council tax records to the latest electoral register, to identify any unreported changes that would affect a resident's council tax discount.
- Housing benefit claimants to various data sets, to check whether a claimant has incorrectly declared their income.
- Public sector pensions to payroll and deceased persons' records. This checks if the death of a pensioner has not been reported. It also identifies where a pensioner has gone back into employment but not reported changes which should have resulted in their pension payment being reduced.
- Blue parking badges to deceased persons' records, to check that the badge is cancelled when a permit holder dies.

9. The NFI outcome figures referred to in this report include amounts for fraud and error detected as well as an estimate for those future losses that have been prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching.

10. While the cost of fraud and error prevention measures may be estimated, the NFI also has an important deterrent effect that cannot be measured. Regular data sharing and matching exercises such as the NFI may deter people who are considering committing fraud.

11. The NFI's success comes primarily from the public servants who investigate the data matches. External auditors also have an important role. They review and conclude on how effective the local NFI arrangements are. They also provide assurance on the progress being made on the NFI investigations.

12. The public also have a duty to report any change in circumstances that could affect their entitlement to public services such as pensions, benefits or council tax discounts. If they do not, the consequences can be serious and lead to action against them to recover overpayments and possibly being prosecuted for fraud.

Part 2

Results of the 2016/17 NFI exercise



Key messages

- 1** Across the UK, £301 million of outcomes have been identified by the 2016/17 NFI exercise.
- 2** In Scotland, £18.6 million of fraud and error outcomes were identified from the 2016/17 NFI investigations.
- 3** Cumulative NFI outcomes are £1.69 billion for the UK, and £129.2 million for Scotland.
- 4** As at 31 March 2018, there was £4.8 million of recovery action being taken in Scotland on overpayments identified by the 2016/17 NFI exercise.

The NFI has identified £18.6 million of fraud and error

13. Overall, the 2016/17 NFI exercise has identified outcomes valued at £301 million across the UK, with a cumulative total of £1.69 billion since the first NFI exercise in 2006/7.

14. NFI outcomes in Scotland have increased from £16.8 million in the 2014/15 exercise, to £18.6 million in the 2016/17 exercise. Cumulative outcomes from the NFI in Scotland are now at £129.2 million and represent a significant return to the public finances of Scotland.

15. The 2016/17 outcomes for Scotland are split:

- £16.8 million of outcomes from the 2016/17 NFI matches.
- £1.8 million from late outcomes from the 2014/15 NFI.

16. In total, 113 Scottish public sector bodies participated in the 2016/17 NFI exercise, with 656,955 matches being identified for these Scottish bodies to consider. In the 2014/15 NFI exercise, 104 Scottish bodies took part and received 347,715 matches. It is up to individual bodies to decide which, and how many, matches to investigate.

17. The evidence from previous exercises is that between reports, outcomes continue to be delivered. The 2014/15 and 2012/13 NFI reports showed that 12 per cent and 20 per cent of the outcomes arose after March 2016 and March 2014 respectively. If this pattern is continued we could expect to see further outcomes in the region of £2 million from the 2016/17 NFI.

**£18.6 million
of fraud
and error
identified in
the Scottish
public sector**

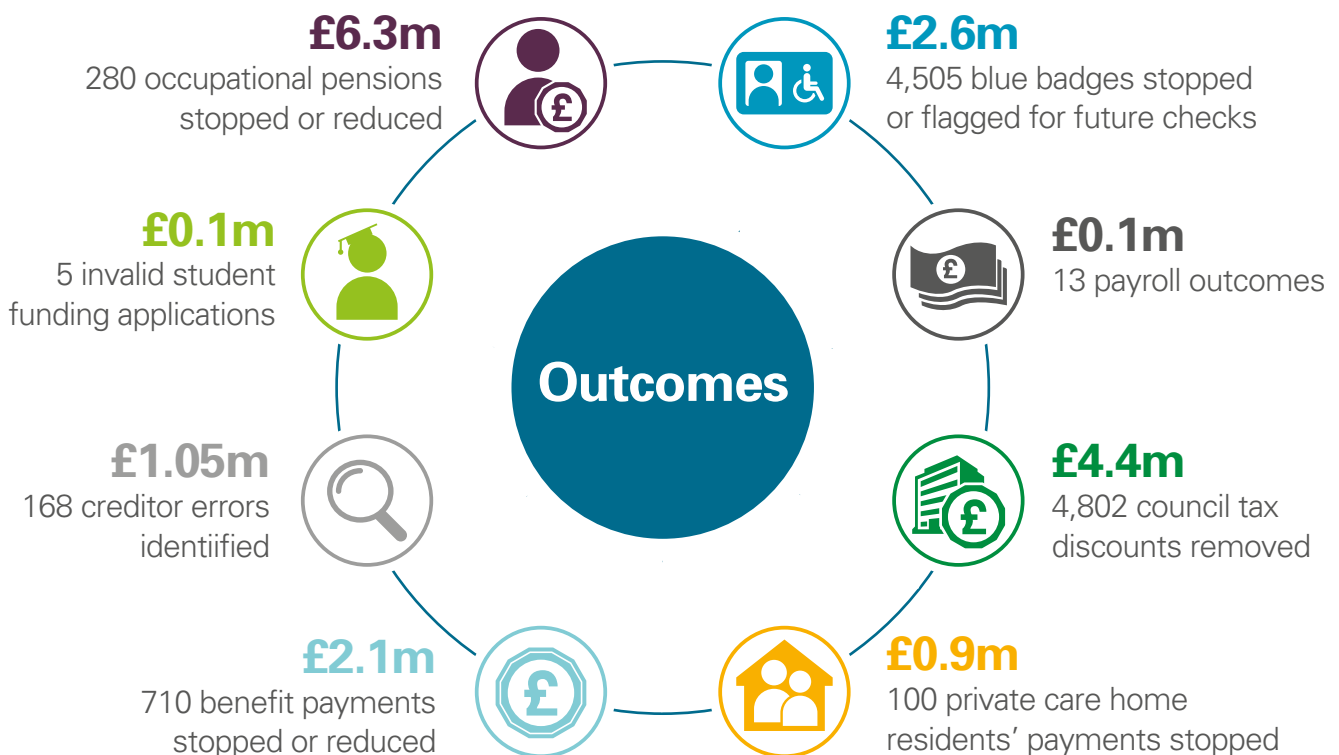
18. Importantly, once overpayments have been identified, public bodies can take appropriate action to recover the money. As at 31 March 2018, public bodies were taking action to recover £4.8 million (£4.6 million was being recovered at the end of the 2014/15 NFI in March 2016).

19. The areas which generated the most outcomes from the current exercise were ([Exhibit 3](#)):

- pensions – 34 per cent (£6.3 million)
- council tax discounts – 24 per cent (£4.4 million)
- blue badges – 14 per cent (£2.6 million).

Exhibit 3

Eight areas generated about 95 per cent of the NFI outcomes in Scotland



Source: The Cabinet Office NFI secure web application

20. The NFI outcome figures include amounts for fraud and error detected as well as an estimate for those future losses that have been prevented. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls.

21. Equally important is the assurance the NFI gives to the public bodies with few matches that, in the areas covered by the exercise, there do not appear to be significant problems. These bodies also benefit from the deterrent effect the NFI creates.

NFI outcomes from specific matches

Pensions

22. The NFI provides councils that administer pensions and the Scottish Public Pensions Agency (SPPA) with an efficient and effective way of checking that they are only paying people who are alive. The 2016/17 NFI helped these bodies identify 225 pensioners whose deaths had not been reported to them (195 in NFI 2014/15).

23. The number of outcomes for pensioners who have gone back into employment that should have resulted in their pension being reduced has increased from 22 to 55 since the 2014/15 NFI. This may indicate that people are more inclined to work after pensionable age.

24. In total, pensions' outcomes for the 2016/17 NFI are £6.3 million compared with £4.6 million for 2014/15 ([Exhibit 3, page 12](#)). This equates to an average outcome of £22,500 for each case.

Case study 1

SPPA – NHS superannuation scheme re-employment controls



As a result of the NFI matches identifying pensioners who have entered re-employment, controls have been strengthened in the re-employment data set within the payroll administration system to include earnings limits. This should help identify pension overpayments in the future.

Source: SPPA

Council tax

25. People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount (SPD) on their annual council tax bill. The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2017. Based on the average band 'D' council tax charge for Scotland in 2017, this equates to an annual discount cost of £285 million.² This demonstrates that the SPD is of considerable value.

26. The 2016/17 NFI exercise found that the total council tax discount incorrectly awarded across Scottish councils totalled £4.4 million (£5.6 million in 2014/15) ([Exhibit 3](#)). This is an average outcome of £916 for each case.

