

Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry



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14 September 2017

SUPPLEMENTARY PACK 2

AUDIT AND SCRUTINY COMMITTEE - COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD
on TUESDAY, 19 SEPTEMBER 2017 at 11:15 AM

I enclose herewith an additional appendix in relation to **item 9 (EXTERNAL AUDIT ANNUAL REPORT)** which was marked to follow on the Agenda for the above meeting.

Douglas Hendry
Executive Director of Customer Services

ADDITIONAL APPENDIX

- 9. EXTERNAL AUDIT ANNUAL REPORT** (Pages 3 - 14)
Report by External Audit

Audit and Scrutiny Committee

Martin Caldwell (Chair)	Councillor Jim Findlay
Councillor George Freeman	Sheila Hill (Vice-Chair)
Councillor Sir Jamie McGrigor	Councillor Julie McKenzie
Councillor Alan Reid	Councillor Sandy Taylor
Councillor Andrew Vennard	

Contact: Adele Price-Williams 01546 604480

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Argyll and Bute Council

11 September 2017

Charitable Trusts administered by Argyll and Bute Council Report to those charged with governance on the 2016/17 audit

1. An audit is required for all registered charities where the local authority is the sole trustee, irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Accounts (Scotland) Regulations 2006. The auditor of Argyll and Bute Council, Ursula Lodge, Audit Scotland, has been appointed as the auditor of the relevant trusts for the year ended 31 March 2017.
2. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. The ISA 260 report was distributed to all trustees in advance of 19 September 2017 and trustees have been given the opportunity to discuss points raised within the ISA 260 directly with external audit.
3. This report sets out for the Trustees consideration of the matters arising from the audit of the financial statements for 2016/17 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. However this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Argyll and Bute Council, as the sole trustee of the registered charitable trusts listed at [Appendix A](#), and no responsibility to any third party is accepted.
4. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue unqualified auditor's reports (the proposed reports are attached at [Appendix B](#) and [Appendix C](#)). There are no anticipated modifications to the independent auditor's reports.
5. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any

subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

6. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
7. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
8. The only monetary error noted was an accrual for a charitable donation of £1,250 that had been omitted from the Oban Common Good Trust Fund. This has been adjusted for in the audited financial statements. The effect of this is to increase Creditors by £1,250 with a corresponding decrease in Unrestricted Funds in the Balance Sheet.
9. The council has decided not to recharge any administration costs to the trusts in 2016/17. This policy is disclosed in the Notes to the Accounts for all Trusts. As a result the full costs incurred in administering the trusts are not known by the trustees.
10. As part of the completion of our audit we seek written assurances from the council's Head of Strategic Finance on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix D](#). This should be signed and returned by the Head of Strategic Finance with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and control systems

11. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Significant findings from the audit

12. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
13. In particular, we would draw your attention to the paragraph below regarding the absence of expenditure incurred by a number of the trusts. As outlined in our report to those charged with governance on the 2015/16 audit, the trustees should establish whether these are active funds, or whether they should enter into discussions with the Office of the Scottish Charity Regulator (OSCR) to reorganise or wind up these trusts. There is a risk that the trustees are not fulfilling the terms of the trust deeds.
14. **Baillie Gillies Bequest; Kidston Park Trust; Marquess of Bute Silver Wedding Dowry; Miss Annie Dickson Burgh Bequest; Logie Baird Prize Fund; McCaig Trust:** There has been little or no expenditure incurred by these trusts in the last few years. As the majority of the trusts are dormant, there may be a perception that these trusts are not being run for the public benefit.

Trustees should consider whether the trusts are meeting their objectives and whether or not they should be wound up.

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

15. **Kidston Park Trust:** There are no trust deeds or governing documents available for this trust. The financial statements disclose that a bequest of £1,000 by William Kidston was made towards the upkeep of Kidston Park in April 1889. This is noted in the minutes of a meeting of the Town Council of the Burgh of Helensburgh. The council have been unable to provide a copy of the will or these minutes. However, as no funds have been disbursed by the trust in 2016/17, the lack of governing documents has not impacted on our audit opinion.

Resolution: In line with our last year's recommendation, the council is asked to provide a copy of the minute of the meeting of the Town Council of the Burgh of Helensburgh, to support the purpose and terms of this trust. If it cannot be traced, the trustees should liaise with OSCR, as appropriate, and consider preparing new governance documents.

16. **McCaig Trust:** There are no trust deeds or governing documents available for this Trust. The financial statements disclose that funds be used toward the cost of a library and institute in Oban. The council has been unable to provide further details. However, as no funds have been disbursed by the trust in 2016/17, the lack of governing documents has not impacted on our audit opinion.

Resolution: As we recommended last year, the council is asked to provide a copy of the relevant document to support the purpose and terms of this trust. If it cannot be traced, the trustees should liaise with OSCR, as appropriate, and consider preparing new governance documents.

