

Argyll and Bute Council

2019/20 Audit Progress Report



 AUDIT SCOTLAND

Prepared for Argyll and Bute Council Audit and Scrutiny Committee

September 2020

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.

Introduction

1. This paper is intended to give members an update of current progress on external audit activity and any recent national performance reports which have been published or are due.

Governance work

Internal controls

2. We carried out a high-level review of the key controls within the council's main financial systems in 2019/20. This involved identifying and documenting the key controls and then testing them by means of walkthrough tests. We identified some minor issues but drew these to the attention of appropriate officers

3. Also, for financial year 2019/20, we made use of internal audit work on controls testing, as permitted in terms of ISA 610 (UK) (*Using the work of internal auditors*), in the areas outlined in Exhibit 1.

Exhibit 1 – Using the work of internal audit

Areas where use was made of internal audit work on systems of control

- | | |
|------------------------|-----------------------------|
| • Accounts payable | • Council Tax Income |
| • Accounts receivable | • Non-Domestic Rates Income |
| • General ledger | • Payroll |
| • Receipts and banking | • Treasury Management |

4. By using the work of internal audit, we can take additional assurance that controls within the main financial systems were operating effectively throughout 2019/20. Additionally, we have taken assurance from our audit work in previous years which has not identified any significant control weaknesses. Furthermore, any control weaknesses identified in previous years have been followed up to ensure that actions have been taken to strengthen controls.

5. It is important to emphasise though that our audit work in the current and preceding years only identifies issues which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to the council. We stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

National Fraud Initiative (NFI)

6. The NFI is a biennial counter-fraud exercise which uses computerised techniques to compare information about individuals held by 1,200 bodies across the UK to identify instances that might suggest the existence of fraud or error. Audit Scotland leads the work north of the border and about 120 public bodies in Scotland participate in the National Fraud Initiative.

7. The information available to officers has been revised to ensure greater focus on key areas of risk. We completed a review of the council's participation in the 2018/19 NFI in February of this year, and confirmed that the council has appropriate arrangements in place to investigate NFI data.

Audit dimensions work

8. The Code of Audit Practice (2016) requires auditors to report to review and report on the four audit dimensions:

- **Financial sustainability:** we will be reviewing and assessing the council's financial position, reserves strategy, savings targets & plans and longer-term financial planning
- **Financial management:** as part of our work in this area we will review the capacity of the finance function and financial reporting arrangements (including budgetary monitoring arrangements).
- **Governance and accountability:** our work will involve reviewing the effectiveness of financial governance including schemes of delegation, standing orders and internal audit.
- **Value for money:** our work will include the review of performance, outcomes and improvements. This will be covered as part of our planned Best Value work.

9. In 2019/20 our work on audit dimensions was covered by the work undertaken on the Best Value audit which was published in May 2020. The audit also made use of findings and information collated by the local external audit team.

Best Value

10. The [Best Value Assurance Report](#) (BVAR) for Argyll and Bute was published in May 2020. The report highlights the challenges faced by the council, notably the declining and ageing population, varied geography and population density, and the economic dependence on the public sector.

11. The BVAR recognises that since the 2015 Best Value report, the council has worked hard to improve relationships among elected members and senior officers. There has been a significant improvement in the culture resulting in constructive and more focused decision-making. Members now need to build on this and make the difficult decisions required to sustain council services in the longer term.

12. Also, the BVAR highlighted several positive aspects of best value including:

- the council works well with partners including the third sector and has made good progress with the Community Empowerment Act.
- following five inspections from Education Scotland over two years, the council has strengthened its leadership of education services
- the council has demonstrated a commitment to incorporating equalities throughout its work and demonstrates clear examples of good practice
- the council has good financial management arrangements in place

13. The BVAR while recognising positive aspects of best value also highlights where the pace of change has been slow in some areas, particularly in the use of performance management to drive improvement. Also, national performance indicators show the pace of improvement has been slower than other Scottish councils.

14. Other areas where there was scope for further improvement were identified including:

- the council has an improvement framework in place but progress against the self-evaluation programme has been slow
- the council's transformation programme has achieved small scale savings but there is limited evidence of transformational redesign
- the council has responded to its challenging budget outlook by creating savings plans and making efficiencies to address the annual budget gap. However, savings are focussed on cost reductions rather than doing things differently.

15. At a special meeting of the Council on 30 June 2020 members discussed the findings and recommendations of the BVAR following which a comprehensive action plan of improvements was agreed. This will be subject to regular review.

16. As part of our audit responsibilities we will be monitoring closely progress in implementing the action plan.

Grant Claims

17. We have completed our audit of the Education Maintenance Allowance grant claim which was signed off on the 8 June 2020 and well within the deadline date of 31 July 2020.

18. The Covid-19 pandemic is likely to impact on our other grant claim work and we know already, for example, that the deadline for certifying the Housing Benefit claim has been pushed back from 30 November 2020 to 31 January 2021. We will continue to monitor the situation and advise members of any changes as we become aware of them.