27. It is not for Audit Scotland to decide which data matching service a council should use and when. The NFI is one of the proven ways councils can address fraud and error in this area. Councils can also use credit reference agencies to match single-person details against a wider range of data sets such as credit and utility records. Angus and Perth and Kinross councils decided not to upload data for this particular data match as they use alternative data matching sources. A number of councils, which did submit data to the NFI, also use alternative data matching. For example, several councils used credit reference agencies. In addition, North Ayrshire Council carried out payroll to council tax matching.

28. We recommend that councils investigate the SPD matches, in conjunction with other data matching suppliers as they determine appropriate, to ensure that their awarded discounts are valid.

29. Council tax reduction replaced council tax benefit in 2013. It helps those on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a wide range of council tax reduction fraud and errors. The 2016/17 NFI is the first time council tax reduction data sets have been included within the NFI. Outcomes of £0.5 million were identified.

Case study 2



Midlothian Council – council tax SPD

An NFI match identified that another adult was resident in a property where a customer was receiving a council tax SPD of about £330 a year. An investigation established that the tenant's brother had been the only person in the property and the tenant had been privately renting another property. The tenant had also submitted several applications to buy the council property under the 'right to buy' scheme. Evidence was obtained that the tenant was married and was living with her new husband.

The 'right to buy' application was cancelled, resulting in the tenant not receiving her £15,000 discount and the tenant signed over her council tenancy back to the council. Council records have been updated and the tenant's brother is now liable for council tax from 2014. The council has issued council tax bills totalling £1,743.67.

Source: Midlothian Council and the Cabinet Office NFI secure web application

Blue badges

30. The blue badge parking scheme allows individuals with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances. Badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge and, importantly, the space is denied to people with actual mobility issues.

31. Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress to bereaved families. But by flagging the relevant records, they can at least ensure that badges are not incorrectly renewed in the future.

32. Scottish councils have reported correcting 4,505 blue badge records (3,073 in the 2014/15 NFI) where the NFI helped them to identify that the holder had died ([Exhibit 3, page 12](#)). North Lanarkshire Council has recorded the highest level of outcomes, correcting 751 blue badge records.

Case study 3



The Moray Council's 'tell us once' approach

The council operates a process called 'tell us once'. This means that when a death is registered, the registrar informs the relevant council and government departments. This includes advising the blue badge department to allow cancellation of blue badges on the council database. This process has reduced the risk of blue badges continuing to be used fraudulently or improperly. It also reduces the stress and burdens placed upon relatives of the deceased.

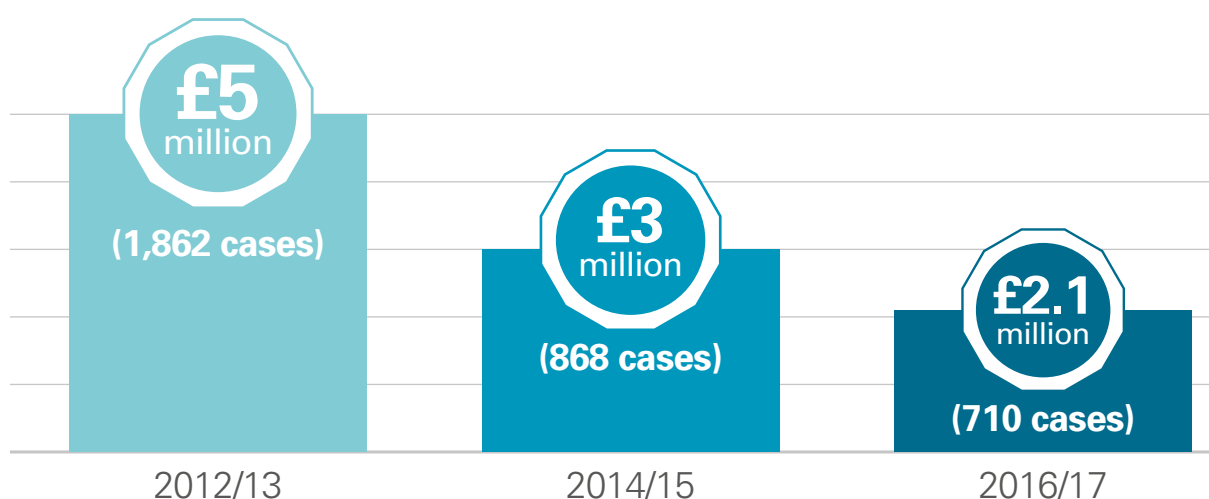
Source: The Moray Council

Benefits

33. The NFI provides councils and the Department for Work and Pensions (DWP) with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment. [Exhibit 4](#) summarises the benefit outcomes from the last three NFI exercises.

Exhibit 4

Housing and other benefit outcomes



Source: The Cabinet Office NFI secure web application

34. This indicates that there has been a further decline in benefit outcomes since the last exercise. The possible reasons are as follows:

- The transfer of responsibility for investigating benefit fraud from councils to the DWP's Single Fraud and Investigation Service from 2015/16. This means that local authority investigators are now concentrating on other areas.
- The DWP is now using real-time information (RTI) payroll and pension information, to help prevent benefit overpayments occurring.
- The DWP only investigates potential frauds of a significant value.
- Efforts by public bodies to continuously improve housing benefit systems. Councils are also participating in DWP schemes such as the Right Benefit Initiative from April 2017, which aims to identify and reduce housing benefit fraud and error.

35. The number of housing benefit cases recorded with overpayments has fallen from 868 in the 2014/15 NFI to 710 in the 2016/17 NFI ([Exhibit 3, page 12](#)). Although the individual value of overpayments has also fallen from £3,515 to £2,923, it still indicates that councils are effectively targeting high-value and high-risk matches first.

36. In terms of value, Glasgow City Council and Aberdeen City Council have so far achieved the highest levels of outcomes from their 2016/17 NFI benefits investigations, with £306,645 and £224,666 respectively.

Case study 4



East Dunbartonshire Council – housing benefit and council tax reduction

A housing benefit and council tax reduction scheme match identified that a claimant was no longer residing in the local area. This resulted in £4,200 of overpaid housing benefit and council tax reduction being identified. It was also established that the landlord had returned to live in the property and had evaded his £7,200 council tax liability by not informing the council of the change of occupancy. The landlord is currently repaying his council tax debt.

Source: East Dunbartonshire Council and the Cabinet Office NFI secure web application

Creditors

37. The NFI provides an efficient way to check for duplicate payments and that payments are made only to appropriate creditors. The 2016/17 NFI detected 168 creditor overpayments of £1.05 million compared to 139 overpayments worth £0.71 million in 2014/15 ([Exhibit 3](#)). Recovery action is taking place for £1.03 million (154) of these overpayments. In other cases, overpayments have already been returned or credit notes provided. These outcomes are all as a result of duplicate payments made in error.

38. Those bodies delivering the highest value of error from 2016/17 investigations are the Scottish Government (£278,981) and the Scottish Fire and Rescue Service (£134,892).

Case study 5



NHS Lanarkshire – creditors

Previous NFI exercises identified a few duplicate payments which had not been picked up through the health board's normal creditor controls. Based on this, the finance department put in place a new monthly IT report to identify duplicate payments. This additional control has resulted in a reduction in duplicate payments and where NFI now picks up duplicate payments these have already been resolved by the finance department.

Source: NHS Lanarkshire

Payments to private care homes

39. Councils have identified 100 cases of overpayments to care home providers for people who have died. These were worth £865,173 ([Exhibit 3, page 12](#)). Eight cases totalling £103,111 were identified in the 2014/15 NFI exercise. All of these overpayments are being recovered.

40. Owing to the significant increase in identifying overpayments to care providers, East Dunbartonshire Council has undertaken a pilot looking at matching all social care costs for clients to deceased records ([Case study 10, page 29](#)).

Case study 6



Aberdeen City Council – residential care homes

Following the death of a resident, the care home is responsible for notifying the council. The 2014/15 NFI identified an issue involving payments to care homes. In some cases, care homes were not notifying the council quickly when residents died resulting in payments continuing when they should have stopped.

Processes were introduced to use information from the council's 'tell us once' initiative. This data is checked daily, resulting in payments to care homes being stopped much earlier.

Source: Aberdeen City Council

Payroll

41. This match includes all participating bodies' employee payroll data as well as those of MSPs and councillors. The NFI can identify cases of potential payroll fraud. Investigations may lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Excessive working hours may also pose public safety risks.

42. The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to live or work in the UK. The NFI allows public bodies to supplement their recruitment checks.

43. Thirteen payroll outcomes valued at £128,963 have been reported for the 2016/17 NFI exercise ([Exhibit 3, page 12](#)). The matches also resulted in the following:

- One public sector employee being dismissed. The employee was dismissed after he did not return from annual leave, could not be contacted and it was confirmed that he did not have permission to live or work in the UK.
- An employee resigning after being challenged about residency status.
- Two public sector employees being removed from the NHS bank staffing lists after it was confirmed that they did not have permission to live or work in the UK. One was in the process of being removed from the list after the NHS board became aware that they were no longer permitted to work in the UK. The other employee was removed from the bank list after the Home Office informed the NHS board that the employee no longer had the right to work in the UK.