17. **Baillie Gillies Bequest; Kidston Park Trust; Miss Annie Dickson Burgh Bequest; Logie Baird Prize Fund; Norman Stewart Institute Trust; Marquess of Bute Silver Wedding Dowry; McCaig Trust; County of Argyll Educational Trust:** In the main, trust assets are either cash balances with Argyll and Bute Council loans fund or bond investments. The return on the investment in the council's loans fund was 0.209% for 2016/17. Notwithstanding the low rates of return generally available, the rate of return appears to be considerably less than that available in the market. While we acknowledge that there is a cost involved in an actively managed portfolio, trustees should assure themselves by means of a costs benefits analysis that they are obtaining, commensurate with risk, the best returns possible.

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

Appendix A - Registered Charitable Trusts of Argyll and Bute Council

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

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

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

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

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of [Insert Name of Charity] for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

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

Responsibilities of the trustees for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting

Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

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

Other information in the statement of accounts

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

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

September 2017

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

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

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

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of [Insert Charity Name] for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2017 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

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

Responsibilities of the trustees for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the charity

and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

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

Other information in the statement of accounts

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

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

September 2017

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

APPENDIX D: Letter of Representation (ISA 580)

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

Dear Ursula

Charitable Trusts administered by Argyll and Bute Council - Annual Accounts 2016/17

- Baillie Gillies Bequest (Registered Charity SC013578)
 - Kidston Park (Registered Charity SC013600)
 - Miss Annie Dickson Bequest (Registered Charity SC018697)
 - Logie Baird Prize Fund (Registered Charity SC018698)
 - McCaig Trust (Registered Charity SC019599)
 - Marquess of Bute Silver Wedding Dowry (Registered Charity SC019607)
 - County of Argyll Educational Trust Scheme 1960 (Registered Charity SC020382)
 - Oban Common Good Fund (Registered Charity SC021328)
1. This representation letter is provided in connection with your audit of the financial statements of the registered charitable trusts listed above, where Argyll and Bute Council is the sole trustee for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view/ properly present the financial position of each of these registered charitable trusts as at 31 March 2017 and its receipts and payments for the year then ended
 2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the trustees of the registered charitable trusts where Argyll and Bute Council is the sole trustee, the following representations given to you in connection with your audit for the year ended 31 March 2017.

General

3. I acknowledge my responsibility and that of Argyll and Bute Council (as the administering authority of the Charitable Trusts) for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Charitable Trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. I confirm that the eight trusts presented for audit are all the trusts that require an audit, where the sole trustee is Argyll and Bute Council.
5. The information given in the Trustees Reports to the financial statements, present a balanced picture of the Charitable Trusts and are consistent with the financial statements.
6. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole.

Regularity of Financial Transactions

7. The financial transactions of the Charitable Trusts are in accordance with the relevant legislation and regulations governing its activities and expenditure and income were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

Financial Reporting Framework

8. The financial statements of Baillie Gillies Bequest, Kidston Park, Miss Annie Dickson Bequest, Logie Baird Prize Fund and Marquess of Bute Silver Wedding Dowry have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 and directions made thereunder by the Scottish Ministers including all relevant presentation and disclosure requirements.
9. The financial statements of the McCaig Trust, County of Argyll Educational Trust Scheme 1960 and Oban Common Good Fund have been prepared in accordance with the requirements of the Charities Statement of Recommended Practice (SORP): Financial Reporting Standard 102 (FRS 102) and directions made thereunder by the Scottish Ministers including all relevant presentation and disclosure requirements.
10. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view/properly present the transactions and state of affairs of Charitable Trusts for the year ended 31 March 2017.

Accounting Policies & Estimates

11. The Annual Report and Financial Statements of the Baillie Gillies Bequest, Kidston Park, Miss Annie Dickson Bequest, Logie Baird Prize Fund and Marquess of Bute Silver Wedding Dowry have been prepared on a receipts and payments basis as per applicable regulations and the founding documents of each Trust.
12. The Annual Report of the Trustees and Financial Statements of the McCaig Trust, County of Argyll Educational Trust Scheme 1960 and Oban Common Good Fund have been prepared on an accruals basis as per applicable regulations and the founding documents of each Trust
13. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

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

Related Party Transactions

15. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24.

Events Subsequent to the Date of the Statement of Balances/Balance Sheet

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

Corporate Governance

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

Fraud

19. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

20. The assets shown in the Balance Sheet at 31 March 2017 were owned by Charitable Trusts, other than assets which have been purchased under finance leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

21. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Carrying Value of Assets and Liabilities

22. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the relevant financial reporting framework. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Yours sincerely

Kirsty Flanagan
Head of Strategic Finance

September 2017

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