Annual accounts audit

19. The Covid-19 pandemic has been disruptive to our normal cycle of work and impacted on audit reporting deadlines. Also, we have not been able to use agency staff to supplement our audit team resources during the financial statements audit.

20. Also, the Scottish Government has interpreted provisions within the Coronavirus (Scotland) Act 2020 to modify the Public Finance and Accountability (Scotland) Act 2000 for the financial year ending 31 March 2020 and have extended the administrative deadlines for local government accounts by 2 months. Therefore, the Council is required to prepare its unaudited 2019/20 accounts by 31 August 2020 and to submit audited accounts by 30 November 2020.

21. Consequently, we discussed and agreed a revised timescale for the key stages of the audit as detailed overleaf in Exhibit 2 but also recognising that this could change because of the uncertainties caused by the Covid-19 pandemic.

Exhibit 2 – Financial statements timetable

Key stage	Original date	Revised date
Latest submission date of unaudited annual accounts with complete working papers package.	26 June 2020	26 June 2020
Latest date for final clearance with Section 95 officer.	8 September 2020	By mid-October 2020
Issue of letter of representation and proposed independent auditor's report.	22 September 2020	By late October 2020
Agreement of unsigned annual accounts.	22 September 2020	By early November 2020
Issue of Annual Audit Report including ISA 260 report to those charged with governance	22 September 2020	By early November 2020
Independent auditor's report signed.	30 September 2020	By 30 November 2020

22. We acknowledge that working remotely will create pressures for both finance officers and audit staff. The audit process will take longer. Also, a date has yet to be agreed when the accounts will be formally approved for issue. We will continue to work closely with finance officers throughout the audit to meet the revised timescales.

23. Nevertheless, there may be slippages in the process which may result in the proposed dates within the timeline not being met.

National Performance Reports / Other publications

24. A number of reports have been published by Audit Scotland since the last meeting of the Audit and Scrutiny Committee on 17 March 2020. Also, there has been an increasing focus on the impact of Covid-19 on the public sector. The **Appendix** accompanying this progress report provides a summary of the main publications that may be of interest to members including hyperlinks to our website.

25. More recently Audit Scotland has prepared a [guide](#) for audit and risk committees. There are a wide range of short, medium and long-term risks and issues emerging from Covid-19 for public bodies to consider. This guide focuses on the short-term challenges facing public bodies in the response phase of the pandemic. This guide has been prepared for auditors and public bodies and provides audit and risk committee members with suggested questions to help them effectively scrutinise and challenge in the key areas.

Appendix – National Performance Reports / other publications

Report title	Scope and objectives of the audit	Key findings
Covid-19: Implications for public finances in Scotland (20 August 2020)	This briefing brings provides an analysis of the latest position of how public money is being spent and funded in Scotland. Also, it considers the key financial and performance risks facing the Scottish Government.	<ul style="list-style-type: none"> • The impact on Scottish public finances is unprecedented • Responding to the pandemic comes when the Scottish budget is already increasingly complex, volatile and uncertain • The Scottish Government currently expects to spend around £4.8 billion on Covid-19 related measures in 2020/21 • Responding to the pandemic will affect the Scottish Government's wider aims and objectives, and public services will need to adapt
Covid-19: Emerging Fraud Risks (23 July 2020)	This briefing sets out a range of fraud risks emerging from the Covid-19 crisis, and what public bodies might do to help reduce these risks. It aims to raise awareness of these new fraud risks with public bodies and their auditors; and support them in identifying and managing these risks and ensure that sound governance and controls are in place.	<ul style="list-style-type: none"> • Covid-19 has raised significant challenges for the public sector. In such emergency situations, existing controls may be compromised, and it can be difficult to put in place robust controls for new processes. • Good governance and sound controls are essential in such crisis situations.
National Fraud Initiative in Scotland 2018/19 (9 July 2020)	This report sets out the findings from the seventh biennial exercise since 2006/07. It remains the largest national fraud detection and prevention scheme that can provide data-matches within and between public bodies. The NFI is undertaken across the UK.	<ul style="list-style-type: none"> • Scotland's public finances have been boosted after a data-sharing exercise identified over £15 million of potential fraud and errors across the public sector. • Auditors have warned that the Covid-19 pandemic has brought additional fraud risks. They include public-sector staff working remotely under extreme pressure, and potentially less scrutiny of applications for government stimulus packages for individuals and businesses.
Best Value Assurance Report: North Ayrshire Council (30 June 2020)	This report looked at how the council was delivering on its statutory duty of Best Value	<ul style="list-style-type: none"> • The council has demonstrated a culture of continuous improvement since a previous report by the Accounts Commission in 2011. • The council continues to improve and, alongside its partners, has determination and commitment to make better the lives of local people. This is