Student immigration checks

44. The NFI provides the Student Awards Agency Scotland (SAAS) with matches identifying cases where students may not hold valid permissions to live or study in the UK.

45. The NFI exercise identified five cases where students were found not to be entitled to receive support. These students had received student support amounting to £0.1 million ([Exhibit 3](#)). The 2014/15 NFI identified overpayments of £0.2 million in ten cases where students were not entitled to support.

New matches were introduced in 2016/17

Housing waiting lists

46. Housing waiting list data was a new data set required for the 2016/17 NFI exercise. The aim is to identify possible cases of waiting list fraud. This happens when an individual has registered on the waiting list but there are possible undisclosed changes in circumstances or false information has been provided.

47. Councils identified 90 cases where applicants were removed from waiting lists. East Dunbartonshire Council identified 71 (79 per cent) of these cases.

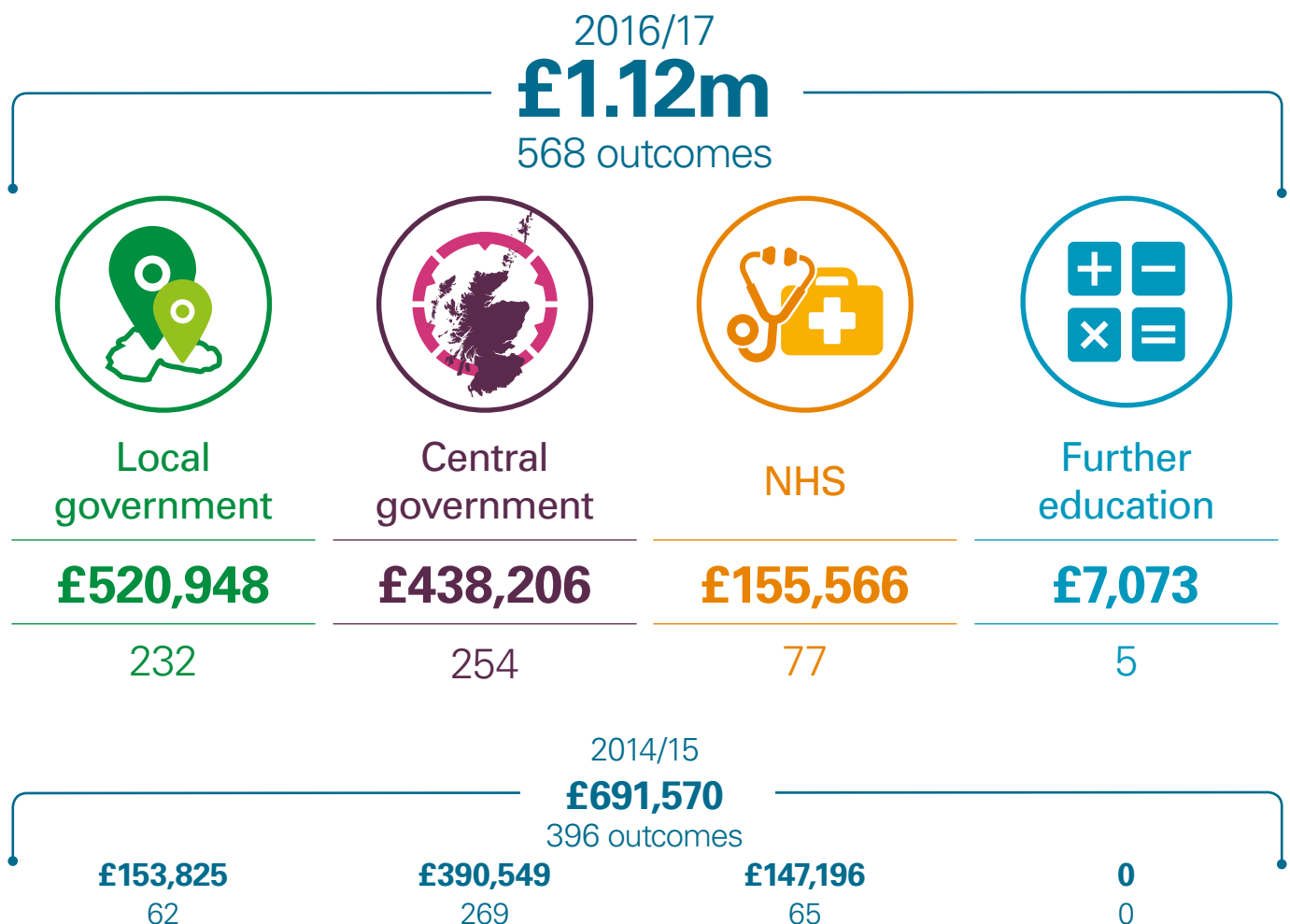
Matches benefiting other public bodies

48. One key benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. Scottish data for the 2016/17 NFI exercise benefited wider public bodies, both within and outwith Scotland to take action on 568 outcomes worth £1.12 million ([Exhibit 5](#)). There were 396 outcomes totalling £0.7 million in the 2014/15 NFI. Most of these outcomes are from cross-body housing benefits, council tax reductions and housing waiting list matches.

49. For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.

Exhibit 5

Matches benefiting other bodies both within and outwith Scotland



Source: The Cabinet Office NFI secure web application

Other NFI services to prevent and detect fraud

50. As well as the main data matching exercise which takes place every two years, the NFI exercise provides other services to help identify and prevent fraud and error:

- The NFI AppCheck helps bodies check applications at the start of the process. New applications for jobs, a service or benefits bring risks. The person applying may not be who they say they are, or they may fail to declare relevant information. This preventative service provides access to information allowing organisations to stop fraudulent applications from being successful. For example, it allows users to verify an applicant's immigration status, validate details provided on application forms and verify the applicant's welfare entitlement.
- The flexible data matching service allows participating bodies to re-check any of the existing NFI data matches when it is convenient for them. This service matches data from the most recent NFI exercise with regularly refreshed data.
- With the Equifax Public Sector Gateway, NFI participants can complete additional checks on the NFI matches. This function allows NFI users to check current residency data, records of deceased persons and data about other individuals who may be living at an address.

51. Several Scottish organisations have used these additional NFI services. We recommend that bodies consider using the NFI AppCheck, flexible matching service and the Equifax Public Sector Gateway service when planning their counter-fraud activities.

Case study 7



East Dunbartonshire Council – use of AppCheck

An individual applied to East Dunbartonshire Council for a taxi licence. The council used AppCheck and discovered that the applicant has a Glasgow address and also a tenancy in Milton Keynes. The investigation led to Milton Keynes Council recovering their property.

Source: East Dunbartonshire Council

Costs and benefits of participating in the NFI

52. The estimated value of the NFI to the public purse since we last reported in June 2016 is £18.6 million in outcomes. Some of this represents overpayments that will never be recovered and estimated values that have been attached, for example to cancelling a blue badge. These amounts may not translate into cash savings, but they are still valuable outcomes.

53. We previously consulted public bodies and established from those that responded that the NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do not keep separate records of

the NFI recoveries. Indeed, we would prefer that bodies devoted their resources to investigating, rather than separately recording the NFI overpayments that are often recovered by frequent small payments over long periods of time.

54. Based on the current NFI exercise, public bodies have indicated that the NFI overpayments being recovered are £4.8 million (88 per cent of overpayments identified, excluding estimates). The estimated forward savings are £13.1 million from areas such as benefits and pensions. This is public money that has been prevented from being paid out in fraud or error following investigations. We estimate that at least 70 per cent of the total outcomes of £18.6 million are actual cash savings or money being recovered for the public purse.

