

# Argyll and Bute Council

2020/21 Report to those charged with governance



 AUDIT SCOTLAND

Prepared for the Members of Argyll & Bute Council and the Controller of Audit

November 2021

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# 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance.

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## **Our audit opinions on the annual accounts are unmodified**

1. Our audit work on the 2020/21 annual accounts of Argyll and Bute Council is substantially complete and we have concluded that:

- the financial statements give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the Council and its group for the year then ended
- 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 relevant regulations and guidance.

2. The Council's Accounts are scheduled to be considered by the Audit and Scrutiny Committee on 24 November 2021, approved by the Council on 25 November 2021 and we plan to sign our opinions by the statutory deadline of 30 November 2021.

3. The key elements of our work that remain to be completed are:

- Staff Costs – confirmation for existence of employees.
- Council Tax – supporting documentation for exemptions and discounts testing.
- Audited Accounts – provision of audited accounts for checking following all audit adjustments.

4. We will provide an update on this work to the Audit and Scrutiny Committee when presenting this report on 24 November 2021.

## **Our audit opinions on the eight Section 106 charities are unmodified**

5. 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 statement of accounts of each registered charity where

members of Argyll and Bute Council are sole trustees, irrespective of the size of the charity.

**6.** We received the charities' accounts in line with the agreed timetable and after completing our audit we have concluded that:

- the financial statements give a true and fair view of the section 106 charity's financial position and are properly prepared in accordance with charities' legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

**7.** We plan to issue unmodified audit opinions on the eight Section 106 charities by 30 November 2021.

## **Submission of the Council and its group annual accounts for audit**

**8.** The unaudited annual accounts were approved by the Council in June 2021 and then passed to Audit Scotland on 28 June 2021 in line with the agreed audit timetable set out in our 2020/21 Annual Audit Plan.

**9.** During the audit process we have identified a number of issues that required adjustments to be made to the financial statements. We have been working with finance officers within the Council to ensure any corrections or presentational changes agreed over the course of the audit process were reflected within revised working papers, and within the Annual Accounts document itself.

**10.** Under the Council scheme of delegation, the Council has responsibility for approving the audited annual accounts, taking into account any recommendations from the Audit and Scrutiny Committee in terms of this approval.

## **Annual audit report**

**11.** 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 in sufficient time to enable appropriate action. Our significant findings relating to audit work completed to date are included in [Exhibit 2](#) and [Exhibit 3](#).

**12.** The Argyll and Bute Council audited Annual Accounts for 2020/21 are scheduled to be considered by the Audit and Scrutiny Committee on 24 November 2021. Our Annual Audit Report (as opposed to the Report to those charged with governance) will be available for full consideration at the next Policy and Resources Committee meeting on 9 December 2021.

**13.** The Annual Audit Report will provide further detail in respect of the annual accounts and the four audit dimensions that frame the wider scope of public

audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.

## **Fraud, subsequent events and compliance with laws and regulations**

**14.** In presenting this report to the Council 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**

**15.** As part of the completion of our audit, we seek written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made. This letter of representation 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 audit work**

**16.** We have no areas of our financial statements audit work outstanding to report.

## **Work on assurance statement for the Whole of Government Accounts has been delayed**

**17.** Work on assurance statement for the Whole of Government Accounts has been delayed HM Treasury communicated that the forms required for bodies to complete their Whole of Government Accounts (WGA) submission will not be available until December 2021.

**18.** Management have therefore been unable to populate their submission. Our work on Argyll and Bute Council's WGA submission will commence when this is available for audit.

## **Overall materiality**

**19.** We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

**20.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any

changes in business processes and the entity's control environment including fraud risks.

**21.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	Council Amount
Overall materiality	£5.9 million
Performance materiality	£4.1 million
Reporting threshold	£250 thousand

Source: Audit Scotland

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## Significant findings from the audit – all identified misstatements have been corrected in the accounts

**22.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**23.** The significant findings are summarised in [Exhibit 2](#) and [Exhibit 3](#).

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## Exhibit 2

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Group Accounts – Live Argyll Gross Income and Expenditure Classification</b></p> <p>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.</p> <p>Gross income (£6.6 million) and gross expenditure (£5.8 million) for Live Argyll was incorrectly disclosed on the associates and joint ventures line of the Comprehensive</p>	<p>This was corrected in the audited annual accounts.</p>