Report title	Scope and objectives of the audit	Key findings
		<p>particularly important given the high levels of deprivation.</p> <ul style="list-style-type: none"> • The council has effective leadership and works collaboratively and has strong links with its partners. • The council enables and works well with local communities. Staff are empowered to make changes that improve service delivery • The Accounts Commission says the council should continue to focus on areas of poorer performance, most notably a recent decline in education. The council also needs to develop detailed plans to support its aims of further transforming services and saving up to £19 million over the next two years.
<p>Report: Fraud and irregularity update June 30, 2020)</p>	<p>This report highlighted several case studies to support the Scottish public sector in the prevention to fraud.</p>	<ul style="list-style-type: none"> • The Covid-19 pandemic has brought significant challenges across the public sector as bodies have sought to continue to deliver services for individuals, communities and businesses during extremely difficult times. This includes additional fraud risks that will be important for public bodies to identify and manage. • Weaknesses in controls have contributed to a variety of fraud and irregular activities across a range of Scottish public bodies. During 2019/20, external auditors reported nine cases of fraud and irregularity valued at almost £759,400. The value of reported fraud and irregularity remains small compared to annual Scottish public expenditure of £42.5 billion. • Audit Scotland's counter-fraud hub contains useful counter-fraud information.
<p>Covid-19: How public audit in Scotland is responding (25 June 2020)</p>	<p>This briefing paper considers the impact of Covid-19 on the work of public audit in Scotland and provides information on our strategy and considerations. It updates Covid-19: What it means for public audit, published May 2020, with more detail about the scope, timing and areas of focus of our audit work.</p>	<ul style="list-style-type: none"> • New extended audit timetables have now been agreed for NHS and local government bodies. A three-month extension applies for NHS audited accounts, which are to be published by 30 September. • A two-month extension applies to local government, with accounts expected to be published by 30 November.

Report title	Scope and objectives of the audit	Key findings
		<ul style="list-style-type: none"> • The Auditor General for Scotland and Accounts Commission have agreed that they intend to extend the current five-year audit appointments for a further year. • The report outlines potential themes and areas for future work.
Local government in Scotland Overview 2020 (23 June 2020)	<p>This report is the Accounts Commission’s annual summary of the key challenges and performance issues faced by councils. This report, whilst prepared before the Covid-19 pandemic hit, contains messages which will be useful for public bodies to consider in the recovery process. Issues relating to financial sustainability, the need to change how services are delivered, longer term budget management and the need to make more progress with the integration of health and social care services, are now more urgent than ever.</p>	<ul style="list-style-type: none"> • This report was compiled before the escalation of the pandemic and is an overview of local government in 2019. But its messages remain relevant. • Councils are working hard to deliver services to their communities. But the context they are working in is increasingly uncertain and complex. Demographic and social change is creating demand for services, while the strain on budgets continues to intensify. • The strain on budgets is evident as councils continue to dip into their reserves to make ends meet. Medium-term funding levels are uncertain, making continued use of reserves to manage the funding gap unsustainable. Long-term financial planning is not well enough developed in many councils. • Councils alone cannot improve outcomes for communities and achieve local priorities. The full potential of collaborative working with partner organisations and communities is not yet being realised. More progress is needed. • Workforce planning is fundamental to ensure that councils have the staff, skills and leaders they need to deliver change. Some progress has been made to improve workforce planning, but much more needs to be done
Equal pay in councils – Impact report (9 June 2020)	<p>This report summarises the impact made by the Accounts Commission’s performance audit ‘Equal pay in councils’ published on 7 September 2017</p>	<ul style="list-style-type: none"> • There had been a lack of collective national leadership to overcome the challenges and address equal pay issues in a timely way. • The audit found that between 2004 and 2016, around 70,000 equal pay claims had been

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		<p>lodged against councils. The cost of compensation agreements and settling claims, along with legal fees, amounted to around £750 million. The number of claims made against councils varied widely. Some of this variation could be explained by how actively 'no-win no-fee' lawyers had encouraged claims in different council areas.</p> <ul style="list-style-type: none"> • At the time of completing the audit, there were almost 27,000 live equal pay claims, with the potential for individuals to still make new claims against councils.
<p>Affordable Housing (9 April 2020)</p>	<p>This report is about the Scottish Government's target to deliver 50,000 affordable homes by March 2021.</p>	<ul style="list-style-type: none"> • Good progress has been made towards the Scottish Government's ambitious target to deliver 50,000 new affordable homes between April 2016 and March 2021. • The Scottish Government reports that the March 2021 target is on track to be met. However, serious risks remain. These include a lack of capacity in the construction sector in some areas and the capacity of council planning and building control services. The planned rise of funding towards the end of the programme, and uncertainty about post-2021 funding, intensifies these risks. • Councils are generally working well with their partners, including RSLs, to plan and deliver affordable housing. But improvements are needed in the involvement of health and social care partners. • There is evidence that the investment is allowing councils to meet some housing needs in their areas, and some evidence of wider positive benefits to tenants, local communities, and the economy. • There are various barriers to the ongoing delivery of affordable housing, such as access to suitable land to develop with the necessary infrastructure. The Scottish Government, and councils, are aware of these barriers and are undertaking work to address them.

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