Part 3

How public bodies work with the NFI



Key messages

- 1** 83 per cent of participating public bodies managed their roles in the 2016/17 NFI exercise satisfactorily. This is an improvement since the NFI 2016 report, when it was 80 per cent.
- 2** All bodies have taken appropriate action in cases where fraud is alleged.
- 3** The effectiveness of the NFI arrangements has improved across the central government and NHS sectors. The picture for councils is mixed.
- 4** NFI arrangements in colleges are generally sound but could be further developed.
- 5** 62 per cent of audit committees reviewed our last NFI report and carried out the self-assessment checklist contained within it. This is an improvement since the 2014/15 NFI report when only 31 per cent of audit committees reviewed the self-assessment checklist.
- 6** About a third of bodies could follow up their matches more promptly. This is a slight improvement since the 2016 NFI report, when the figure was 41 per cent.

most public
bodies
manage
their role
in the NFI
satisfactorily

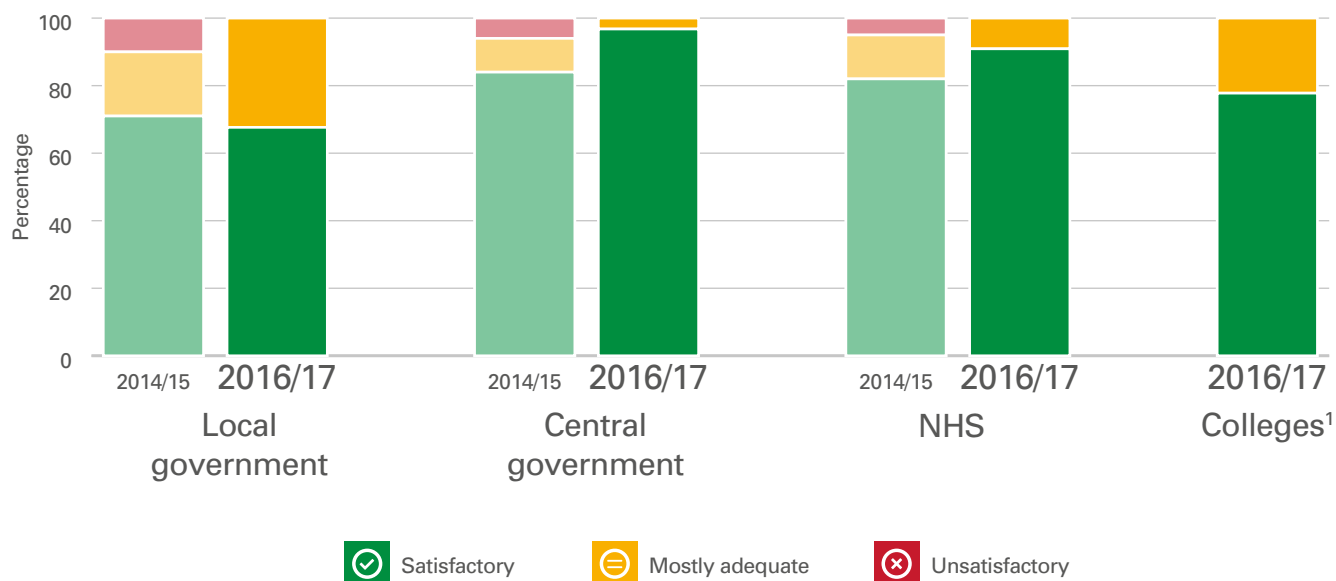
Overall findings

55. Auditors concluded that 83 per cent of participating bodies had managed their role in the 2016/17 NFI exercise satisfactorily (80 per cent in the NFI 2016 report). No participating bodies were assessed as requiring to improve urgently. These conclusions continue to indicate a high degree of commitment to the NFI and that most participating bodies are taking the NFI seriously by putting adequate arrangements in place.

56. Audit work indicates that central government bodies have better arrangements compared with the NHS, local government and college sectors ([Exhibit 6, page 23](#)). This may be because many central government bodies have less direct interaction with the public. This, in turn, means that most central government bodies have fewer types of data matches to process for the NFI exercise.

Exhibit 6


External auditor review of NFI arrangements



Note: 1. Only two colleges took part in the 2014/15 NFI.

Source: External auditors

57. We held an NFI workshop in March 2017 for participating bodies. The workshop was well attended with over 50 participants from NHS, councils and central government bodies. The aim was to work through recommended approaches to the NFI with both experienced users of the NFI system and other new users for the 2016/17 exercise. The NFI team facilitated the sharing of good practice on the day. We plan to hold more events in autumn 2018 to help improve public bodies' outcomes from the next NFI exercise.

58. We recommend that all bodies use our [National Fraud Initiative: Self-appraisal checklist](#)  to self-appraise their involvement in the NFI before and during the 2018/19 NFI exercise.³ Part A of the checklist is designed to help audit committee members when they are reviewing, seeking assurance over or challenging how effectively their public body participates in the NFI. Part B of the checklist is for staff involved in planning and managing the NFI exercise.

Areas for further improvement

59. Auditors reviewed each body's planning and progress five months after the release of matches to participants and provided recommendations for improvement where appropriate. Overall, auditors' conclusions demonstrate that there is a high level of involvement by participating bodies with the NFI. There are still areas where they could improve further ([Exhibit 7, page 24](#)). In particular, auditors assessed 17 per cent of participating bodies overall as being 'mostly adequate'. This means that although these bodies' NFI arrangements are generally sound, there are some specific areas where they must improve further.

Exhibit 7

Conclusions from audit work on NFI participating bodies

Key questions (from local auditor questionnaire)	Conclusion
Overall, how do you rate your audited body's engagement with the NFI exercise (planning, progress and response to outcomes)?	 83% 17% 0%
Has the body completed its review of the 2016/17 matches?	 75% 23% 2%
In the auditors' judgement has the body made satisfactory progress with processing its NFI matches?	 78% 22% 0%
Has the body taken appropriate action in cases where fraud is alleged?	 100%
Has the body reported internally or externally on NFI progress and outcomes, eg to senior management/elected members/audit committees?	 83% 15% 2%
Does internal audit, or equivalent, monitor the body's approach to the NFI and the main outcomes, ensuring that any weaknesses are addressed in relevant cases?	 78% 13% 9%
Do all departments involved in the NFI start the follow-up of matches promptly after they become available?	 70% 23% 7%
Did the body's audit committee (or equivalent) and the key contact review the self-appraisal checklist in the 2016 NFI report as a means of monitoring the body's planning and progress with the 2016/17 exercise?	 62% 23% 15%
Is the body deploying appropriate resources on managing the NFI exercise?	 85% 11% 4%
	

Source: Audit Scotland based on audit work in Scottish public sector bodies

60. It is worth noting from audit work that:

- auditors reported concerns in seven per cent for not following up matches promptly. This figure has improved considerably from the 2014/15 NFI exercise when auditors reported concerns in 41 per cent
- most of the staff directly involved in preparing for the NFI and following up matches demonstrate commitment. Auditors identified that there were issues in four per cent of bodies because of limited NFI skills, insufficient authority and/or not enough time available to coordinate the exercise. This is an improvement from the 2014/15 NFI exercise (16 per cent)
- auditors reported that in 15 per cent either the audit committee (or equivalent) or the key contact did not review the self-appraisal checklist to monitor the body's planning and progress with the 2016/17 NFI exercise. This compares favourably with the 2014/15 NFI exercise (69 per cent).

61. We recommend that bodies review the guidance section within the NFI secure web application to identify possible ways of working more efficiently on the NFI matches.

62. Overall, auditors found an improved picture of involvement by all bodies compared with the 2014/15 exercise.

63. We recommend that where local auditors have identified specific areas where improvements could be made, the public bodies should act on these as soon as possible.

Actions to improve the NFI

Scottish Parliament post-legislative scrutiny review of the NFI

64. The Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee published a report in September 2017 following its post-legislative scrutiny review of the NFI.⁴ The committee concluded that the NFI was a success story in Scotland. It had improved the transparency of public finances and clawed back millions of pounds that would otherwise have been lost to fraud or error. The committee outlined several recommendations for ways in which the NFI could be strengthened.

65. We welcome the committee's report and recommendations on the NFI. We have been considering the report's implications and are working alongside the Scottish Government and partner bodies to enhance the impact of the NFI in the following ways:

- Raising awareness of the NFI by promoting the publication of this report on our website and social media. We also gave presentations earlier this year on the NFI at national events on tackling fraud and error in Scotland.
- Holding events with NFI participants, the Cabinet Office and the NFI data processing contractor to identify new and emerging key fraud risks within public sector bodies. The outcomes from these events will be used to enhance the existing NFI processes and data sets where possible.
- Working with the Cabinet Office and other UK audit agencies to identify additional data sets to include in the NFI.

- Working to identify additional public bodies which may benefit from being included in the NFI. For example, the Scottish Government is considering the feasibility of an NFI pilot for housing associations. All new public bodies created in Scotland will be considered for inclusion in the NFI, such as the new social security agency.

Case study 8



NHS Scotland Counter Fraud Service – use of social media

In February 2018, the NHS Scotland Counter Fraud Service launched a new social media page on Twitter. This page provides details of its work protecting the NHS and public sector from financial crime and provides updates and advice from counter-fraud services.

Source: NHS Scotland Counter Fraud Service

Case study 9



NHS Scotland Counter Fraud Service – *Accurate and Honest Declarations Guide*

The NHS Scotland Counter Fraud Service is working on patient applications for exemptions by supporting its partner organisations as they design systems and processes that reduce fraud. The service has published an *Accurate and Honest Declarations Guide* to designing application forms and declarations. It provides an explanation of the principles that should be adopted by those designing application processes, both internal and external. It also includes the latest insights from behavioural economics and a section on digital signatures.

Source: NHS Scotland Counter Fraud Service

Costs of NFI







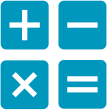

66. Audit Scotland funds the cost of the NFI system and the biennial data matching for Scottish public sector bodies (£189,650 for the 2016/17 exercise). Participating bodies incur costs following up matches and investigating. Participating bodies also incur costs for additional services such as the AppCheck pre-application screening, which currently costs £1,850 a year.

67. Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that did have records were able to estimate that their costs ranged from £255 to £40,000 ([Exhibit 8, page 27](#)). This compares favourably with the average outcome for each public body in Scotland of £165,000 for the 2016/17 NFI.

68. Overall, the £18.6 million of outcomes from the 2016/17 NFI outweigh the costs.

Exhibit 8

Cost of NFI

Sector	Details	Cost
 Local authority	7 councils estimated the financial cost	Costs range from £9,000 to £40,000 
 Central government	7 bodies estimated the financial cost	Costs range from £255 for a small body to £20,000 for larger bodies 
 Health	7 boards estimated the financial cost	Costs range from £600 for a special board to £20,000 for a territorial board 
 Colleges	1 body estimated the financial cost	£2,000 

Source: NFI local auditor questionnaire

Part 4

Future developments



Key messages

- 1** The 2018/19 NFI is due to start in autumn 2018 and we will review which bodies should be asked to submit data.
- 2** The NFI is now developing new ways to prevent and detect fraud.

Participating bodies and data sets

69. The 2018/19 NFI exercise is due to start in autumn 2018. We will continue to look at which bodies should be asked to submit data and which data sets should be included in the NFI. It is unlikely that the number of bodies will increase significantly.

70. We continue to work with NFI participants to find new ways to prevent and detect fraud and error. This includes identifying any emerging fraud risks.

71. Providing social care is one of the largest expenditure areas for councils. This is a complex area where client care requirements often change. Council social work services need to ensure that payments are accurate and reflect the level of care being provided. East Dunbartonshire Council has reviewed its social work systems to investigate, through an NFI pilot exercise, if it can use data matching to ensure that social care payments are cancelled when a customer dies ([Case study 10, page 29](#)). As a result of the pilot, an optional additional data match will be available to all councils for the 2018/19 NFI exercise.

72. The Cabinet Office and the Wales Audit Office are considering if they can use HMRC data along with credit reference data to identify any fraud and error in student awards. The aim of this pilot exercise is to identify economically active residents in the same household as students who have not been declared on student funding applications. This pilot work is being taken forward in Scotland through the Student Awards Agency for Scotland.

73. We are also investigating the possibility of working with the NHS Scotland Counter Fraud Service to identify potential areas for further data matching using NFI data sets in preventing and detecting patient exemption fraud.

74. We continue to work with the Scottish Government in promoting and enhancing participation in the NFI.

we continue to work with public bodies to find new ways to prevent and detect fraud and error

Case study 10



East Dunbartonshire Council – NFI pilot in social care

A pilot was undertaken to investigate if data matching could be used to ensure that social care payments were cancelled when a client died. Currently the NFI only matches the following:

- Private residential care home residents to deceased person records.
- Personal budget direct payments to housing benefits, pensions, Amberhill¹ and other councils' personal budget data.

The council matched data for all clients on the social work system against deceased person data and identified 15 errors. This consisted of nine clients who received care from external providers and payments continued after the client's death, and six additional clients who received care from the council. The overpayments identified for the nine clients of the external providers totalled £40,266. The council has now recovered the full amount from the care providers. In the cases of the six clients who received care from the council, it was confirmed that the care had stopped when the client had died.

The council has now introduced additional controls to strengthen its systems.

Note: 1. Amberhill is a system used by the Metropolitan Police to authenticate documents presented for identity verification.

Source: East Dunbartonshire Council and the Cabinet Office NFI secure web application

The Code of Data Matching Practice

75. Audit Scotland's Code of Data Matching Practice has been updated for the 2018/19 NFI exercise. It was issued for a six-week consultation in May 2018. The revised Code reflects important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018. Once finalised, we will conduct data matching exercises under the requirements of the new Code.

The 2018/19 NFI exercise



76. The 2018/19 NFI will be continuing with successful batch data matches. We will also continue to promote the flexible and real-time data matching options aimed at fraud prevention through the application checker module (AppCheck) and the flexible matching service.

77. The data sets included within the NFI are being reviewed with a view to adding more. The Cabinet Office and other UK audit agencies are seeking to raise awareness of, and get more bodies involved in, the NFI.

78. We look forward to the next NFI exercise and continuing to work with the Cabinet Office, other UK audit agencies, and participating bodies in progressing NFI improvements. This will include promoting NFI wherever possible. This should strengthen arrangements to help safeguard public money against losses from fraud and error.

Endnotes



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- 1 [*The National Fraud Initiative in Scotland 2014/15*](#) , Audit Scotland, June 2016.
 - 2 *Scottish Local Government Financial Statistics 2016/17*, Scottish Government, February 2018.
 - 3 [*National Fraud Initiative: self-appraisal checklist*](#) , Audit Scotland, March 2018.
 - 4 *Post-legislative Scrutiny: The National Fraud Initiative*, The Scottish Parliament Public Audit and Post-legislative Scrutiny Committee, September 2017.

Appendix 1

NFI governance arrangements



Background

This appendix summarises the key legislation and controls governing the NFI data matching exercise.

Legislation

The 2016/17 NFI exercise was carried out under powers given to Audit Scotland for data matching included in The Criminal Justice and Licensing (Scotland) Act 2010.

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data protection safeguards. These include a requirement for us to prepare a Code of Data Matching Practice, and to consult with the UK Information Commissioner and others before publication. Our code that was in place for the 2016/17 NFI exercise, The Code of Data Matching Practice 2010, ensures that the NFI exercises continue to comply with:

- data protection requirements
- best practice in notifying individuals about using their information for the NFI.

We have updated the Code of Data Matching Practice for the 2018/19 NFI exercise. We did this to reflect important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018.

The NFI web application

Bodies access the application online using passwords and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Cabinet Office regularly reviews the application and implements changes to improve its functionality, ease of use, and security.

Interactive training is available to participating bodies and auditors through the web application to support the Cabinet Office and Audit Scotland Guidance.

Security review and accreditation

The NFI system has gone through the Cabinet Office's information assurance and risk management process. This means the system is HM Government-accredited annually to store and process data.

Any firm processing data for the Cabinet Office will do so under a contract in writing. This imposes requirements covering technical and organisational security standards. Under the contract the firm may only act on instructions from the Cabinet Office. The Cabinet Office, assisted by Audit Scotland and the other UK public sector audit agencies, reserves the right to review the firm's compliance with these standards at any time. The Cabinet Office also requires annual security testing, supplemented by additional tests as appropriate.

This accreditation involves demonstrating that the NFI is suitably secured and that information risks are managed to government standards.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

Appendix 2

Estimation bases



The figures used in this report for detecting fraud, overpayments and errors include outcomes already delivered (actual amounts participants have recorded) and estimates. Estimates are included where it is reasonable to assume that incidents of fraud, overpayments and errors would have continued undetected without NFI data matching.

Details of estimate calculations used in the report are shown below.

Data match	Basis of calculation of estimated outcomes
Pensions	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.
Council tax single person discount	Annual value of the discount cancelled multiplied by two years.
Council tax reduction scheme	Weekly change in council tax discount multiplied by 21 weeks.
Housing benefit	Weekly benefit reduction multiplied by 21 weeks.
Blue badges	Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.
Payroll	<p>£5,000 for each employee who is dismissed or resigns as a result of NFI matching, or £10,000 for each resignation or dismissal for employees who have no right to work in the UK. Estimates based on the past value of fraud (for example incorrect payment of sick leave), the costs associated with removing fraudulent employees from their posts, and the preventative forward savings for avoidance of a Home Office penalty for employing illegal workers.</p> <p>£50,000 for employees removed from the UK.</p>
Social housing waiting lists	£3,240 for each case based on the annual estimated cost of temporary accommodation and the likelihood that future losses would occur owing to waiting list fraud, multiplied by two years.
Private care homes	£7,000 for each case based on average weekly cost of residential care multiplied by 13 weeks.