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Issue	Resolution
<p>Income and Expenditure Statement (CIES) in the 2020/21 unaudited annual accounts. This should have been disclosed on the commercial services line of the CIES.</p> <p>The impact of this is to increase the gross income and gross expenditure for commercial services by £6.6 million and £5.8 million respectively whilst decreasing gross income and gross expenditure for associates and joint ventures by the same amount. This has no impact on the outturn position.</p>	
<p><b>2. Group Accounts – Live Argyll Management Fee</b></p> <p>In the year to 31 March 2021, Argyll and Bute Council provided funding of £3.8 million to Live Argyll to enable the charity to carry out its charitable objectives. Accounting standards require intra-group transactions to be removed for consolidation purposes. The Council did not remove this transaction when preparing its Group Accounts.</p> <p>The impact of this is to decrease commercial services gross income and gross expenditure in the CIES by £3.8 million. This has no impact on the outturn position.</p>	<p>This was corrected in the audited annual accounts.</p>
<p><b>3. Group Accounts – Integration Joint Board Balances</b></p> <p>Argyll and Bute Council and NHS Highland are required to treat the Integration Joint Board (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 as well as a share of its net assets or liabilities at the year-end.</p> <p>The Council did not include their share of the IJB surplus for the year (£3.0 million) and net assets at the year-end (£3.3 million) in their Group Accounts.</p> <p>The impact of this is to increase associates and joint ventures gross income on the CIES by £3.0 million and increase investments in associates and joint ventures on the Balance Sheet by £3.3 million.</p>	<p>This was corrected in the audited annual accounts.</p>
<p><b>4. Group Accounts – Associates Gross Income and Gross Expenditure</b></p> <p>Dunbartonshire and Argyll &amp; Bute Valuation Joint Board (DABVJB), Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTSJC) are accounted for as associates in</p>	<p>This was corrected in the audited annual accounts.</p>

Issue	Resolution
<p>Argyll &amp; Bute Council's Group Accounts. 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.</p> <p>The Council accounted for its share of its associates' surplus or deficit for the year on a net basis when they should have accounted for them on a gross basis in line with how they present the CIES in their Group Accounts.</p> <p>The impact of this is to increase associates and joint ventures gross income and gross expenditure in the CIES by £2.5 million. This has no impact on the outturn position.</p>	
<p><b>5. Group Accounts – Associates Assets and Liabilities</b></p> <p>The Council accounted for its share of its associates' assets and liabilities at the year-end on a net basis when they should have accounted for them on a gross basis in line with how they present the Balance Sheet in their Group Accounts.</p> <p>The impact of this is to increase current assets by £2.5 million, increase current liabilities by £0.4 million, increase long-term liabilities by £0.6 million and decrease long-term assets by £1.5 million. This has no impact on the outturn position.</p>	<p>This was corrected in the audited annual accounts.</p>
<p><b>6. IJB Monies</b></p> <p>The Council accounted for £2.4 million of IJB monies as an earmarked reserve in their 2020/21 unaudited annual accounts. This should have been accounted for as a creditor on the Balance Sheet.</p> <p>It is recognised that the treatment of these monies in the unaudited accounts was consistent with the general principle of prior year disclosures. This is the first year that the Council has held material earmarked reserves for the IJB at the year-end and is due predominantly to COVID funding made available by the Scottish Government which can be carried forward into 2021/22.</p> <p>The impact of this was to increase gross expenditure on the CIES by £2.4 million and increase creditors on the Balance Sheet by the same amount.</p>	<p>This was corrected in the audited annual accounts.</p>

**Issue****Resolution****7. PPE and Testing Kits**

National Services Scotland (NSS) has been supplying PPE to Scottish Health Boards free of charge. LASAAC are aware that the Scottish Government has advised boards that, where it is health board staff that are consuming the PPE, the boards are the 'customer' in terms of IFRS 15. This will mean that they are required to account for the PPE as principal which entails recognising a non-cash amount at fair value and an equivalent amount of notional expenditure. NSS has provided bodies with the necessary financial information to complete the accounting entries required. LASAAC has become aware from practitioners and Audit Scotland that this should also be a consideration for councils and Integration Joint Boards (IJBs) where NSS has supplied PPE free of charge.

LASAAC takes the view that the IJB is acting as an agent regarding PPE transactions and therefore does not recognise any income, expenditure, or stocks of PPE. Councils issue stocks of PPE to internal staff and external providers of services. Where councils are issuing PPE to internal staff, LASAAC considers that they are likely to be acting as a principal as defined in paragraph 2.6.2 of the Code and should recognise income and expenditure in accordance with this guidance. Where issuing to external providers, they are likely to be acting as an agent.

For Argyll and Bute Council, the total PPE and Testing Kits issued by NSS equate to £2.6 million and the Council have taken the view that they are acting as principal for the full amount. The LASAAC guidance and confirmation of balances from NSS were not finalised at the time the unaudited accounts were authorised for issue.

The impact of this is to increase both other non-departmental costs gross income and gross expenditure on the CIES by £2.6 million. This has no impact on the outturn position.

This was adjusted in the audited annual accounts.

