

Argyll and Bute Council

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Argyll and Bute Council and the Controller of Audit
25 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.

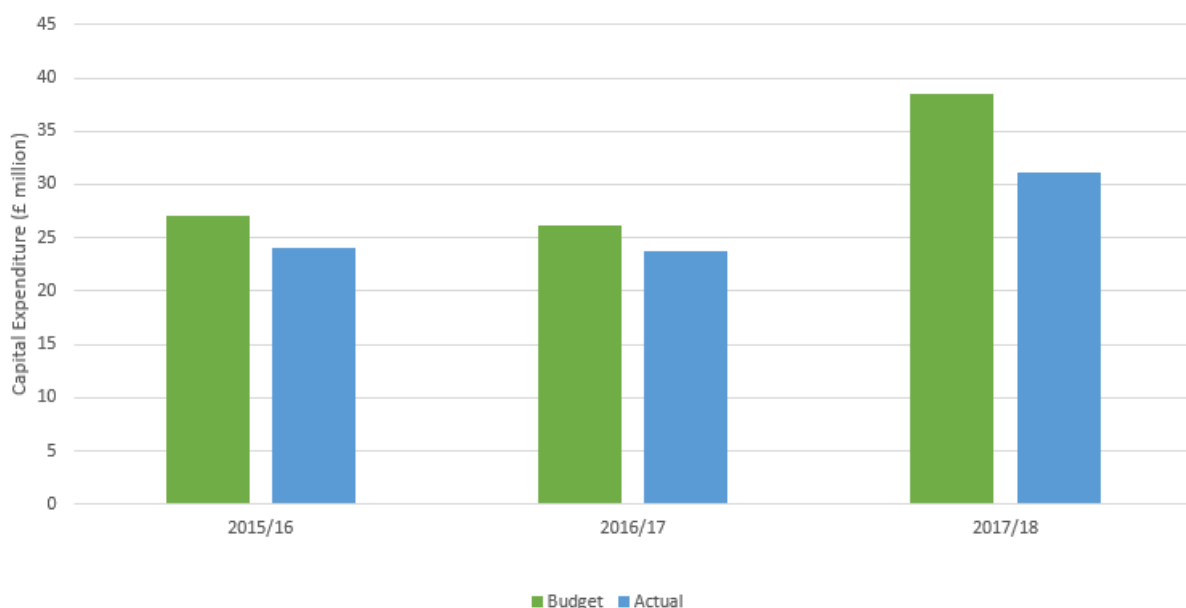
56. The Council's capital plan is funded from various sources including capital grants from the Scottish Government and other bodies, capital receipts, contributions from reserves and the revenue budget, borrowing funded by the loans charges budget and funding from the Scottish Futures Trust. In 2017/18, 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.

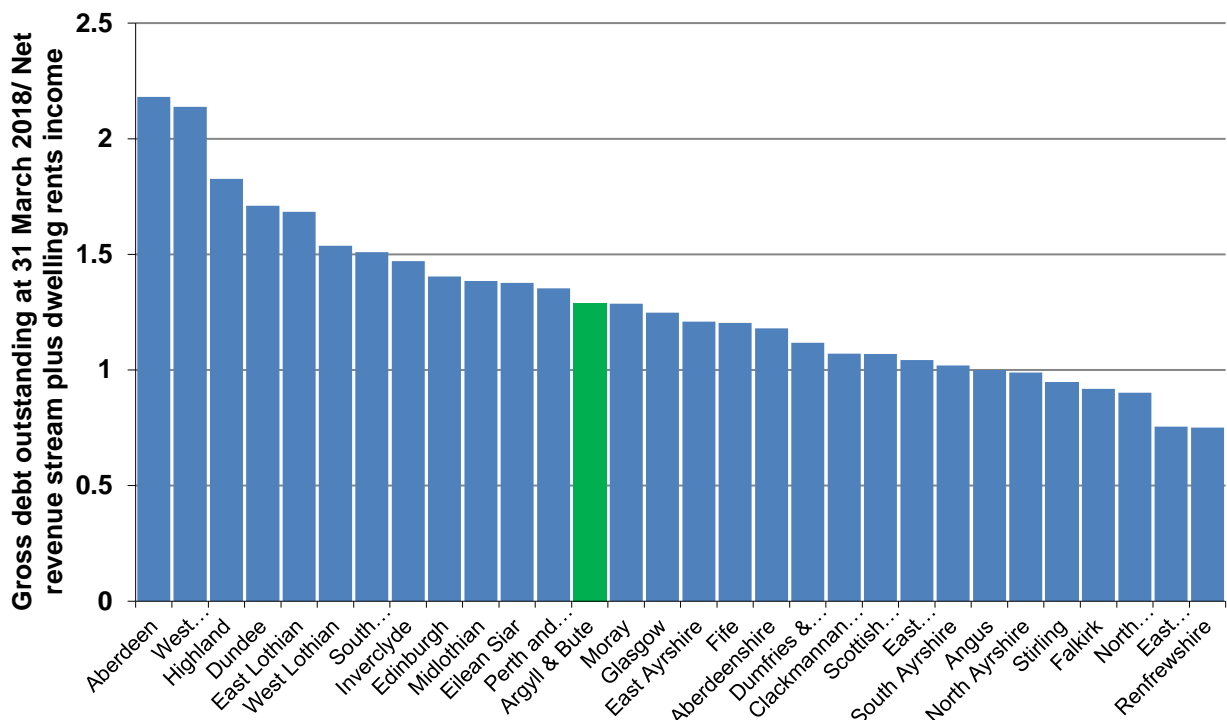
Borrowing in 2017/18

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 (PWL) 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.