The National Fraud Initiative in Scotland

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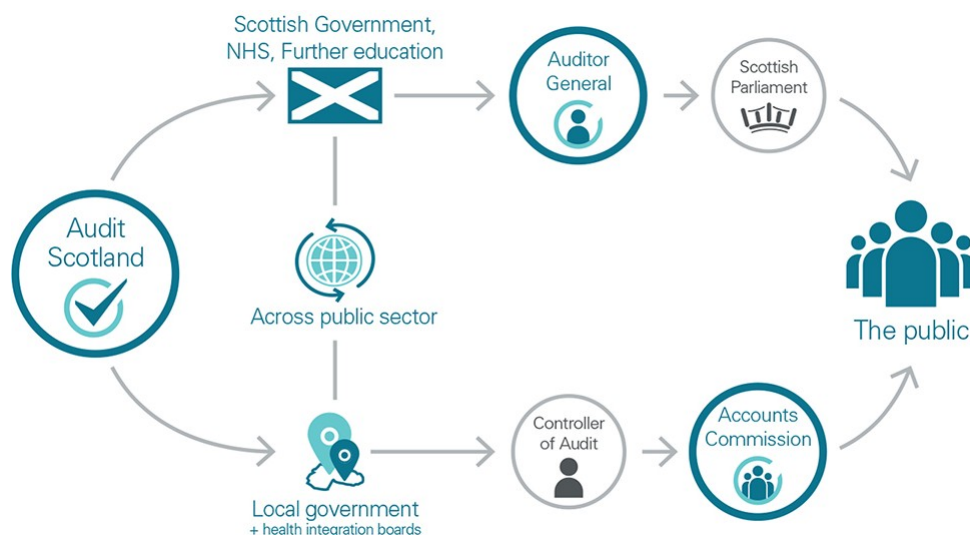
National Fraud Initiative

Self-appraisal checklist

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Background

- 1.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error.
- 2.** It means that public bodies can take action if any fraud or error has taken place, and it allows auditors to assess fraud prevention arrangements which those bodies have.

Self-appraisal checklist

- 3.** Appendix 1 includes a two-part checklist that we encourage all participating bodies to use to self-appraise their involvement in the NFI prior to and during the NFI exercises.
- 4.** Part A is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI.
- 5.** Part B is for officers involved in planning and managing the NFI exercise.

How to work more efficiently

- 6.** Audit Scotland continues to encourage organisations to review and investigate NFI matches efficiently and effectively. This enables them to make better use of their limited resources. Some suggestions for improving efficiency and effectiveness are included at appendix 2.

Appendix 1 – self appraisal checklist

Part A: For those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
Leadership, commitment and communication			
<p>1. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?</p>	<p>The NFI key contacts (KCs) are members of the Internal Audit team, who have the role of overall monitoring of progress. There are individual service staff who have been allocated responsibility for progressing and investigating matches that fall under their remit (for example, Council Tax, Payroll, Creditors etc contact).</p> <p>When the dataset is published progress is monitored by the KCs and a quarterly progress update is reported as a standing agenda item to the Audit & Scrutiny Committee (ASC).</p>	No	N/A
<p>2. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?</p>	<p>The Anti-Fraud Strategy included as an appendix to the Council Constitution states at paragraph 4.5 that <i>“We are committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible, we will be prepared to help and exchange information, subject to the requirements of Data Protection, with other Councils and organisations to deal with fraud. We will participate in any</i></p>	No	N/A

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	<i>national anti-fraud initiatives.”</i>		
3. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	The Council do not currently use the real-time matching service as they have other arrangements in place. The Council's 2016/17 annual audit report issued by Audit Scotland identified the Council's use of an outsourced independent matching service (Datatank) twice yearly to identify council tax discount fraud as an area of good practice.	No	N/A
4. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?	Quarterly updates on progress with NFI matches are provided to the ASC as a standing agenda item.	No	N/A
5. Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	To date, data has always been submitted as per the stipulated deadline. In the previous NFI cycle, the decision was made to stop investigating matches on Report 803 – Council Tax to other datasets due to the poor quality of matches in this data set. The decision was made that the cost of resource to investigate these matches would outweigh the benefit. This decision was deemed appropriate by Internal Audit.	No	N/A
6. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	The KCs, who are members of the Internal audit team, monitor the progress with NFI matches on a regular basis however this is a supervisory role and cases are not reviewed	No	N/A

	<p>by internal audit individually.</p> <p>If there is a fraud that comes to light as a result of NFI and it appears that our internal controls have let us down, the controls will be reviewed and the process will be improved if at all possible as a result. However since the responsibility for investigating housing benefit fraud transferred to the DWP in 2015 most of our Fraud work is concentrated on Revenue Fraud such as Single Person Discount.</p>		
7. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes where possible.	No	N/A
8. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	We have done this in the past and will consider this action in the future also. It is a useful deterrent.	Yes	TBC
Part B: for the NFI key contacts and users		Yes/No/Partly	Is action required? Who by and when?
Planning and preparation			
1. Are we investing sufficient resources in the NFI exercise?	Administration of the process is well organised and resourced, with staff in appropriate departments involved in investigation of matches. Internal Audit has a role in overall monitoring of progress. The Council is proactive in investigating matches, employs a significant level of staff resource in the process and provides regular updates to the ASC.	No	N/A

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<p>2. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.</p>	<p>KC reviews timetable for upcoming NFI exercise available from 31 July, the Privacy Notice Compliance Statement is submitted and datasets confirmed. Senior IT Engineer is contacted, advised of the data submission timetable and provided with the link to the NFI data specification requirements. KC liaises with Senior IT Engineer to ensure data is captured and uploaded as per timetable. KC ensures Senior IT Engineer and all required users have appropriate access to NFI application when required.</p>	<p>No</p>	<p>N/A</p>
<p>3. Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?</p>	<p>The KCs for the Council are members of the Internal Audit team. Internal Audit has a role in overall monitoring of progress. Where deemed necessary the KC will seek further information from the services before reporting progress to the ASC.</p> <p>Administration of the process is well organised and resourced, with staff in appropriate departments involved in investigation of matches.</p>	<p>No</p>	<p>N/A</p>

4. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	<p>Yes, as noted above the KCs are members of the internal audit team. Time is allocated as part of the internal audit annual plan for participation in the NFI exercise. For the 2018/19 annual plan 15 days have been allocated to oversee the NFI process.</p> <p>If required, authority to seek action would be organised in conjunction with the Chief Internal Auditor in his role as the Senior Responsible Officer.</p>	No	N/A
5. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	<p>Whilst we recognise that participation in the NFI exercise acts as a deterrent, we would welcome engagement with the Accounts Commission on the ongoing benefits of the NFI process against the cost of resource allocated to it. For Argyll and Bute the most recent NFI cycle identified approximately £4,000 of fraud.</p>	No	N/A
6. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	<p>Yes, the KC confirms the Council has met the fair processing notice requirements by the deadline.</p>	No	N/A
7. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	<p>Yes, to date all data submissions have been submitted by the deadline.</p>	No	N/A
8. Do we adequately consider the submission of any 'risk-based' data-sets in conjunction with our auditors?	<p>To date, the Council has submitted data sets required as a minimum by the NFI exercise. All submissions of data have been in line with the submission deadlines. Submission</p>	No	N/A

	arrangements have been discussed with the Council's External Auditors and they have no concerns with the Council's approach.		
9. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	The Council do not currently use the real-time matching service as they have other arrangements in place. The Council's 2016/17 annual audit report issued by Audit Scotland identified the Council's use of an outsourced independent matching service (Datatank) twice yearly to identify council tax discount fraud as an area of good practice.	No	N/A
Effective follow up of matches			
10. Do all departments involved in NFI start the follow-up of matches promptly after they become available?	Yes. Service contacts are notified by the key contact in January on release of the new data set. The key contacts then send email reminders on a monthly basis to remind service contacts to continue to progress matches and check system for comments / queries from other organisations.	No	N/A
11. Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?	Service contacts are advised to investigate recommended matches as a priority and then follow up with other matches where resource allows.	No	N/A
12. Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?	Yes, we recognise that the NFI is no longer predominately about preventing and detecting benefit fraud and recognise that participation in the NFI exercise can also act	No	N/A

	as a fraud deterrent. However see our comments in Part B, Question 5 of this self-assessment.		
13. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Each match is thoroughly investigated through review of information held on Council systems and communications with other authorities where relevant to inform outcome recorded. No issue is used when confident that action has already been carried out.	No	N/A
14. (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter Fraud Services?	N/A	N/A	N/A
15. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	In the most recent NFI cycle there were four instances of fraud reported. The recovery / remedial action taken has been noted in the comments section of the NFI system for reference. The recovery action taken in each instance has been deemed appropriate for the nature and value of fraud.	No	N/A
16. Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?	Internal Audit recommend to staff involved with investigating matches that all recommended matches should be completed as a priority and then as many other matches should be investigating as far as resources allow. As referenced above, as part of the previous NFI cycle, the decision was made to stop investigating matches on Report 803 – Council Tax to other	No	N/A

	datasets due to the poor quality of matches in this data set. The decision was made that the cost of resource to investigate these matches would outweigh the benefit. This decision was deemed appropriate by Internal Audit.		
17. Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?	Internal Audit recommend to staff involved with investigating matches that all recommended matches should be completed as a priority and then as many other matches should be investigating as far as resources allow.	No	N/A
18. Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes, as noted by Audit Scotland in their 2016/17 Annual Report the Council's is proactive in investigating matches and employs a significant level of staff resource in the process.	No	N/A
Recording and reporting			
19. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes, outcomes are recorded on the system by staff in departments who have investigated the match.	No	N/A
20. Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes, when a new user is set up on the system the KC will direct them to the training and guidance section of the website. Service staff may also come to the KC with queries on the system, if it is a query that the KC cannot answer then they will liaise with the NFI helpdesk.	No	N/A

21. If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?	N/A - All information is updated on the system	No	N/A
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Appendix 2 – How to work more efficiently

Concerns	How to work more efficiently
Many participants are not using the latest time-saving enhancements to the NFI software.	Ensure staff within the organisations that take part in the NFI keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.
Matches that are time critical and could identify an overpayment are not acted on first.	Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration, can be dealt with as soon as they are received.
Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments.	Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.
Disproportionate time is spent looking into every match in every report.	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.
Enquiries from other organisations that take part in the NFI are not always responded to promptly.	Prioritise responses to enquiries from other organisations so investigations can be progressed.
Data quality issues that are highlighted within the web application are not addressed before the next NFI exercise.	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.