**8. Investments Classification**

Investments are split on the Balance Sheet between long-term investments and short-term investments. Our audit identified that there were three investments equating to £17.5 million which had been incorrectly accounted for as short-term investments and should have been accounted for as long-term investments.

This was corrected in the audited annual accounts.

Issue	Resolution
<p>The impact of this was to increase long-term investments on the Balance Sheet by £17.5 million and decrease short-term investments by the same amount. This has no impact on the outturn position.</p>	
<p><b>9. Charitable Trusts - Oban Common Good Fund Depreciation</b></p> <p>The depreciation charge for the swimming pool included in the Oban Common Good Fund accounts had incorrectly charged depreciation of £19,250 on the land element.</p> <p>The impact of this is to decrease expenditure on the Statement of Financial Activities by £19,250, increase tangible fixed assets and restricted funds on the Balance Sheet by £19,250 and decrease depreciation charged in the Statement of Cash Flows by £19,250.</p>	<p>This was corrected in the audited annual accounts.</p>

Source: Audit Scotland

**24.** As outlined in our significant findings per [Exhibit 3](#) below, there were a number of adjustments to the prior period figures for Group Accounts. The net impact of these changes was to increase the surplus on the CIES by £0.1 million and increase the net assets on the Balance Sheet by £0.3 million.

### Exhibit 3

#### Significant findings from the audit of the financial statements relating to prior period adjustments

Issue	Resolution
<p><b>1. Group Accounts – Live Argyll Gross Income and Expenditure Classification</b></p> <p>Gross income (£6.5 million) and gross expenditure (£7.1 million) for Live Argyll was incorrectly disclosed on the associates and joint ventures line of the Comprehensive Income and Expenditure Statement (CIES) in the 2019/20 audited annual accounts. This should have been disclosed on the commercial services line of the CIES.</p> <p>The impact of this is to increase the gross income and gross expenditure for commercial services by £6.5 million and £7.1 million respectively whilst decreasing gross</p>	<p>This was corrected in the audited annual accounts.</p>

Issue	Resolution
<p>income and gross expenditure for associates and joint ventures by the same amount. This has no impact on the outturn position.</p>	
<p><b>2. Group Accounts – Live Argyll Management Fee</b></p> <p>In the year to 31 March 2020, Argyll and Bute Council provided funding of £3.6 million to Live Argyll to enable the charity to carry out its charitable objectives. Accounting standards require intra-group transactions to be removed for consolidation purposes. The Council did not remove this transaction when preparing its Group Accounts.</p> <p>The impact of this is to decrease commercial services gross income and gross expenditure in the CIES by £3.6 million. This has no impact on the outturn position.</p>	<p>This was corrected in the audited annual accounts.</p>
<p><b>3. Group Accounts – Integration Joint Board Balances</b></p> <p>The Council did not include their share of the 2019/20 IJB surplus for the year (£0.1 million) and net assets at the year-end (£0.3 million) in their Group Accounts.</p> <p>The impact of this is to increase associates and joint ventures gross income on the CIES by £0.1 million and increase investments in associates and joint ventures on the Balance Sheet by £0.3 million.</p>	<p>This was corrected in the audited annual accounts.</p>
<p><b>4. Group Accounts – Associates Gross Income and Gross Expenditure</b></p> <p>The Council accounted for its share of its associates' surplus or deficit for the year ended 31 March 2020 on a net basis when they should have accounted for them on a gross basis in line with how they present the CIES in their Group Accounts.</p> <p>The impact of this is to increase associates and joint ventures gross income and gross expenditure in the CIES by £2.6 million. This has no impact on the outturn position.</p>	<p>This was corrected in the audited annual accounts.</p>
<p><b>5. Group Accounts – Associates Assets and Liabilities</b></p> <p>The Council accounted for its share of its associates' assets and liabilities as at 31 March 2020 on a net basis when they should have accounted for them on a gross basis in line with how they present the Balance Sheet in their Group Accounts.</p> <p>The impact of this is to increase current assets by £2.4 million, increase current liabilities by £0.4 million, increase</p>	<p>This was corrected in the audited annual accounts.</p>

Issue	Resolution
long-term liabilities by £0.6 million and decrease long-term assets by £1.4 million. This has no impact on the outturn position.	

Source: Audit Scotland

## Other findings

**25.** Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts. This is normal audit practice and none of the presentational changes have any impact on the council's outturn for the year.

## Objections

**26.** The Local Authority Accounts (Scotland) Regulations 2014 required the Council to give public notice for inspection and objection of the 2020/21 unaudited annual accounts by 28 June 2021. The public notice was published on the Council website on 7 June 2021 meaning the Council complied with the regulations.

**27.** We have not received any objections to the Council's 2020/21 annual accounts.

# Argyll and Bute Council

## 2020/21 Report to those charged with governance

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