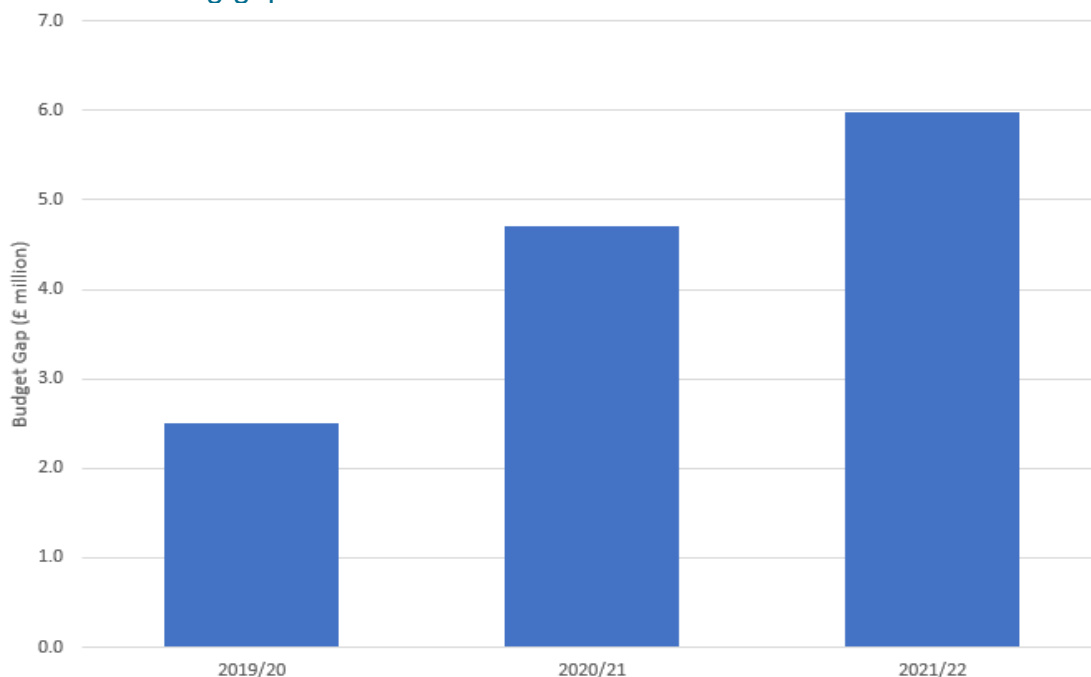
Funding position

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](#).

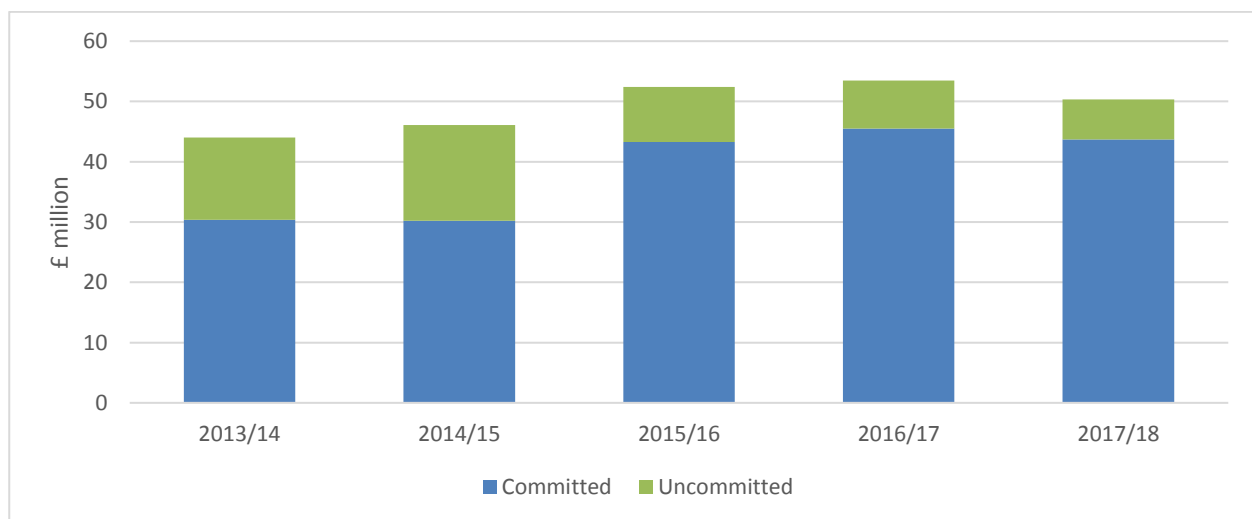
89. The general fund is the largest reserve. This reserve is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

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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