Source: Cabinet Office NFI team

The National Fraud Initiative

Self-appraisal checklist

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AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2017/18

Introduction by the Chair of Audit and Scrutiny Committee

This report provides an overview of the Audit and Scrutiny Committee's (the Committee) activity during the financial year 2017/18 and a summary of key developments since the commencement of 2018/19.

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

The Committee met quarterly throughout the financial year with the meetings attended by appropriate representatives of the Council including the Head of Strategic Finance and the Chief Internal Auditor (CIA). Audit Scotland also attend as do other Council Officers as and when requested including the Head of Improvement and HR and the Chief Executive at the June 2018 committee.

In 2017/18, the following Councillors served on the Committee at various points during the year; Jim Findlay, George Freeman, Sir Jamie McGrigor, Julie McKenzie, Alan Reid, Sandy Taylor and Andrew Vennard. In 2018/19 we also welcomed Richard Trail to the Committee.

In respect of the Chair and Vice Chair posts I continued in the role of Chair with Sheila Hill as Vice Chair until she retired in late 2017. I would like to record my appreciation to Sheila for the invaluable assistance she provided to myself as Chair and the wider Committee during her time as Vice Chair. Sandy Taylor has replaced Sheila as Vice Chair bringing to the Committee a wealth of valuable and relevant experience gathered during his time formerly as a council officer and more latterly as an elected member including being a sitting member of the previous Performance & Scrutiny Committee.

In October 2017 we appointed Laurence Slavin as the Council's new CIA replacing Kevin Anderson who has left to take up the post of General Manager at Live Argyll. I'd like to record my appreciation to Kevin for all his good work as the CIA and am pleased to say that the internal audit team continues to develop with Laurence introducing a number of new processes and procedures to further strengthen the team. One welcome development has been the attendance of members of Laurence's team at Committee meetings.

In looking forward to 2018/19 and beyond, there is great uncertainty facing the Council. In particular the UK's withdrawal from the European Union, which has unclear implications for the Council, and all Scotland's public bodies. The Committee would be looking for engagement with scrutiny partners, including the Accounts Commission, to help tackle the risks associated with this uncertainty in a collaborative and Scotland wide basis.

In addition the current pace of public sector reform and on-going integration of Health and Social Care within an overall context of reductions in public spending mean the importance of an effective Committee remains critical. Along with my fellow members I look forward to meeting the challenges ahead, building on a strong audit platform and further developing the Scrutiny element of the committee whilst continuing to add value to the Council's governance framework.

Martin Caldwell - Chairperson

Sandy Taylor - Vice Chairperson

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1. Terms of Reference

- 1.1 The Committee's terms of reference are to promote good internal control, financial and risk management, governance and performance management. This provides reasonable assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.
- 1.2 In addition the Committee, in carrying out its scrutiny function, will take a discursive, collegiate and non-political approach to carry out methodological consideration of a wide range of evidence and perspectives, with the aim of providing viable and well-evidenced solutions to support service delivery and policy development.

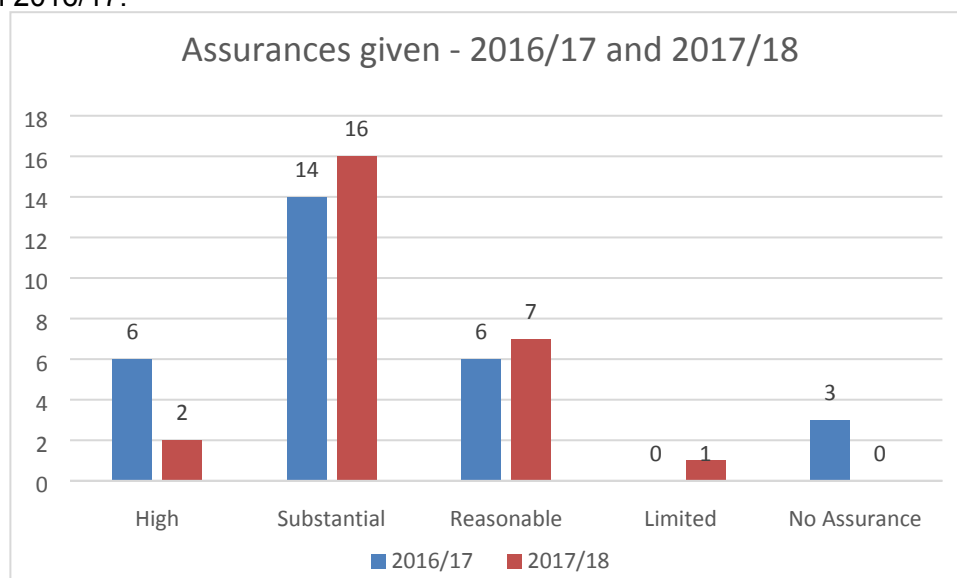
2. Audit and Scrutiny Committee's Effectiveness and Impact

- 2.1 The Committee's role is to ensure that the Council's internal control framework and governance arrangements are operating effectively. In order to fulfil this role a range of reports are provided to the Committee during the year. I am satisfied that the frequency, content and detail of reports provided to the Committee allow myself and fellow members to adequately undertake the requirements of our terms of reference.
- 2.2 The Committee has the right to request updates after reviewing submitted reports. This approach affords the Committee the opportunity to ask key questions directly and receive assurances. In addition, the Committee can routinely challenge management when agreed audit action plan implementation dates are missed although it should be noted that internal audit have a robust follow up process with updates reported to the Committee as a standard agenda item. Informal protocols are also in place whereby Management can be requested to attend committee where assurance level provided is limited or below. This has proved very useful in developing positive relationships with management whilst ensuring independence is maintained. Management's co-operation and engagement is very much appreciated.
- 2.3 In March 2017 both Audit Scotland and Internal Audit presented their annual audit plans setting out their respective approaches to the 2017/18 audit of the Council, reflecting their statutory duties and risk based approach. The audit plans were considered by the Committee and accepted.
- 2.4 Since his appointment in October 2017 the CIA has introduced a number of changes and developed appropriate governance to further strengthen effectiveness. In particular:
- introduced new working practices, reporting templates and a revised internal audit charter and manual
 - introduced quarterly internal audit development days to ensure the team continues to develop the necessary skills and knowledge to carry out their role effectively
 - audit reports are presented to the Committee in their entirety, replacing the previous process to remove recommendations classified as 'low' priority
 - audit reports are presented to the SMT
 - revised the approach to continuous monitoring to provide annual assurance over approximately 175 controls covering fifteen council processes
 - introduced a new Scrutiny Framework and Scrutiny Manual to provide governance over the roll out of scrutiny during 2018/19.

3. Assurances

Internal Audit Assurance

- 3.1 Internal Audit is a key source of assurance for both members and management on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance. The Committee is pleased to note the Internal Audit team has completed the agreed 2017/18 internal audit plan within the agreed timescale. Reports are deemed to be accurate, objective, concise, constructive, complete and timely. In my opinion clear assurance judgements are provided, underpinned by an appropriate evidence base and, where appropriate, include sound management advice and guidance. We will continue to monitor internal audit performance, progress and resources to ensure they are able to meet these requirements.
- 3.2 Internal Audit were subject to an external assessment in 2018 to assess whether they are complying fully with the Public Sector Internal Audit Standards (PSIAS). The review concluded that internal audit demonstrated overall compliance with the standards and demonstrated many areas of strong practice. It also highlighted four recommendations for potential improvement which the CIA has confirmed are being progressed. This assessment provides the Committee with a valuable independent endorsement of the quality and effectiveness of the work being delivered by the internal audit team.
- 3.3 The Committee has received regular reports and information from the CIA including:
- risk based internal audit annual plan
 - regular progress reports
 - annual report, in line with PSIAS, which provided the CIA's independent annual opinion on the effectiveness of the Council's risk management, internal control and governance processes
- 3.4 The chart below shows an analysis of assurance opinions provided by internal audit in 2016/17 and 2017/18. It can be seen that, whilst the number of audits classified as providing a high level of assurance has reduced in 2017/18 this is balanced by the fact that no audits were classified as providing 'no assurance' in comparison to three in 2016/17.



