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

FINANCIAL SERVICES **27 JANUARY 2026**

AUDITED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2025

1. INTRODUCTION

1.1 This report provides Members with an update on the external audit of the Annual Accounts of the Council for the year ended 31 March 2025.

1.2 The audit of the annual accounts for the year ended 31 March 2025 is substantially complete. However, the external Annual Audit Report identifies some residual matters that remain outstanding at the time of report preparation. Mazars has committed to providing an update in relation to the outstanding matters through issuance of a follow up letter. In addition, Mazars have noted that they expect to issue an **unqualified opinion** and the draft opinion has been inserted into the Annual Accounts document.

2. RECOMMENDATION

2.1 It is recommended that the Audit and Scrutiny Committee:

- Note that the audit is substantially complete and that Mazars have advised the Council that they are expecting to issue an unqualified opinion on the Council's Accounts for the year ended 31 March 2025;
- Accept and endorse the Annual Accounts, as attached as Appendix 2 to this report, and refer to the Council for approval;
- Note that if the Council receives a follow-up letter from Mazars confirming there are no material changes to the Accounts, there would be no impediment to the Council signing off the Annual Accounts; and
- Note that if the Council receives a follow-up letter from Mazars confirming there is a material change, it will be a matter for the Council to take forward the approval of the Accounts having regard to that. In this event, a further report will be submitted to the Audit and Scrutiny Committee for information.

3. DETAIL

3.1 Mazars are the Council's appointed external auditors, with financial year 2023-24 being year 3 of a 5 year contract period.

3.2 There has been no material improvement in the overall timescale for completion of the audit compared to the prior year. However, the 2024/25 audit has included two significant additional areas of work, namely the first time implementation of IFRS 16 Leases and extended audit procedures arising from the implementation of the new payroll system (iTrent). Both IFRS 16 and payroll migration placed demands on both council officers and external audit. It is expected that without these two items audit

completion would have improved on the prior year. Continuous improvement is still required in future years to achieve the target audit completion date of 30 September. A protracted audit process can have a detrimental impact on supporting other Council priorities, including the budget process, over this period.

3.3 The audit of the annual accounts for the year ended 31 March 2025 is substantially complete. However, the external Annual Audit Report identifies some residual matters that remain outstanding at the time of report preparation. Mazars has committed to providing an update in relation to the outstanding matters through issuance of a follow up letter. In addition, Mazars have noted that they expect to issue an **unqualified opinion** and the draft opinion has been inserted into the Annual Accounts document.

3.4 Assuming that there are no further changes to the accounts, the main adjustments, in addition to some presentational changes, are noted below:

- Two adjustments relating to the reversal of interdepartmental recharges, required to avoid overstating gross income and expenditure from internal trading, amounting to £6.334m and £0.419m. These adjustments are presentational and therefore had no impact on the unaudited or audited General Fund position, cash position or reserves.
- The remainder of adjustments relate to the implementation of IFRS 16 Leases, reflecting the transition required for the first year of application. These adjustments were not included in the unaudited accounts due to the Council's reliance on external experts, which were not available in time to support inclusion at the unaudited accounts stage and were therefore processed as audit adjustments once the required information became available.

3.5 There has been no change to the General Fund balance, as a result of the adjustments noted in paragraph 3.4 above.

3.6 Key highlights of the Council's financial position, based on the draft Audited Annual Accounts are as follows:

- An accounting Deficit on Provision of Services for 2024-25 of £13.520m;
- A Revenue Budget underspend for 2024-25 of £1.905m;
- Total Assets less Liabilities as at 31 March 2025 of £526.796m; and
- A General Fund Balance as at 31 March 2025 of £112.705m.

3.7 The committed funds within the General Fund are £105.162m per the draft Audited Annual Accounts, leaving an uncommitted General Fund balance of £7.543m as at 31 March 2025. This equates to 2.3% of the Council's approved budgeted net expenditure for 2024-25, exceeding the contingency set at 2% of approved budget, as agreed as part of the 2024-25 budget process.

3.8 The draft Audited Annual Accounts for the year ended 31 March 2025 are included as Appendix 2 to this report.

4. CONCLUSION

4.1 This report provides Members with an update on the external audit of the Annual Accounts of the Council for the year ended 31 March 2025.

5. IMPLICATIONS

5.1 Policy – None
5.2 Financial – None
5.3 Legal – None
5.4 HR – Further pressure placed upon key finance staff in respect of competing priorities and resourcing challenges, due to the protracted audit process beyond target completion date of 30 September 2025.
5.5 Customer Service – None
5.6 Risk – None
5.7 Climate Change – None
5.8 Fairer Scotland Duty – None
5.9 Equalities – protected characteristics – None
5.10 Consumer Duty – None
5.11 Island Communities – None
5.12 Children's Rights and Wellbeing – None

Kirsty Flanagan
Executive Director/ Section 95 Officer
27 January 2026

Policy Lead for Finance and Commercial Services: Councillor Ross Moreland

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APPENDICES

Appendix 1 - Summary of Substantive Audit Changes to Financial Statements for the year ended 31 March 2025
Appendix 2 - Argyll and Bute Council Draft Audited Annual Accounts for the year ended 31 March 2025

Appendix 1

Summary of Substantive Audit Changes to Financial Statements for the year ended 31 March 2025

Financial Statement / Segment	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comments/Explanation
Comprehensive Income and Expenditure Statement				Adjustments primarily reflect the transition to IFRS 16 Leases, including the recognition of Right-of-Use assets and corresponding lease liabilities and the reclassification of leases costs between service expenditure and interest, with no impact on council tax or cash flows.
Net Cost of Services	335,788	338,338	(2,550)	
Interest Payable and Similar Charges	24,361	20,876	3,485	
Gain on Initial Recognition of Lease - Capital Contribution	(149)	0	(149)	
Movement in Reserves Statement				
Pension Reserve				
(Surplus)/Deficit on Provision of Services	13,520	12,734	786	
Balance Sheet				
Long Term Assets				
Other Land and Buildings	455,904	452,225	3,679	
Right-of-Use Assets	6,015	0	6,015	
Current Liabilities				
Other Short-term Liabilities	(7,543)	(5,535)	(2,008)	
Long Term Liabilities				
Other Long-term Liabilities	(104,626)	(96,159)	(8,467)	
Long-term Provisions	(2,628)	(2,621)	(7)	
Reserves				
Capital Adjustment Account	255,556	256,344	(788)	

Note: The above adjustments reflect those within the Council's (single entity) Financial Statements. Similar adjustments have also been made within the Group Financial Statements.