- 3.5 The Committee has a clear role in relation to oversight of the internal audit function; specifically in relation to overseeing its independence, objectivity,

performance and professionalism. I am pleased to advise, as Chair of the Committee, that I am satisfied that internal audit is effective and activity is undertaken in accordance with relevant standards. This view is supported by the external assessment referenced at paragraph 3.2 and commentary in Audit Scotland's 2017/18 annual audit report which confirms that internal audit operates in accordance with PSIAS and has sound documentation standards and reporting procedures.

External Audit Assurance

- 3.6 External Audit is an essential part of the process of accountability and assurance for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management. Working closely with Internal Audit, the external audit programme ensures that statutory responsibilities are delivered, without the duplication of audit work. The Council's external auditors are Audit Scotland.
- 3.7 Assurance was received from Audit Scotland that, for 2017/18, the Council's financial statements presented a true and fair view in and were properly prepared.
- 3.8 External Audit is required to report by exception on a number of areas in relation to their audit, namely accounting records, statement of governance and control, availability of information and explanation and failure to achieve a prescribed financial objective. External Audit reported no exceptions in respect of these matters for 2017/18. External Audit did highlight some issues encountered due to the absence of key finance officers during the audit of the Council's financial statements. Assurances have been provided that this is being addressed through the ongoing restructure of the Strategic Finance service.

Risk Management

- 3.9 It is the role of the Committee to gain assurance on the adequacy of the Council's risk management arrangements. In March 2018 the Head of Strategic Finance presented her Risk Management Overview to the Committee which confirmed that the CIA had identified areas where these arrangements could be strengthened and that the Council had taken, and were continuing to take, actions to address these areas. Key improvements that have been implemented are:
- a revised risk management manual has been approved by the Policy and Resources Committee
 - revised risk registers have been adopted for the strategic risk register and operational risk registers
 - risks, where practical, are aligned to service plan challenges
 - key actions, with timescales, for risks to be 'treated' are documented
 - all red risks identified in operational risk registers are escalated to the SMT for consideration
- 3.10 I am pleased to report that Audit Scotland, in their 2017/18 annual audit report, have confirmed that *'the changes effected represent an enhancement to the Council's risk management process'*.
- 3.11 In June 2018 the Chief Executive also submitted a report to the Committee on the strategic risk register and, more generally, on the Council's risk management arrangements.

Governance & Internal Control

3.12 In accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009, the completed Local Code of Governance 2016/17, together with an action plan was presented and reviewed at the June 2017 Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and noted for inclusion in the Annual Accounts, subject to the completion of Audit Scotland's audit of the draft 2017/18 financial statements.

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

- work of officers within the Council;
- work and conclusions of internal and external audit
- statements of governance or internal control provided by external bodies
- external review and inspection reports
- recommendations from the Audit and Scrutiny Committee .

4. Independence

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

- the appointment of an independent chair
- observation of the Internal Audit Charter which specifies the independence of the CIA and the wider audit team
- the non-political approach of the committee
- the active involvement of the external auditors
- clear terms of reference aligned to CIPFA's Role of the Audit Committee Guidance

5. Training and Development

5.1 As part of its ongoing development the Committee held a development day in November 2017. In the morning the members heard from the newly appointed CIA, the Committee Vice Chair and Audit Scotland on the roles of internal and external audit, risk management, and the characteristics of an effective audit committee. In the afternoon we focused on the committee's new role as a scrutiny function with the CIA providing a scrutiny overview presentation followed by an open discussion on the future scrutiny role of the committee.

5.2 In August 2018, as part of the ongoing development of scrutiny, and in advance of the commencement of the first scrutiny review in the 2018/19 scrutiny plan, committee members, internal audit and other relevant officers attended a two day scrutiny training session held in the Helensburgh Civic Centre.

6. Looking Forward

6.1 The Committee is beginning to roll out the Council's revised approach to scrutiny supported by the scrutiny framework, including a prioritisation process, and scrutiny manual approved by the Committee in March 2018 and June 2018 respectively. Two topics have been selected for scrutiny in 2018/19 based on applying the prioritisation process to potential topics suggested by elected members and senior officers.

6.2 After the 2018/19 Scrutiny Plan is completed the Committee will take the opportunity to reflect upon the process adopted and seek feedback from officers and elected members to identify lessons learned which would lead to improvements in future scrutiny work and inform the 2019/10 Scrutiny Plan.

6.3 This focus on continuous improvement is equally applicable to the audit element of

the Committee and we will continue to work with the CIA and, where appropriate, our colleagues in Audit Scotland, to identify opportunities to further develop the skillset and expertise of both the Committee and the internal audit department to facilitate effective challenge and scrutiny.

6.4 More widely the Council face a period of great uncertainty due to the potential implications of the UK's withdrawal from the European Union. This gives rise to a need to consider our current understanding of the potential risks and implications to the Council in the event that the UK exits the EU in March 2019 without any transition arrangements or certainty about future arrangements (i.e. a 'No Deal' exit). Areas for consideration may include:

- workforce
- loss of EU funding
- access to markets and suppliers
- public procurement
- impact on interest rates and inflation levels.

6.5 The UK Government has committed to releasing a series of advisory notes to businesses and public bodies on a wide range of topics about actions to be taken to mitigate the risks arising from a 'No Deal'. These are to be made available between late August and the end of September 2018. Where appropriate, these guidance notes will need to be considered in detail to identify what, if any, actions may be required.

6.6 In the medium to longer term the Committee and the wider Council need to reflect on the extent to which there is sufficient intelligence and information to consider the longer term macro-economic impacts of Brexit on council funding and demand on services. This needs to be considered within the context of how much of this is 'unknown' and with consideration to the extent that it is within the Council's power to do anything constructive to mitigate the potential impacts.

7. Conclusion

7.1 Based on the reports received and reviewed by the Committee it is the opinion of the Committee that an overall substantial assurance opinion can be placed upon the adequacy and effectiveness of the Council's internal control system in 2017/18. I am satisfied that active monitoring and follow up of recommendations is in place in respect of agreed management action. This follow up process is further enhanced by the continuous monitoring programme carried out by internal audit which provides ongoing assurance over the Council's core transactional based systems.

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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
18 December 2018					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	23 November 2018	
	Internal Audit Reports to Audit Committee 2018/19 <ul style="list-style-type: none"> • Off-Payroll Working • Housing Benefit & Council Tax Reduction • Operating Manual (Oban Airport) • Marine Services (Jura Ferry) • Waste Management • Financial Planning • Environmental Services • Carefirst • LEADER • VAT 	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	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
				2018	
	Treasury Management Strategy Statement and Annual Investment Strategy 2019/20 (Work in Progress)	Head of Strategic Finance	Annual	23 November 2018	
	Key system interfaces and logical access	Chief Internal Auditor	One-off	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 <ul style="list-style-type: none"> • Organisational Culture • Performance Management • School Fund Governance • Self-directed Support • Early Years Provision • Risk Management 	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	
	Money Skills Argyll Scrutiny Report	Chief Internal Auditor	One-off	22 February 2019	
	Year End Timetable	Head of Strategic Finance	Annual	22 February 2019	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Council Performance Report – April to September	Head of Improvement & HR	Annual	22 February 2019	
	Audit Scotland – Local Government in Scotland: Financial overview 2017/18	Head of Strategic Finance	Annual	22 February 2019	
	Treasury Management Strategy Statement and Annual Investment Strategy 2019/20	Head of Strategic Finance	Annual	22 February 2019	
	Internal Audit Charter and Internal Audit Manual	Chief Internal Auditor	Annual	22 February 2019	
18 June 2019					
	Council Strategic Risk Register Update	Chief Executive	Annual	24 May 2019	
	Internal Audit Annual Report 2018-19	Chief Internal Auditor	Annual	24 May 2019	
	Review of Code of Corporate Governance	Governance and Risk Manager	Annual	24 May 2019	
	External Audit Interim Controls Report	External Audit	Annual	24 May 2019	
	Local Government Benchmarking Framework Report	Head of Improvement & HR	Annual	24 May 2019	
	Unaudited Financial Accounts	Head of Strategic Finance	Annual	24 May 2019	
	Local Scrutiny Plan	Head of Strategic Finance	Annual	24 May 2019	
	2019/20 Scrutiny Plan	Chief Internal Auditor	Annual	24 May 2019	
	Local Government in Scotland:	Head of Improvement	Annual	24 May 2019	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Challenges and Performance 2019	& HR			
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	24 May 2019	
	Internal Audit Reports to Audit Committee 2018/19 <ul style="list-style-type: none"> • Land & Assets Disposal 2019/20 – to be identified	Chief Internal Auditor	Quarterly	24 May 2019	
	Road Maintenance Scrutiny Report	Chief Internal Auditor	One-off	24 May 2019	
Future Reports – dates to be determined					